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MANUFACTURING — METAL PRODUCTS

1991



COLIN THOMAS: Exports on the horizon once things get moving

Tube plant to save R8m in forex

1898

27/10/91

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By DON ROBERTSON

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ADAPT CTS?

the competitiveness of
the completed application

to save R8m in forex

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S/Times (BUS)
27/10/91

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Copalcor makes a mint on scrap

S/TIMES (BUS) 20/10/91

By IAN ROBINSON

COPALCOR, South Africa's largest manufacturer of copper-based semi-fabricated products, has increased its exports fivefold since 1987.

Copalcor's exports are now earning about R60-million a year

In the past two to three years Copalcor has exported about 20% of its production to the US, Europe, the Far East and elsewhere

Until 1987 when Haggie Limited took over McKechnie Brothers SA from its UK parent in Birmingham, production of copper semis was oriented to the domestic market.

Since Haggie's takeover Copalcor has embarked on a programme to raise its plant to world standards

Major projects have included a R12-million top blown rotary converter (TBRC), a R10-million copper refinery and a R9-million stretch bend leveller for processing copper and copper alloy strip

Copalcor plans to spend R15-million to 20-million in 1992

Wide

The TBRC allows Copalcor to process very low-grade scrap which may be refined to high-purity copper in the new refinery

Copalcor is now one of the few producers of copper-based semis in the world which is fully integrated from low-grade scrap to the finished product.

Copalcor produces 40 000 to 50 000 tons of a wide range products of copper and copper alloy (brass and bronze) extrusions and rolled sheet a year. Major products include brass extrusions used in plumbing, hinges and locks, copper extrusions for electrical reticulation, phosphor bronze for bearings and rolled copper for car radiators, roofing and geysers

Copalcor's production is based mainly on scrap

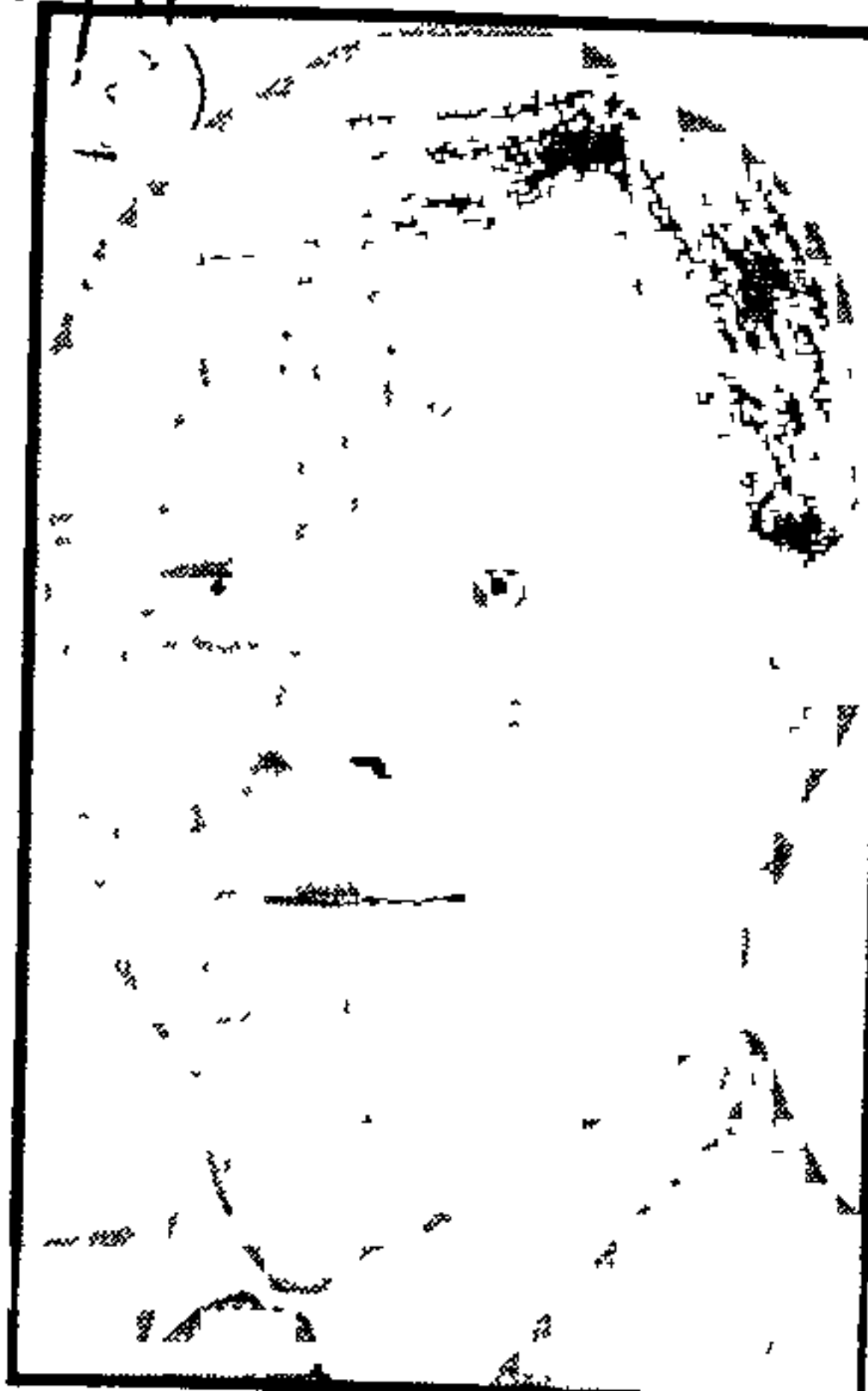
Managing director Piet Malan says a scrap export prohibition scheme by the Department of Trade and Industry played a decisive role in Copalcor's commitment to expand its exports

The scheme, introduced about four years ago, obliges all potential scrap exporters to apply for a permit to export. This application must be published and if a domestic processor wishes to buy the scrap, permission to export is refused

Design

The domestic processor may buy the scrap at a 15% discount to an international price based on the price of copper on the London Metal Exchange or quotations of prices published in the London Metal Bulletin. If more than one domestic processor wishes to buy the scrap it is sold to the highest bidder

Mr Malan says the competitive advantage resulting from the discount on domestic scrap



PIET MALAN. In search of niche export markets

boosted Copalcor's policy of adding value to products before export

Copalcor has found niche markets abroad and has concentrated on the export of a limited range of products, including phosphor bronze bearings, extruded copper busbar and fabricated copper busbar

The fabricated busbar must be produced according to design. This product increases the value of unworked refined copper by three to four times

Copalcor achieved a major breakthrough in world recognition this month when it became a member of the International Wrought Copper Council (IWCC) based in London

Unicast grows

S/TIMES (BUS) 20/10/91
UNICAST Steel Foundry, the new sales and marketing arm of the Unihold Group, has incorporated Boksburg Foundry, Benoni Engineering Foundry, Industrial Iron & Steel and Mine Steel Products in its fold

The acquisition of Benoni Engineering Works and Mine Steel Products has enhanced the company's interest in the supply of manganese steel to the wear parts industry

"Because of a common customer base with our existing foundries, it makes sense to merge marketing and sales activities," says Unihold

The group has also bought Hendor Wear Parts, which should open opportunities in the agricultural, quarrying and construction markets.

Industry airs doubts about converter

SCIENTISTS, platinum companies and motor executives have been unanimous in expressing doubts about the validity of claims that a local company had produced a viable manganese-only catalytic converter. *B/Doc 7/8/91.*

A company named Advanced Industrial Research (AIR) SA claimed in a statement yesterday the converter would be ready for production about 14 months after conclusion of negotiations on a venture to manufacture it. However, last night AIR executives Richard Emanuel and Vic Giannoccaro were unable to keep an appointment with Business Day to elaborate on their company's claims.

AIR claimed the motorist would pay between \$200 and \$500 for a manganese converter against what AIR reckons is about \$2 000 for a platinum one.

ANDREW GILL and
BRENT VON MELVILLE

At present platinum-based catalysts, which generally use less than 0.1oz of platinum group metals, add about \$50 to the price of a US-made car, New York metals analysts estimate *(189B)*

AIR said it would start production with an initial output of 5-million units a year rising possibly to 20-million units.

However, Ruston's Platinum's Todd Bruce yesterday described AIR's claims as "thermodynamically impossible".

Reuter reports that the SA companies named by AIR as having tested the catalyst's technology have denied this.

Council for Scientific and Industrial Research (CSIR) executive vice-president

To Page 2

Converter *B/Doc 7/8/91.*

Daan Toerien said it had undertaken no tests for AIR, nor had it tested the technology involved in the catalyst.

A spokesman for Armscor, which AIR also linked to the testing, said he had no knowledge of the project and Impala Platinum's MD Michael McMahon also poured cold water on the claims.

Atomic Energy Corp marketing manager (chemicals) Martin Slabbert said he

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had checked whether the AEC had been involved in testing and found it had not.

It is understood that Audi (Germany) has also issued a disclaimer on research surrounding the converter.

Market analysts said the credibility of AIR was at issue as some of the claims it was making of the manganese system were "fundamentally impossible".

Fm 14/6/91 (1898)

CLYDE INDUSTRIAL

HOPE RENEWED

Activities: Makes and distributes secondary steel products for mining and industry

Control: Directors 77%

Chairman and group MD: G D Wilson

Capital structure: 17,6m ords Market capitalisation R4,9m

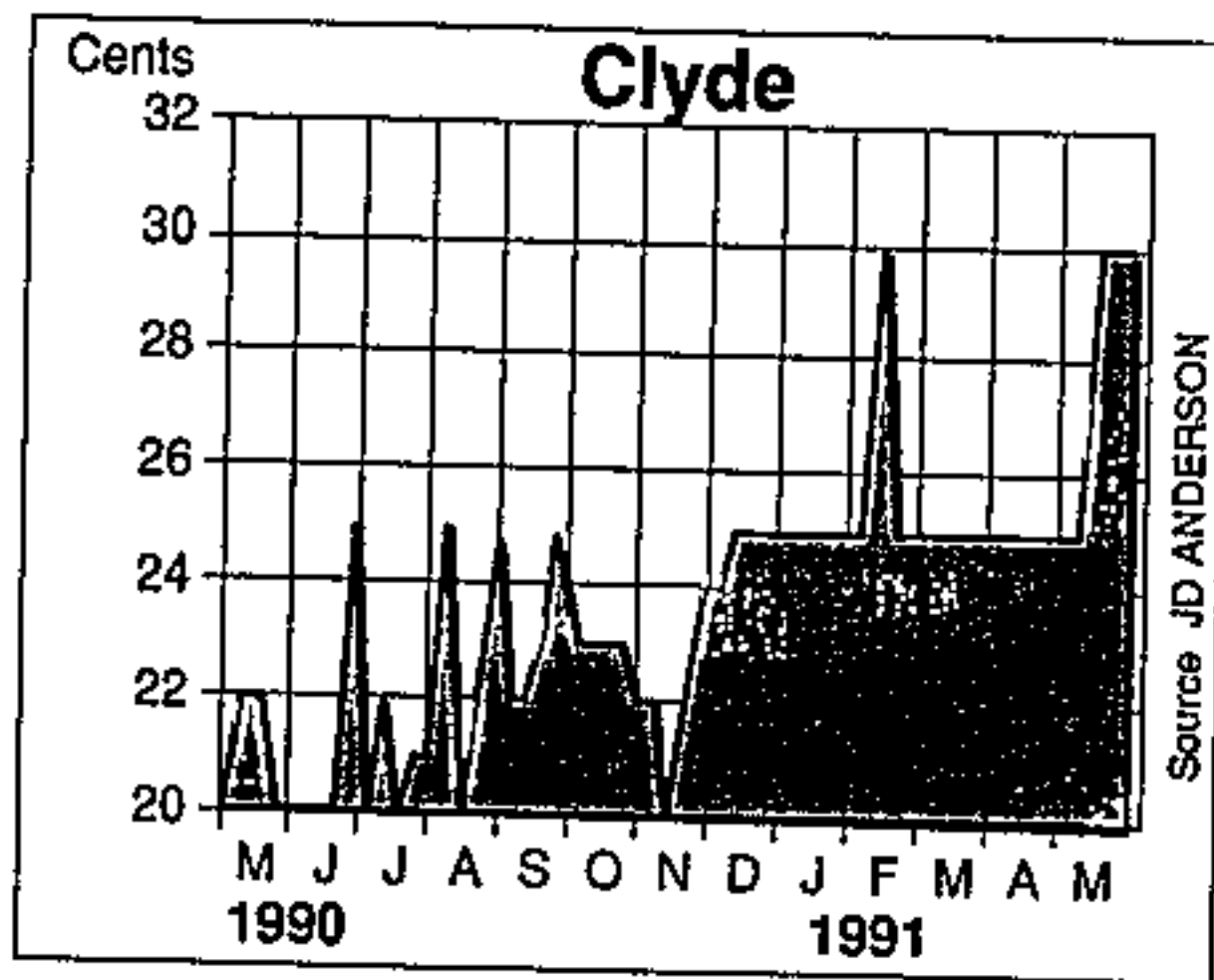
Share market: Price 28c Yields 11,6% on dividend, 38,5% on earnings, p e ratio, 2,6, cover, 3,3 12-month high, 30c, low, 20c

Trading volume last quarter, 1,14m shares

Year to Feb	†'88	'89	'90	'91
ST debt (Rm)	1,2	4,9	0,9	6,0
LT debt (Rm)	0,7	1,4	1,1	0,8
Debt equity ratio	0,14	0,63	0,18	0,54
Shareholders' interest	0,45	0,40	0,43	0,40
Int & leasing cover	8,6	3,8	3,1	10,9
Return on cap (%)	*18,9	12,9	14,1	13,4
Turnover (Rm)	52	62	67	69
Pre-int profit (Rm)	5,6	3,3	3,7	4,2
Pre-int margin (%)	10,9	5,4	5,5	6,2
Earnings (c)	*19,4	8,5	7,7	10,8
Dividends (c)	*5	2,6	2	3,25
Net worth (c)	66	61	63	71

* Annualised

† 17-month period



Chairman/MD Gordon Wilson attributes the 43% increase in net income, on only a 2% turnover gain, mainly to rationalisation and tight control of working capital. All divisions made "acceptable" profits except piping supplier Benbrew Steel, which still faces extremely keen competition.

Interest paid fell by 68%, though year-end borrowings surged, because the company had to increase stockholdings late in the year, and also made a "fairly large investment in a parcel of wooden sleepers." Inventories in fact almost doubled, from R6,9m to R13,5m. However, Wilson expects borrowings to return to "acceptable levels" in the first half of this year.

Gold mining's troubles will continue to harm profits, though Clyde hopes to counter this to some extent by supplying second-hand material to marginal mines. Wilson says the overall outlook is "positive," and is confident that results will be maintained this year.

Profits have never come up to the expectations expressed at the time of the 1987 listing, following a public issue of shares at 100c, a price that has not been seen since late that year. Still, at least Clyde seems to be keeping its head above water in tough times.

If the year-end deterioration in liquidity is

Continue →

Fm 14/6/91 (1898)

indeed temporary, and the company's hopes for this year materialise, a share price that offers a double-digit yield and is a 60% discount to NAV could contain considerable recovery potential.

Michael Coulson

Valard stages impressive turnaround

By 10/5/91
DESPITE a deterioration in trading conditions Valard, formerly Landlock, has undergone a significant turnaround and bettered earnings forecasts for the 15 months to end-March 1991

In June last year Landlock disposed of brake and clutch manufacturer Girlock for R28m, acquired the businesses of Valhold and changed its name to Valard

Valard reported earnings of R6,7m or 12,3c a share in the 15-month period. On an annualised basis attributable earnings were R5,4m compared with a loss of

1890
MARC HASENFUSS

R429 000, and R160m turnover was 35% higher than the R118m recorded in 1989

A dividend of 7,4c was declared in the period under review, covered 1,3 times

Valhold boosted earnings 21% to R9,1m (R7,5m) or 17c a share (14c) for the year to end-March and declared a dividend of 6,8c (5,6c), covered 2,5 times

Valard shares were offered at 85c with no takers on Wednesday. The share is at 75c, between its 65c low and 95c high

Demand for stainless steel Star 2/4/91. gets boost

Finance Staff

1898

The growth of South Africa's catalytic converter industry will boost demand for locally produced stainless steel significantly within the next five years

Small tonnages of stainless steel will be used this year, primarily for the commissioning of plant and supply of samples with projected demand increasing steadily to around 8 000 tons a year in 1995

Keith Luyt, managing director of MS and A Stainless, producers of stainless steel, says that the projections are realistic

"The catalytic converter industry is the single biggest growth opportunity for MS and A Stainless, and we have maintained close contact with all players from the early stages

With its abundance of raw materials and the massive capital investment in the stainless steel industry, South Africa is set to become a dominant world player in the rapidly-growing catalytic converter industry, he said

"Our stainless steel has been tested and approved by a number of European motor manufacturers and quality standards have ensured that our material is internationally acceptable for converter manufacture"

Mr Luyt said that following discussions with the motor industry we are currently running trials on a special cold-rolled stainless steel for the catalytic converters. Based on preliminary results, we anticipate being in a position to satisfy their requirements of this steel early in 1992.

"Long-term prospects for stainless steel are very good with a growth rate of around three percent per annum expected globally. The opportunities available in the converter industry will provide a welcome boost to the South African stainless steel industry", he concluded

TPN reports hefty earnings drop

NUTS and bolts manufacturer and distributor TPN Investments reported a hefty drop in interim earnings after a slowdown in local and overseas demand

Earnings dropped 42% to R1,2m (R2,1m) or 2,5c (4,3c) a share for the six months to end December 1990

Pre-tax profit slumped 51% to R1,9m (R3,9m). No turnover figure was disclosed and no interim dividend declared.

The tax bill was reduced 62% to R681 000 (R1,8m)

Chairman Trevor Thompson said there was a noticeable fall off in local demand during the interim period.

He expected trading conditions locally to remain tight, a situation

MARC HASENFUSS

that could worsen if struggling mines closed down as predicted (189B)

Thompson said exports were adversely affected by various "technicalities", but expected export levels to improve once "all the wrinkles are ironed out" *By Day 2/13/91*

On the balance sheet current liabilities were down 14% to R3m (R3,5m), while long term liabilities rose 45% to R2,9m (R2m)

Sparsely traded TPN shares are currently at 45c, just under October 1990's 50c high

The share bottomed at 35c in June 1990

Scaw takes over some ^{Scaw 2/2/91.} 1892 Lennings foundry divisions

SCAW Metals, a wholly owned subsidiary of Anglo American Industrial Corporation (AMIC), has reached agreement with Lennings Limited, a subsidiary of Johannesburg Consolidated Investment Company Limited (JCI) whereby Scaw Metals has acquired certain of the Lennings foundry division operations

These comprise Standard Foundry, Stantech Engineering, Concorde Foundry (Vereenging), Concorde Foundry (Isith-ebe), Sarcor Machine Shops, Lennings Manganese, Apex Foundry, Apex Implements,

FINANCE STAFF

President Engineering, and marketing organisations Apex Wear Parts and Esco Africa Sales

All will form the Lennings division of the Scaw Metals foundry group

Scaw Metals, a producer of grinding media, rolled steel products and steel and alloy cast irons, will therefore add to its foundry capacity to become one of the larger foundry complexes in South Africa

MANUFACTURING - MACHINERY AND
EQUIPMENT

1991

1891

SA Philips boss gives up the gipsy life for peace and quiet

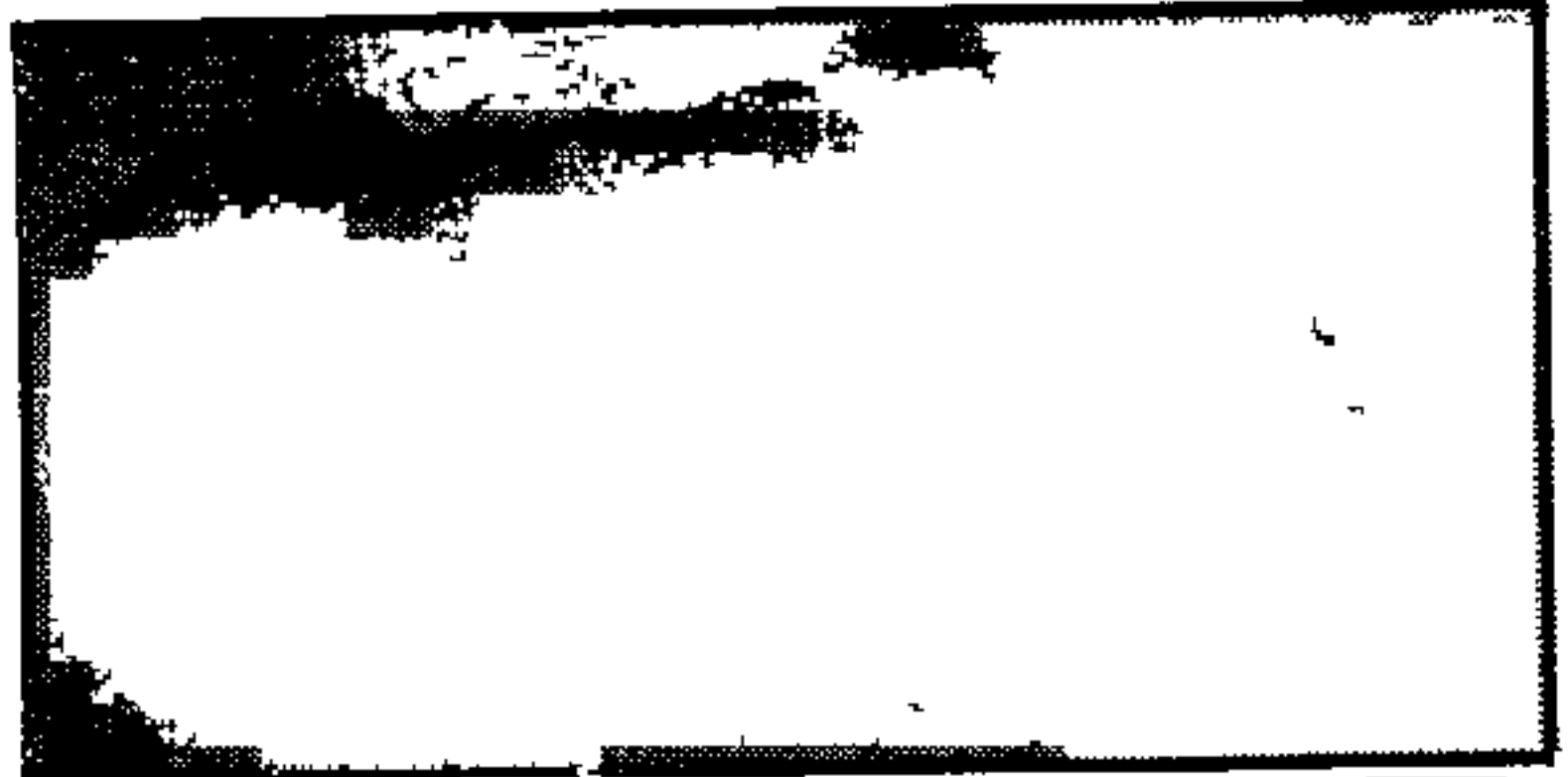
SA Times (Bus) 22/12/91

By DON ROBERTSON

SOUTH African business has tremendous opportunities to become involved in the development of the sub-continent, says Frank Manders, retiring chairman of SA Philips. But it will have to reassess its total industrial potential, he says. Mr Manders has decided to take early retirement from the R1-billion-a-year group, and his "gipsy lifestyle" and settle in SA. He will be succeeded by

managed "One of the ways would be to draw on South African support and expertise SA Philips is one company that has the know-how to assist," says Mr Manders. SA will, however, have to reassess its industrial strategy and place more emphasis on the beneficiation of its resources. It should not try to compete in areas where manufacturers from other countries produce the same article at more competitive prices.

SA does not have the economies of scale to compete on all world markets. "SA nevertheless has a role to play in the world economy, but it must focus on its strong points. The future lies in developing niche markets in areas where we already have the expertise, such as mining-related industries." His biggest disappointment in his five years as chief executive of SA Philips has been the failure of employers to bring blacks into management positions.



FRANK MANDERS Hotspots take it out of you

Mr Manders fears that unless they move in this direction, it could be forced on them at great expense and cause frustration.

SA Philips, with subsidiaries such as Pye SA, Fluorescent Lighting Corporation Natal, Somco and Aberdare Cables, has grown rapidly in the past four years.

Turnover increased by 30% in 1988, 14% in 1989, 30% last year and an estimated 15% this year.

SA companies, such as Sanlam, Old Mutual, Methomes and Southern Life, have a 25% stake in the group.

It has not all been plane sailing though, and it has been necessary to "slim down" the staff at branches. Similar problems were experienced by the international group, which, Mr Manders says, resulted from its becoming too bureaucratic and failing to respond to market requirements.

Potential

Mr Manders, 57, who was born in the Netherlands, has a home in Johannesburg and a holiday cottage in Natal.

"Since 1973, I have filled nine overseas posts representing Philips. This gipsy life takes a lot out of one. Each move carries with it the stress of taking over a new company and adapting to a new country.

"Each time you also have to create a new private life for yourself and your family. Some of these postings, such as Lebanon and Ethiopia, were political hotspots and this also affects one's life.

"I have chosen to stay in SA because I believe this country has great potential."

As chairman of SA Philips, Mr Manders was responsible for introducing four SA members to the company's board. The current chairman of Philips International was chairman of SA Philips from 1977 to 1982.

Mr Manders has not decided how he will spend his retirement.

"I will take a few months to relax and then see what happens."

Cape company set for growth after ownership change

S (Times (CM) 22/12/91 (1890)

AN old-established Cape company, Edward Searle cc, is entering a new phase of operations and is poised for substantial growth following a change of ownership

Over its 95-year history it has grown from a small trading company into South Africa's market leader in industrial surface finishing equipment and systems and in manual and automatic powder coating equipment

The purchaser, Cape Town-based Robert Darby — who has been advising the corporation as a management consultant — has been appointed as an executive member in a strategic management and marketing role.

Mr Darby was previously managing director of Sapco (Pty) Ltd, a subsidiary of the Johannesburg Stock Exchange listed Kipton Group of which Mr Darby was also a director

Edward Searle cc recently acquired 100 percent of Durban-based Surface Coating Systems cc business and assets

Surface Coating Systems is the country's leading manufacturer and distributor of manual and automatic powder coating equipment

Tony Feneusey, chief operations executive of Edward Searle, says "This acquisition will enable the company to immediately enter the fast growing industrial powder coating market

"Combined with our vast experience in 'wet' paint technology and equipment, the acquisition will enable us to further increase market share in the expanding industrial finishing industry

"The Epoxy Cote product range, manufactured by Surface Coating Systems, will be exclusively stocked, distributed and serviced by Edward Searle's existing branch network in Cape Town, Port Elizabeth, Durban, Johannesburg and Pretoria

"To ensure continuity, personnel at the manufacturing facility will remain, including Roland Gautier, present general manager, who will be retained in a consulting capacity

"He will train sales and service personnel at all branches and introduce Searle's sales staff to existing Surface Coating Systems' clients"

Edward Searle already represents "wet" paint world leaders such as Graco, Ransburg and Sagola

It is busy introducing additional lines for which it recently negotiated the local distribution rights from overseas principals

One is the agency for Maxi-flo couplings which are used for compressed air and water and are suitable for all types of industry, particularly the automotive manufacturing and engineering industries

Charles Stuart, Edward Searle's national sales and marketing manager, says "The Maxi-flo couplings have undergone three and a half months of extensive tests in local heavy-duty environments, with excellent results

"Normal couplings are changed approximately every two to three weeks while the Maxi-flos were used continuously during the three and a half month test period"

ADE set to break even

18910
S/ Times (BUS) 22/12/91

By DON ROBERTSON

ATLANTIS Diesel Engines (ADE) expects to break even this year, benefiting from increased exports, higher sales of industrial engines and a drive to become more market oriented

South Africa's major supplier of diesel engines has operated in "very depressed markets" and has been transformed from a protected strategic enterprise to a market-oriented company, says managing director Fritz Korte

ADE has been marginally profitable for about three years

Because of poor truck and tractor business, ADE's engine sales fell from 20 000 units in 1989 to fewer than 10 000 this year

Spares

Low demand was exacerbated by destocking by original equipment manufacturers

But an ADE spokesman says "We see the markets picking up relatively slowly from 1992, reflecting the current political and business environment uncertainty"

"The effect of the removal of sanctions should be marginal in the medium term"

But sales of spares have done "fairly well", serving a vehicle park of 160 000 engines

The company says ADE part prices are between 30% and 80% cheaper than those for equivalent imported engines. The swing to vehicle refurbishing will help prospects

ADE predicts that parts sales will grow from about R80-million this year to more than R120-million by 1993

Mr Korte says in ADE News that the company has probably achieved more in the past 12 months than in the previous decade — largely by becoming market driven

The company has increased exports from R17-million in 1989 to an expected R34-million this year. The production of components has risen by about 50% in the past 12 months

When the new management team took over last year, it was faced with an increasingly hostile market place, says Mr Korte

"Engines were perceived to be expensive meetings with original equipment manufacturers (OEMs) confirmed our realisation that we would have to make major changes and become the market-driven, streamlined company we desired to be"

These changes included retrenchment, followed a few months later by a second one which reduced manpower by 33%

"The subsequent withdrawal of our request for additional protection, the decision to reduce prices of four-cylinder agricultural engines by 5% and six-cylinder engines by 6% and a promise to cut the real price of other engines by 20% over the next two years also reflected this philosophy"

Sprayers

The company has undertaken other projects, including the assembly of tractors for Boeresake, a major drive to increase the production of local components, the appointment of an outside dealer in Botswana and the agreement to build crop sprayers for Jamsch

Mr Korte says this represents the group's new flexibility

Since its establishment in 1981, the company has incurred losses of R35-million

Eurevest to be delisted

SEAN VAN ZYL

(1890)

EUREVEST, the Eureka group's holding company for its equipment distribution interests, is to be delisted early next year as part of a restructuring of the group, chairman Ronnie Price said yesterday.

A proposal statement for the delisting stated that less than 1% of the company's shares were currently held by outside shareholders. Price noted of the 1 053 600 ordinary shares in issue, only 682 were held by eight minority shareholders, most of whom were untraceable.

As a result, Price said Eurevest's three operating subsidiaries — Micrographix, Atlas Utas and The Mix — would become wholly owned subsidiaries of Eureka.

He added Eureka did not need the Eurevest listing as the group had a healthy cash flow while its development capital needs for 1992/93 were limited. Price noted Eureka would remain the group's listed holding company.

The statement said outside shareholders would be offered 1 820c a share, in line with the ruling share price, for their holdings. *810am 20/12/91*

Eurevest's six-month results to end August showed a 10% increase in earnings to 113,6c (1990 103,4c) a share.

189 D

Activities: Manufacture and distribution of industrial fasteners

Control: Directors 53%

Chairman: T N Thompson, MD E Cerrai

Capital structure: 50m ords Market capitalisation R12,5m

Share market: Price 25c Yields 8,0% on dividend, 13,4% on earnings, p e ratio, 3,7, cover, 3,3 12-month high, 48c, low, 20c

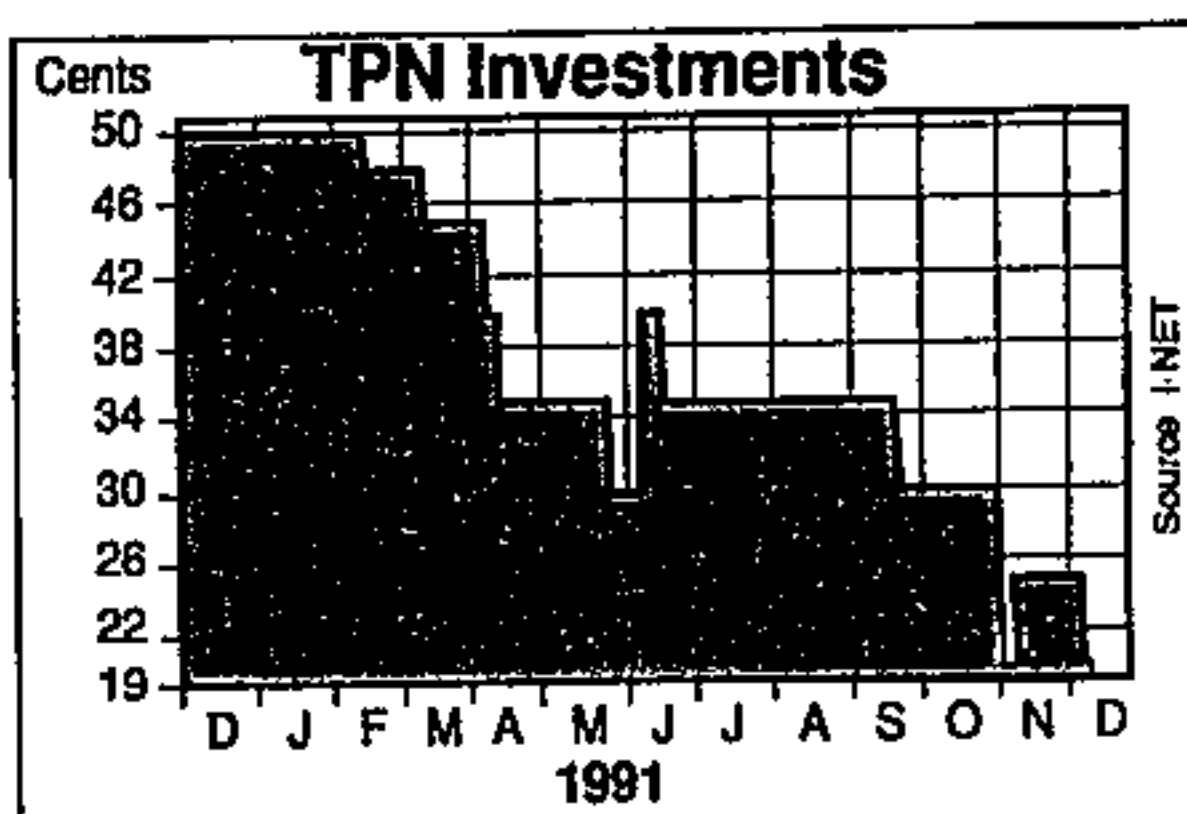
Trading volume last quarter, 4 600 shares

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	1 740	1 705	—	—
LT debt (Rm)	—	1 902	3 034	2 713
Debt equity ratio	0,12	0,20	0,07	0,09
Shareholders interest	0,62	0,56	0,63	0,67
Int & leasing cover	n/a	n/a	166	37
Return on cap (%)	21,7	22,4	20,4	12,3
Pre-int profit (Rm)	5,3	7,1	6,4	4
Earnings (c)	5,7	8,3	7,4	6,7
Dividends (c)	2,5	3	3,15	2
Net worth (c)	30	35,4	39,3	43,9

thus margins — are disclosed, but operating profit fell 36% to R4,3m (R6,6m) And, though results have improved, Thompson concedes that an early return to the profitability levels of earlier years is unlikely

Increased production and competition has added to the pressures in the industrial fastener industry Prospects for this year will be influenced by TPN's success with its broader product range, which includes 20 000 different stock items TPN remains the second largest producer in its field, after NSI's National Bolt

To expand capacity, in 1989 the group invested R6,5m in plant A further R2,7m was invested in expansion in the 1991 year,



which was funded from operating cash flow, plus proceeds from the sale of fixed assets, without raising additional borrowings Expansion is planned to continue, aimed at increased penetration of local markets, and

continue →

TPN FM 20/12/91 (189)

Expanding capacity

Chairman Trevor Thompson says the group relied heavily on exports to compensate for its dismal interim performance, which was affected mainly by unfavourable local economic conditions and interruptions in the flow of exports

Increased export revenue in the second half of the 1991 year helped to reduce the tax bill to R863 000 (R2,7m) because of market allowances and this restricted the 10% drop in earnings to R3,3m (R3,7m) or 6,7c (7,4c) a share

Regrettably, no turnover figures — and

COMPANIES

larger export sales formed only 20% of last year's turnover

The balance sheet remains lean, with the year-end debt equity ratio down to 12,4% (15,4%) The current ratio improved to 4,4 1

(4 1)

Thompson says the immediate outlook depends largely on a revival in the local economy and on TPN's ability to increase the volume and profitability of exports

At 25c, the share price has halved since peaking at 50c in November last year The 8% historical dividend compares with a sector average of 4,1% There is no obvious reason for a rerating just yet

Basil Barber

FM 20/12/91

189

Activities: Jointly controls Voltex Other interests include distribution of machinery, equipment and supplies to the clothing industry, distribution of household and labelling equipment

Control: Bivec (50,3%)

Chairman: B Illman, Joint MDs M Berzack and S H Illman

Capital structure: 26,5m ords Market capitalisation R285m

Share market: Price 1 075c Yields 5,1% on dividend, 12,9% on earnings, p e ratio, 7,7, cover, 2,5 12-month high 1 160c, low 750c Trading volume last quarter, 168 000 shares

Year to Jun 30	'88	'89	'90	'91
ST debt (Rm)	21,1	23,6	9,0	18,7
LT debt (Rm)	15,9	3,5	11,5	9,6
Debt equity ratio	0,35	0,16	0,06	0,08
Shareholders interest	0,44	0,52	0,83	0,83
Int & leasing cover	7,8	14,5	4,7	154,4
Return on equity (%)	19,8	28,1	15,2	13,7
Turnover (Rm)	344	470	108	100
Pre-int profit (Rm)	32,8	53,6	10,7	9,3
Pre-int margin (%)	9,5	61,4	9,9	9,2
Earnings (c)	65	119	166	139
Dividends (c)	16,75	31,5	52	55
Net worth (c)	326	424	1 095	1 012

from 750c to 1 075c since we reviewed the 1990 annual report, EPS fell from 166c to 139c, reflecting the performance of the main earnings source, a 40% holding in Voltex

The main reason for the sharp rise in share price is that Berzack was underpriced a year ago. The question now is whether the pendulum has swung too far the other way. One indication that it may have is that a yield of 5,1% is well below Voltex's 5,9%, which could be justified only if there is reason to believe that other interests should be rated much higher than the main investment.

The investment in Voltex, at current market prices, is worth 919c (91%) of total tangible NAV of 1 012c per Berzack share. Voltex contributed 86% of total attributable earnings and the reduction in income from this source represented 90% of the overall decline in earnings.

Other activities by deduction earned just over R5m last year, down from R5,8m in 1990 — a not unacceptable outcome, particularly as the bulk of this decline stemmed from an increased loss at the foreign-based

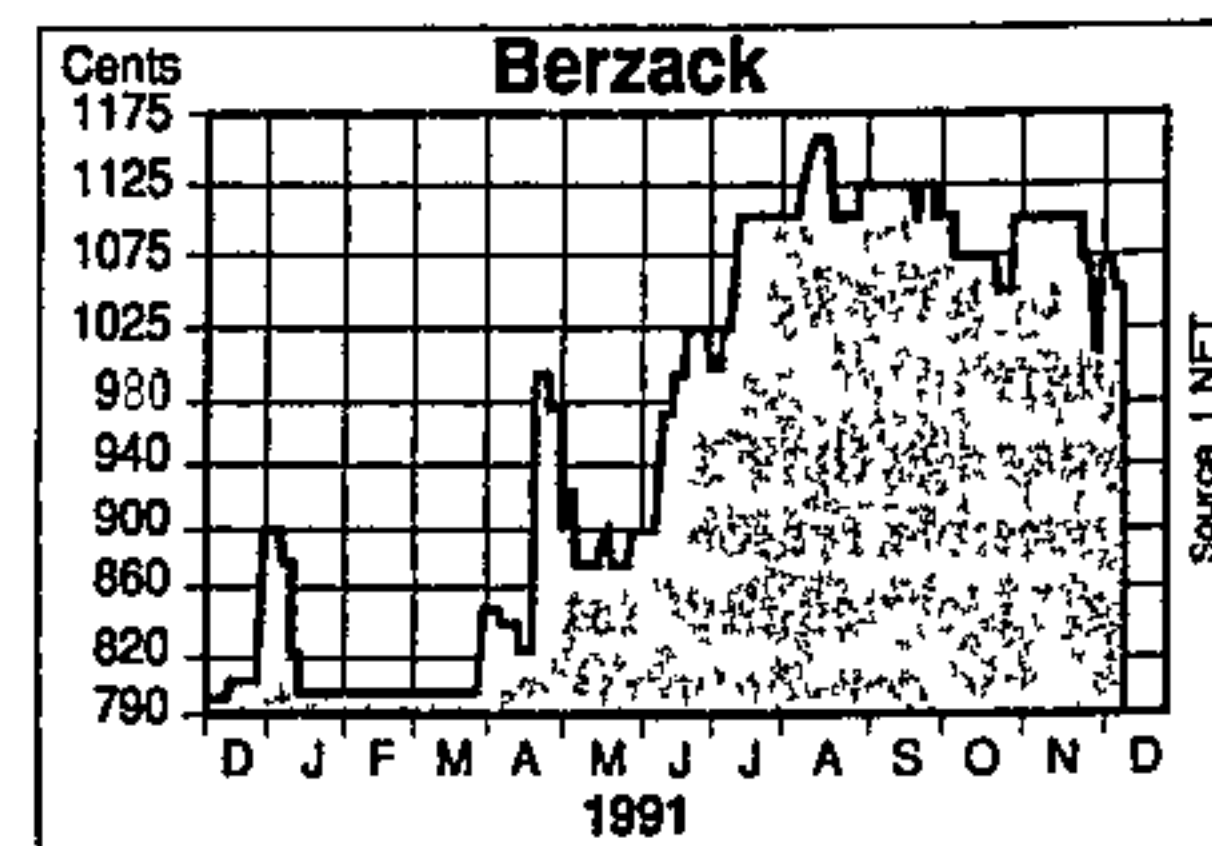
confirming subsidiaries. Excluding these, the decline locally seems to have been confined to about 4%, good going given the state of the domestic economy and, especially, the clothing/textile industry.

That said, it is nevertheless interesting to compare the profitability of other activities against Voltex. At pre-interest level, for instance, the Voltex returns are roughly 1,5 times those of Berzack — 15,9% against 9,7% on total assets, 22,1% against 14,5% on capital employed (total assets less interest-free liabilities).

Only at attributable level do things tend to even out, with Berzack showing a net return of 20,4% (despite an effective 52% tax rate) against 23,5% for Voltex (which has almost no tax liability).

The reason the difference narrows at attributable level is that the Berzack activities had no net interest liability despite a year-end balance of R18,9m interest-bearing debt.

This seems to be a hangover from 1990, when Berzack's own borrowings were backed by its loan account with Voltex. But the loan account has been run down from over R18m in June 1990 to R4,3m, which, coupled with an increase in Berzack's own borrowings from R18,1m to R23,2m, resulted in an



effective ratio of debt to the permanent capital applicable to these activities of 0,55 (1990 nil).

On the face of it, therefore, the company could be in for a substantial increase in finance charges this year. But this outlook would change if it could do something about its working capital which, calculated as stock plus debtors less creditors, has now reached 56% of turnover.

It is not clear why Berzack needs this massive investment in what is essentially an unproductive asset. If this ratio could be brought down to 33%, sufficient cash would be released to repay all outside debt, including R9,4m (included in the above) from holding company Bivec.

To get back to the original point, there is no apparent reason why Berzack's activities should be valued more highly than its investment in Voltex. One can argue that Voltex is underpriced. But that is no reason for investors to rerate Voltex through Berzack.

There is even less reason for Bivec to trade at a discount. Bivec is not a pure pyramid as it owns, as well as 50,3% of Berzack, a portfolio of properties which contributed about R300 000 (1,6%) to last year's earn-



Berzack's Berzack a good year for shareholders

BERZACK BROTHERS

Swing of the pendulum

The past year has been kind to Berzack shareholders but not to the company. Whereas the share price has jumped 43%

COMPANIES

ings Even, excluding this, Bivec should be priced at not less than 70% of Berzack and should, therefore, be at least 747c, against its present 700c

Brian Thompson

ADE sales set to soar as foreign orders pour in

GERALD REILLY

(189)

PRETORIA — Atlantis Diesel Engines (ADE) expects local and export component sales to soar by 40% to R53m next year, compared with the R37m earned this year, MD Fritz Korte said yesterday.

Orders have been received from England, Germany and Brazil for the supply of R35m worth of components in the new year. Component exports increased by 15% this year and are expected to climb by 16% next year. *biday 20/12/91*

A comprehensive streamlining programme enabled ADE to reduce the price of its engines by 10%.

Korte said ADE's export drive was showing handsome returns. Truck and tractor markets were likely to improve shortly and a revised industrial engine distribution system covering the whole of southern Africa was firmly in place.

It was expected ADE would produce about 12 000 engines next year, up from 10 000 last year.

Industry hopes that the upswing in the truck and tractor market in 1989 would continue into 1990 were not realised and this had led to overstocking.

In the heavy commercial sector where ADE had 95% of the market, retail sales in 1992 were likely to be around 6 000 units, compared with 7 900 in 1990 and 5 700 this year.

In the medium commercial sector, Korte forecast retail sales of 4 200 units next year against 4 800 in 1990 and 4 200 in 1991.

In the tractor market where ADE had 80% of the market, unit sales were expected to increase by 200 units to more than 2 800 tractors this year.

MAXMECH

FM 13/12/91

Sharp swing

(1890)

Activities: Makes, sells and services rotary shaft sealing systems

Control: Directors 56,8%

Executive chairman: M Lang, MD I J Dettmann

Capital structure: 5m ords Market capitalisation R500 000

Share market: Price 10c 12-month high, 15c, low, 8c Trading volume last quarter, 52 000 shares

Year to February	'88	'89	'90	'91
ST debt (Rm)	0,4	0,8	0,7	0,4
LT debt (Rm)	0,3	0,4	0,4	0,3
Debt equity ratio	0,60	0,85	0,65	1,42
Shareholders interest	0,5	0,47	0,42	0,35
Int & leasing cover	5,1	1,9	1,4	—
Return on cap (%)	21,1	10,3	10,6	—
Turnover (Rm)	4,3	4,6	5,9	4,5
Pre-int profit (Rm)	0,5	0,3	0,3	(0,4)
Pre-int margin (%)	12,6	6,6	5,3	—
Earnings (c)	4,4	2,2	1,0	—
Net worth (c)	22	24	25	14

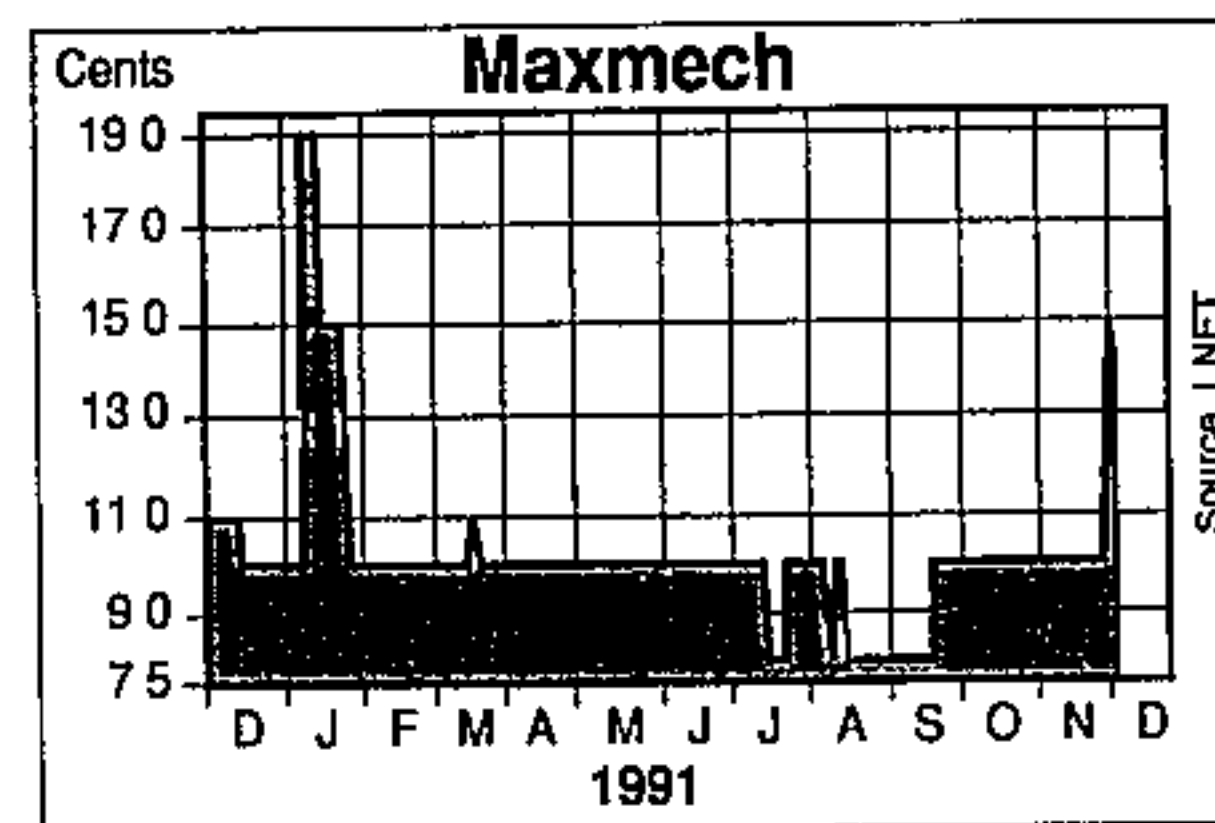
Considering that in March — already after the end of the financial year — Maxmech announced a pre-tax profit for the first nine months (it does not appear to have published a six-month interim) of R44 000, something must have gone seriously wrong in the final quarter to produce a 12-month net loss of R500 000

Moreover, it took six months (until August 26) for the secretary and auditors to sign off the annual report and the AGM was held as late as November 29

Strangely, chairman Michael Lang finds it unnecessary to refer either to this alarming deterioration in the final quarter or the inability to publish the report within a reasonable time. Nor does he mention the hotly contested and ultimately abandoned attempt to sell off the bulk of assets to the controlling shareholders (Fox November 30 1990 and December 7 1990), nor the decision to license manufacture of one of the main products to competitor Turner & Newall

He describes the 23,5% decline in turnover as a "setback," delaying the return to ac-

COMPANIES FM 13/12/91



(189)

ceptable profitability, but says that without the lower cost structure implemented in 1989-1990, results would have been even worse (strangely, there seems to have been a relative recovery in final-quarter turnover, as the decline after nine months was 35,4%)

Costs, says Lang, rose only 3,3% — but even that seems excessive against such a collapse of business. A pity that they could not economise on directors' fees, which rose from R226 000 to R334 000

Lang refers to a "reassessment of the realisability of stocks," but while their balance sheet value fell to R776 000 from R1,2m, there is no indication whether this reflects a drop in physical volumes or a write-down. If the latter, which is possible, because from November to February net current assets fell by a similar amount, from R1,3m to R609 000, it would explain the disastrous final-quarter figures, but it is surely an item on which investors are entitled to more specific information

Lang says it would be hard to imagine a less favourable economic background, but says the group feels more confident for the experience and better able to deal with almost any future eventualities. He may be right, but it's difficult to imagine why any outside investor should put money on this (fortunately, seldom traded) share — especially given the appalling reporting standards

Michael Coulson

FM 6/12/91

fruit

unit prices remain constant and the crop size increases by more than 10%, earnings are expected to rise by a similar percentage

In this season, Unifruco exported 35m cartons of fruit for gross earnings of R1,4bn, which was 8% up on the R1,3bn earned last year. The most lucrative deciduous fruit crop is apples, which earned R700m on export markets this year.

Kriel says the reopening of overseas markets is unlikely to cause a domestic shortage of fruit or push up local prices. The anticipated increase in the size of the crop will satisfy higher demand. About 60% of the deciduous fruit crop is exported and 40% is sold locally as fresh fruit or for processing.

Doug Stanton, chief executive of the SA Co-operative Citrus Exchange, says that though the next citrus season does not begin until May, he is optimistic it will be as good as this year's. Gross export earnings exceeded R1bn for the first time this season.

He says that though the exchange is looking to open new markets in eastern Europe and the Far East, a domestic shortage is not likely. Last season, the exchange exported 31m 15 kg cartons — the highest figure ever achieved and 1m cartons more than the 1990 figure. The export crop is expected to grow to around 45m cartons over the next few years.

Last month, Unifruco and the exchange announced the rationalisation of their interests in Europe, including the establishment of a joint European head office at Farnham Royal, west of London, and the joint management of financial, data processing, quality control, technical and logistical services. Marketing will remain independent under the trade names Cape and Outspan.

The two organisations say the joint arrangement will result in optimal use of the existing infrastructure and expertise, reduced costs and greater productivity.

Unifruco and the exchange jointly export 68m cartons of fruit a year and the figure is expected to rise to 100m by 1995.

□ In Stellenbosch this week, Unifruco launched a new company, Vinfruco, to handle overseas marketing for six Cape wine co-ops and four independent estates.

The wine will be sold under a new label, Oak Village. Participants in the venture include Overgaauw, Rustenberg, Vriesenhof and Niel Ellis estates and De Helderberg, Bottelary, Eersterivier-Vallei, Koelenhof, Vlottenburg and Welmoed co-ops.

Vinfruco will target the mid-price range market with high-quality wines. Its competitors will include other "new world" wines from Australia and California.

ATLANTIS DIESEL ENGINES

No easy ride

The effort by Atlantis Diesel Engines to get the motor industry to make diesel-powered, 25-seat midibuses, in addition to the 16-seat minibuses used largely as black taxis, is running into roadblocks.

FM 6/12/91
(189)

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(189)

Midibuses would ease congestion on the roads, be more economical for many taxi operators and, best of all for ADE, use diesel engines.

But motor vehicle manufacturers see no reason to change a winning formula. A Delta Motor Corp spokesman says the proposal has not yet been considered and both Toyota and Ford announced they have developed new versions of their minibuses to cope specifically with the demands of black taxi operators.

State-owned ADE has supplied only 160 000 engines to local truck and tractor makers in the 11 years since it was started. MD Fritz Korte believes that if the company can convince only a portion of the taxi operators who serve long routes of 15 km or more, he will reap a big boost in business (*Business & Technology* May 31).

There are an estimated 100 000 black taxis on the road and many of them are used on

long routes.

Toyota has not shelved the idea entirely. Director Des Gush says it is still investigating the possibility of making midibuses. One obstacle is that the law must be changed. Fare-paying passenger vehicles with more than 16 seats now have to operate on a schedule approved by the Transport Department.

Dave Scott of Nissan and Sean Bownes of the SA Motor Corp see price as the problem. "We're already building midibuses but aren't selling them to taxi operators," Scott says.

He adds "They're used for shuttling corporate staff around. Taxi operators would like to see them come in at around R100 000, but that won't happen, particularly because most operators want performance as well, which means fitting the vehicles with turbo-charged engines and increasing the price.

continue ->

BUSINESS & TECHNOLOGY

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(189)

even more. Another problem is that operators have not been putting anything aside for replacement. Now that many have to replace their vehicles they find that, because of the taxi wars, banks are asking for higher deposits and insurance companies are asking for premiums to be paid upfront.

"Operators can service minibuses at the kerbside but, being diesel-powered, midibuses will have to be serviced by qualified people."

The Southern African Black Taxi Association (Sabta), however, still likes the midibus concept. Spokesman Fanyana Shiburi predicts that it will take off with black operators catering for white patrons.

"Sabta has been asked to take over some white routes that are being operated at an horrendous loss." He forecasts that blacks will be operating midibuses on routes such as the one between Sandton City and Johannesburg city centre within a year.

However, he warns "Those buses will have to be fitted out to please the upmarket people who will use them. To do anything less would be suicidal and place their operators in the same position Putco was in when it refused to move away from its uncomfortable plank seats. That opened the door for black taxis to take over the market."

Korte remains optimistic about the midibus issue. "The Argentinian passenger transport system mirrored that of SA's 30 years ago. Since then it has moved to a non-subsidised *colectivo* midibus system that works very well."

SOUTH AFRICA LIMITED
20th Floor, 37 Sauer Street
Johannesburg 2001

27 November 1991

a Mining

of South Africa)

depend no 98

In any event, breaking into the black taxi market is not as vital for ADE now as it was six months ago because business is improving.

Last year ADE laid off workers because of declining orders but rehired 40 of them last month and plans to recall another 50 next month. Export orders are picking up and Korte predicts a 10% growth in the truck and tractor market next year. ADE will make 12 700 engines next year compared with 10 000 this year.

He says ADE is sitting on new export orders worth R35m from Britain, Germany and Brazil next year. These include 40 000 cylinder blocks, 25 000 cylinder heads and 10 000 crankshafts, as well as connecting rods, gear housings and brake drums.

South Africa (Pty) Limited

Registered office
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Sandton 2199

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Falkirk looks to a bright future

Blow
6/12/91
1891

THE opportunity to buy 30 acres of land for 10 shillings was one of the deciding factors that brought Falkirk Industries to Newcastle from Durban during the '60s

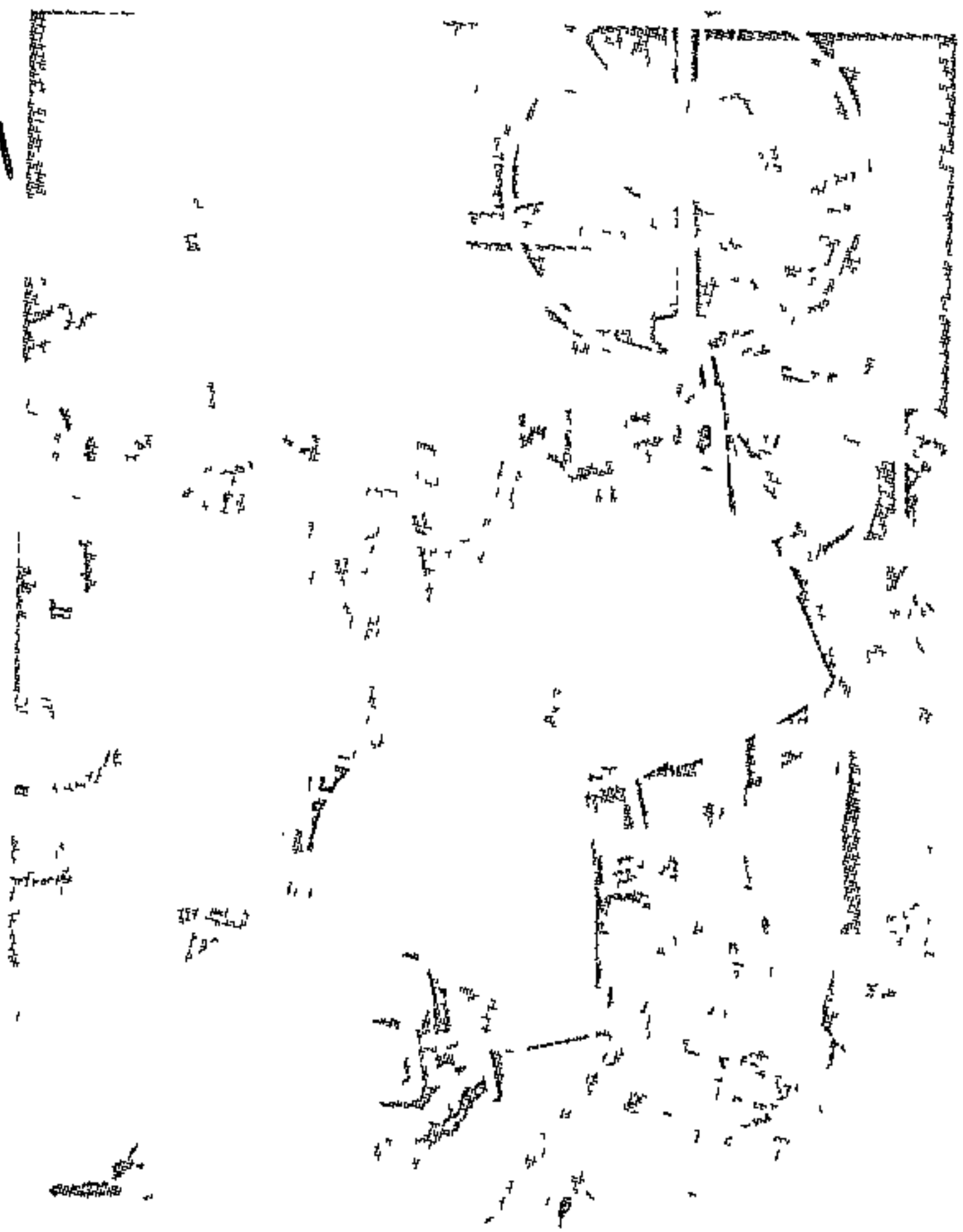
Added to that was a location favourable to the company's rural market, which it supplies with three-legged iron pots and coal stoves

Falkirk was first established in South Africa, based in Durban, in 1856, just after Queen Victoria came to the throne.

Today the company employs close to 600 people and is looking to diversify its product range

Deputy chairman Bill Murhead says "Since 1989 we have launched a series of new products, such as gas stoves and electric refrigerators

"Production of three-legged pots is still the biggest part of our business, but it would be myopic to ignore the fact that our market is becoming more sophisticated.



The Falkirk foundry is one of the oldest industries in Newcastle.

"The prospects for electrification of remote areas are improving, while urbanisation is swelling the ranks of more sophisticated town-dwellers"

In Newcastle, Falkirk is well established to serve the market and proximity to Iscor's steelworks is an added advantage

At the same time, it has

access to a large pool of labour with a tradition of skill in foundry work

The company has recognised a responsibility to feed benefits back to the community it depends on.

"During the past year we have introduced a literacy programme in our factory and its reception by the workers has been outstanding," he says

Hudaco acquiring Valard and Valhold

By Ann Crotty ^{189D} STAR 4/12/91

Hudaco is set to acquire Valard at 116c a share and Valhold at 105c a share

The acquisition of the entire issued share capital of the two companies will be funded by the issue of 5,17 million Hudaco shares at R12 a share and, the outlay of R7,3 million cash.

An additional R4,5 million will be paid in the form of a restraint of trade agreement to D Makins, S Connelly and S Nash who are directors of both Valard and Valhold

Valhold shareholders are being offered 8 Hudaco shares and R9 cash for every 100 Valhold shares held

Certain financial institutions have agreed to provide a R12 cash underpin for 45 percent of the Hudaco shares. This means that the Valhold shareholders have the option to take 50 percent of the total purchase consideration in cash

On the Valard leg, Hudaco is offering 8 Hudaco shares and R20 cash for every 100 Valard shares held. The same 50 percent cash option has been extended to Valard shareholders. This part of the deal applies to shareholders who hold the approximately 11,8 million of the Valard shares not held by Valhold

Valhold holds 80 percent of Valard. Valhold in turn is held 56 percent by its directors, 20 percent by Delta Electrical and, 8 percent by Velman Trust

Indications are that all of the shareholders will be taking the 50 percent cash option

Given that the restraint of trade is going to directors who hold approximately 56 percent of Valhold, the R4,5 million is roughly equivalent to an additional 12c-17c a share (taking it to 117c-120c a share) for each of the Valhold

shares held by these directors

The restraints will be effective for five years commencing December 1, 1991

Messrs Makins, Nash and Connelly will be joining the Hudaco board. Mr Nash will be on the board as an executive director and will have responsibility for the businesses currently in Valard

Hudaco chief executive Kevin Clarke stresses that it is essential that the three directors agree to be bound by a restraint of trade. He points out that they established and built the Valard businesses and are critical to its success

Cash attraction

The upfront offers for Valhold and Valard do not appear overly generous — they are above the market level but are not too expensive in terms of prospective price/earnings ratings. But the opportunity to take 50 percent cash and exchange the remaining 50 percent for more tradeable Hudaco paper makes it significantly more attractive

For the directors, being able to use Hudaco shares to fund acquisitions looks a much better and cheaper proposition than using paper issued by highly geared Valard

That institutions are valuing Hudaco at R12 for the purpose of the transaction is indication of this group's strong rating. During July there was heavy trade in Hudaco at around R14 but since then it has slipped back to R11 and is now R12

The group has a good track record but is currently suffering tough trading conditions. Analysts' forecasts for the 12 months to end-November '91 are earnings in the region of 100c a share — down from 110c in financial '90

Hudaco in R75m Valhold buyout

SEAN VAN ZYL (18910)

HUDACO Industries has acquired engineering group Valard and its holding company Valhold in a R75m deal, resulting in a new major industrial consumable product group. *bidday 4/12/91*

A joint announcement published today said Hudaco, through a scheme of arrangement binding minority shareholders to sell their stakes, would acquire the entire ordinary issued share capital of Valhold.

It would pay R56,3m for Valhold and a further R14,2m for the shares held by minority shareholders in Valard, the group's operating company.

The deal, worth 105c a Valhold share, has been pitched at a 5% premium to the current ruling share price. Hudaco has also made an offer valued at 116c a share for Valard shares not held by the holding company. Valard is trading at 85c a share.

Valhold directors hold 66,2% of the Valhold shares, Valhold in turn has an 80,4% stake in Valard.

Hudaco CE Kevin Clarke said Valard and Valhold JSE listings would be terminated following completion of the deal. The proposed scheme of arrangement would require minority shareholders to dispose of their holdings in the two companies to Hudaco. "The scheme of arrangement requires at least 90% voting approval by Valard and Valhold shareholders, but we are confident of strong support."

Clarke felt it would be pointless to retain separate listings within the combined group. While the Valard and Valhold names would fall away, the various operating companies would continue to trade under their existing titles.

To pay for Valhold, Hudaco will issue

□ To Page 2

Hudaco *bidday 4/12/91*

4,2-million new shares at R12 each and pay R4,8m cash. To buy Valard, 977 000 Hudaco shares will be issued along with R2,4m cash. Shareholders will therefore receive a split between shares and cash but can opt for a 50% cash payment.

The total issue of new shares would boost Hudaco's share capital base by 23% to 27,9-million shares.

Clarke expected the deal would boost Hudaco's sales in excess of R500m for the 1992 financial year and enhance the com-

pany's earnings potential. (189)

Based on the Valard group's net asset value at March, the deal would boost Hudaco's net asset value by 25% to about R5,50 a share.

The deal also involves restraint of trade agreements with Valard founders David Makins, Simon Nash and Steve Connelly. The three directors were paid a total of R4,5m and appointed to the Hudaco board. Valard CE Steve Connelly viewed the deal as a merger rather than a "sell out".

□ From Page 1

Tough year for newly lean Woodrow

8/10/91
PAUL ASH

INDUSTRIAL holding company Woodrow Holdings, which has operations in fluid handling, hydraulic, combustion and associated equipment, yesterday disclosed a 5,4% rise in attributable income to R1,17m (R1,11m) in its interim results for the period to end-August

Operating income, however, fell to R2,19m (R2,67m) on turnover of R16,23m (R20,36m)

MD Graham Nel said yesterday the drop was the result of Woodrow's disposal of Hydraulic Steel Tube (HST) (1890)

He added that the group's balance sheet should improve once all the proceeds from that sale were received

Tax paid amounted to R390 000 (R597 000) and was roughly static at 26%, he added

Earnings per share rose to 8,0c (7,6c)

The group declared a maiden dividend of 2,0c a share for the six months under review

Revenue from the sale of HST covered the R1,4m acquisition of Neumax, which joins the group's other major subsidiaries Meter Systems, The Combustion Group and Ascoreg.

Nel said the group had been through its worst year from an economic point of view

"We are now lean and well set to take advantage of the expected upswing," he said

Otis buys into rival Melcorp

MARC HASENFUSS (189D)

IN LINE with its plans to expand operations in SA, Otis Elevator Company has acquired a 24,97% stake in rival Melcorp (SA) for R5,1m *B (buy 2/10/91)*.

According to a statement yesterday, an undisclosed UK associate of Otis will acquire the remaining 75,03% from Melcorp's non-SA shareholders

Group directors said that Otis planned to acquire the associate's shareholding and that various funding proposals were being investigated.

Melcorp supplies, installs and services lifts and escalators in SA.

Otis directors said the acquisition and consequent increase in Otis's infrastructure would enable it to expand its local manufacturing operation.

Directors said the acquisition, effective from November 1, would have no effect on the net asset value or the earnings of Otis in the year to end November 1991

Otis bought its 24,97% stake from Melcorp's MD Rufaine Hindley, who will continue to run the combined operation for a transitional period.

Otis, currently at 220c, is set to go higher and could test February's 300c high. The share has recovered steadily from its May low of 150c after Otis reported improved interim results

Indications that Otis was on the acquisition trail became apparent earlier this year

Well-managed company in good position to benefit from economic pick-up

Star 20/10/91

AT THIS stage of the economic cycle the ability of companies to register profit increases is vitally dependent on its style of management and its competence in adapting to recessionary conditions

Hudaco has demonstrated such characteristics, having raised its profits in each of the past four years despite difficult conditions in the markets which it serves

Hudaco is a distributor of industrial engineering consumables

Its strength stems largely from an extensive distribution system and dominance in the industrial engineering replacement segment of

the mining, construction, industrial, motor and government sectors

Hudaco also supplies new engineering products to these same markets, although it is not as strong as it is on the replacement side

The group comprises four main divisions — diesel, bearing, power transmission and abrasives.

The diesel division is dominated by KHD Southern Africa, which manufactures and markets Deutz air-cooled diesel engines under licence from Klockner Humbolt Deutz of West Germany

It is having to contend with a weak civil engineering sector

The bearing division, which constitutes more than 40 percent of group turnover, is the largest

Numerous companies within the division distribute bearings and seals to the replacement side of the motor, mining, agricultural and industrial markets

Depressed conditions in the mining industry are restricting turnover and profits

Around 25 percent of group turnover originates in the power transmission division, where several companies distribute a range of conveyor and belt products, together with hydraulic and pneumatic products, to a variety of industries.

The customer base is large and here, too, market conditions are far from brisk

The trading conditions facing Hudaco are therefore difficult

Indeed, the company claims that conditions last year were the most difficult for 15 years

Even so, Hudaco improved its trading margins in the face of lower sales volumes and an inability to raise prices in line with the inflation rate

Earnings accordingly rose from 107,9c to 110,4c a share in the year to November 1990, while the dividend was raised from 48c to

50c

Two factors appear to have been aiding Hudaco

- It is steadily reducing its dependence on imported products by boosting its own local content production

- More importantly, the group has placed great emphasis on containing costs of production, improving its cash management and strengthening its marketing efforts

For the current year trading conditions were expected to remain difficult, but profits would be underpinned by the benefit of last year's drive to improve efficiencies being fully reflected in this year's results

And

debt is being reduced — which should lower interest charges

Hudaco will therefore be focusing attention on improving efficiencies for the time being.

This was reflected in the interim profits for the period to May 1991

Earnings were unchanged at 47c a share, as was the dividend at 21c

This well managed company is nevertheless well placed to benefit from a pick up in the economy, while it also has potential opportunities for exports — a potential not present in the past.

Genrec growth rate curtailed

ANDREW GILL

(189)

THE depressed economy and an increasing tax rate would curtail the high rate of growth achieved at Genrec in the past two years, chairman Dave Brink and group CE Ian Colepepper said in the group's annual report

Profits at the operating level were expected to increase satisfactorily, and produce higher after tax earnings. They were confident dividends would show real increases *B/Dam 14/10/91*

Genrec reported a 41% increase in earnings and a 71% increase in dividends for the year ended June.

A divisional breakdown showed Wadeville Engineering had been hard hit by a decline in demand for major capital equipment.

Facilities were underutilised, and losses were reported. As a result, and because poor conditions were expected to continue, Genrec had decided to merge Wadeville Engineering with Genrec Steel Structures

The combined resources and cost savings would keep the company competitive at lower levels of activity, the report said

F M 11/10/91

company installed predictive maintenance equipment at one plant at a cost of R250 000 for the hardware and between R6 000 and R8 000 a month for consulting and training. The plant is now saving R600 000 a month and can extend production for 10-15 hours a month, Fogel says.

Studies by the Electric Power Research Institute in the US show that predictive maintenance will reduce machinery failure costs by 50%-61% and preventive maintenance costs by 30%-35%.

The technique was developed 20 years ago in the US by Julian Mott, a nuclear engineering professor at the University of Tennessee. But predictive maintenance did not arrive in SA until 1985, when Fogel started using the technique in the mines. Now Fogel's company has grown to the point where in May it won a several hundred-thousand-dollar contract in the US with a subsidiary of USX Corp, the giant steel maker.

Fogel stumbled upon the technique after he was hired to investigate the underground gearboxes in the mines. The gearboxes would often break down, costing millions of rands each time, he says. First, he tried to prevent the breakdowns, but eventually realised that this was not possible. Then he tried to predict when the breakdowns would occur by examining the health of the machinery — analysing its temperature, vibrations and oil. Step by step he developed a monitoring system that predicted when the gearboxes needed to be serviced or replaced.

Today, Condition Monitoring Services turns over R5m a year and employs 14 engineers. But with new jobs streaming in, Fogel says "this is just the beginning." The biggest problem is the country's skills shortage, he can't find enough well-trained engineers to grow as quickly as he would like.

About 60% of the company's business comes from the mining industry and the rest from chemical plants, power stations, paper mills and steel plants. The company's customers are a Who's Who of SA corporations — Iscor, Afrox, AECI, Mondi, Anglo American, Mobil, Shell.

The big break came when USS Gary Works, a division of USX Corp, the world's second-largest steel maker, hired Condition Monitoring Services to help it establish a tribological laboratory, as well as to serve as a consultant at its Pittsburgh headquarters. (A tribological lab studies the friction and wear in a machine and analyses the particles in the machine's oil, providing valuable clues to how long the machine will hold up.)

The company has responsibility for all eight of the USX subsidiary's steel mills. The contract came about through Fogel's connection to Mott, whom Fogel met a few years ago while researching predictive maintenance techniques. Mott left the academic world in 1977 and now is the senior vice-president of Technology for Energy Corp in Knoxville, Tennessee, which has been working for USS Gary Works for several years.

The two predictive maintenance companies represent each other in the US and

F M 11/10/91 (189)

SA, but this is the first time that Fogel's company is taking on work in the US. USS Gary Works wanted to have Condition Monitoring Services directly involved, says Mott, who was in Johannesburg recently for a conference on predictive maintenance.

Condition Monitoring Services has doubled its turnover in each of the last few years, yet still has virtually no competition in SA. Last month, the company doubled its size by buying an oil testing laboratory. Says Fogel, "There is much more demand than we can supply."

PREDICTIVE MAINTENANCE (189)

Just-in-time cost cutting

First there was simply maintenance — to keep the machines running. Then there was preventive maintenance — to prevent problems from happening before they happened. Now there's predictive maintenance — to predict when problems will happen so they can be prevented, as the Japanese would say, just in time. F M 11/10/91

The technique improves on preventive maintenance — which calls for replacing a machine after a certain period whether it needs replacing or not — by squeezing every last bit of use out of the machine. The technique can save companies big bucks. Graham Fogel, MD of Johannesburg-based Condition Monitoring Services, says his

FM 11/10/91

Activities: Manufactures and markets industrial products, including lifting equipment, special steels, gaskets and pressings and automotive refinishing parts

Control: Directors 50%

Chairman: P M Todd, MD A L Goodman

Capital structure: 72,6m ords Market capitalisation R99,4m

Share market: Price 137c Yields 5,5% on dividend, 13,7% on earnings, p e ratio, 7,3, cover, 2,5 12-month high, 156c, low, 90c

Trading volume last quarter, 6,4m shares

Year to March 31	'88*	'89	'90	'91
ST debt (Rm)	3,7	5,9	10,4	6,5
LT debt (Rm)	0,8	2,5	6,3	8,1
Debt equity ratio	0,10	0,26	0,49	0,72
Shareholders interest	0,58	0,48	0,43	0,39
Int & leasing cover	22,7	13,2	6,8	5,2
Return on cap (%)	21,2	26,1	23,8	19,8
Turnover (Rm)	26,1	69,3	101,7	131,3
Pre-int profit (Rm)	6,2	10,4	13,1	17,2
Pre-int margin (%)	23,2	15,0	12,1	11,9
Earnings (c)	11,7	12,8	15,8	18,8
Dividends (c)	2,7	5,0	6,0	7,5
Net worth (c)	26,9	30,6	35,9	46,7

* 32 weeks

cost of these acquisitions was R12,5m

Todd says most of these purchases took place towards the end of the group's financial year and so had little impact on the income statement shown in the latest annual report. He reckons the new businesses will make a significant contribution to the group in the current year.

Emphasis this year will be on consolidation and improving returns from existing operations.

Management is expected to take steps to curb gearing, which shot up from 49% to 72% by year-end as net borrowings, including R10m in redeemable prefs issued last year, more than doubled.

The group continues to keep a tight rein on working capital, despite the high stock requirements of many of Toco's operating divisions.

Todd is optimistic that the recession has bottomed out and that economic recovery, when it starts, will be dramatic. He says Toco is well positioned to take advantage of such an upswing. Greater acceptance of SA firms abroad should also benefit the group, as it already generates a fifth of its sales outside the country's borders. Export incentives and tax losses should enable the effective tax rate to be kept low for some time.

While the outlook for the longer term is bright, the economic slump and introduction of VAT are expected to have put a clamp on earnings growth so far this year. Earnings for the six months to end-September are unlikely to show much, if any, improvement. Todd is cautious about prospects for the second half and says he will be pleased with any growth in earnings in financial 1992.

Driven by the prospect of pending economic recovery, the share, in line with the Industrial sector, has strengthened in recent months and, at current levels of 137c, offers a p.e of 7,3 and dividend yield of 5,5%. However, potential investors might well consider this price expensive.

Simon Cashmore

TOCO FM 11/10/91

Buying programme

True to chairman Paul Todd's forecast last year, Toco Holdings took advantage of the poor economic climate to increase market share by acquiring competitors at what were presumably attractive prices.

The manufacturer and distributor of industrial equipment took over agencies, debtors and some stock from National Hardware Wholesalers and SA Industrial in an offer of compromise to creditors. Toco also bought the business and trade names of Premier Chemical Industries and increased its stake in Alzac Holdings from 40% to 100%. Total

189

KNJ prepares for good times

S Times (Buss)

THE photographer was sharper than I — he spotted that Des Jameson, the chief executive officer of the KNJ group — has a famous rugby-playing son

But watching Natal beat Northerns is not the main reason behind Mr Jameson snr's pulse rate Running any business in today's environment is nerve-racking enough

Mr Jameson and chairman Keith Jenkins have been together at KNJ since 1985, but go back 28 years when Mr Jenkins' first assignment was to pull around a loss-making engineering company in the Mitchell Cotts group

Years passed and ways parted, until Mr Jenkins bought the business of KNJ in 1985 and invited Mr Jameson to rejoin him KNJ was reverse-listed into the Subroc cash shell three years ago Given the time again, Mr Jenkins would likely have floated KNJ through the front door

Prudent

I last visited the group 18 months ago, when the shares were 100c The price has been as low as 40c since then and is currently 55c In the interim, Mr Jenkins has appointed Mr Jameson chief executive, relinquished his executive role and assumed one of strategic and policy planning

The Subroc saga continued in the year to June 1991 Certain of the businesses were sold back to Subroc's former major shareholders in the previous year, but payments have not been forthcoming

KNJ's directors have prudently written off the outstanding balance, but are taking steps to recover it

The Subroc provision is only part of a total abnormal write-off of R6-million made by KNJ in the last financial year

Without the loss, KNJ's attributable income was R3,44-million, or 4,8c a share instead of the reported minus 1,2c a share

Contract losses led to the closure of civil engineering company D&M Padaanleg Mr Jameson says that regional services council allocations for certain civil projects have been redirected to settle rent and electricity bills, and new contracts are not being awarded

Working conditions in certain townships were intolerable "We had so many hijacks, assaults and vehicle thefts that we had to have someone ride shotgun whenever we went close to the trouble spots," says Mr Jameson

Retrenchments and winding down costs were part of the abnormal loss

In all, the group had to lay off 800 workers Turnover

The group's machine tool division, Mitco Tool, had a cool winter as customers held back on their purchases until VAT was introduced There were also problems in control over stock, work in progress and management accounting, which are being sorted out

Mitco's Ezakheni factory is being combined with the one at Vereeniging The loss of decentralisation benefits makes it impractical to operate two factories

Mr Jameson says the order book is in reasonable shape, but how it continues after the post-VAT fillip depends on how soon SA comes out of this interminable recession

"When you're in a recession, all you can see ahead is recession, and in boom times, all you can see is boom conditions," says Mr Jameson "It's not all doom and gloom There are a few glimmers of improvement, but we're not expecting an overnight recovery"

Like many managers, KNJ hoped a year ago that the recession would be lifting by now Only the general engineering company Macarl exceeded budget and improved margin through sound shop-floor management

Camec suffered from a shortage of engine rebuild and repair work as well as from lower demand for spares It depends largely on servicing the mining and construction industries, both of which are battling

Instead of getting large trucks repaired, companies preferred to mothball and cannibalise them because it was not essential to keep them operating

Lower special-steel demand meant tough times for Bonuskor Steel, but better buying arrangements have been concluded that could give margins a lift Two thirds of the business

of problematic Comaco Stainless Steel was sold to a consortium of suppliers to the food and beverage industry

Steps are being implemented to improve management of the operations. The Port Elizabeth branch of Transkip was closed and the rest of the freight forwarding company is running smoothly Half its work comes from outside the group, and it has won business associated with the export of rail coaches to Taiwan.

White-goods group Univa is one of the areas of thrust Univa held on to its market share albeit in a reduced market.

Production went to a four-day week, but persisting lower demand inevitably led to permanent job losses

"It is better to cut deep the first time, than to have to go back three months later and tell more people they have to go," says Mr Jameson "It causes too much uncertainty otherwise"

KNJ owns 88% of Midmacor, which was listed through a reverse takeover of PDS Midmacor deals in Honda motorcycles and other Honda products, Miller welding equipment and diesel engine sales and repairs

Its turnover to June 1991 was 9% lighter at R79-million Margins were down, but an abnormal item pushed Midmacor into the red too Without the write-off, Midmacor would have earned 11c a share Its share price has been as low as 35c, and is now 60c

So much depends on the economy Mr Jameson admits that some of the operating management is not all it might be — problems have come to light but not until the damage had been done

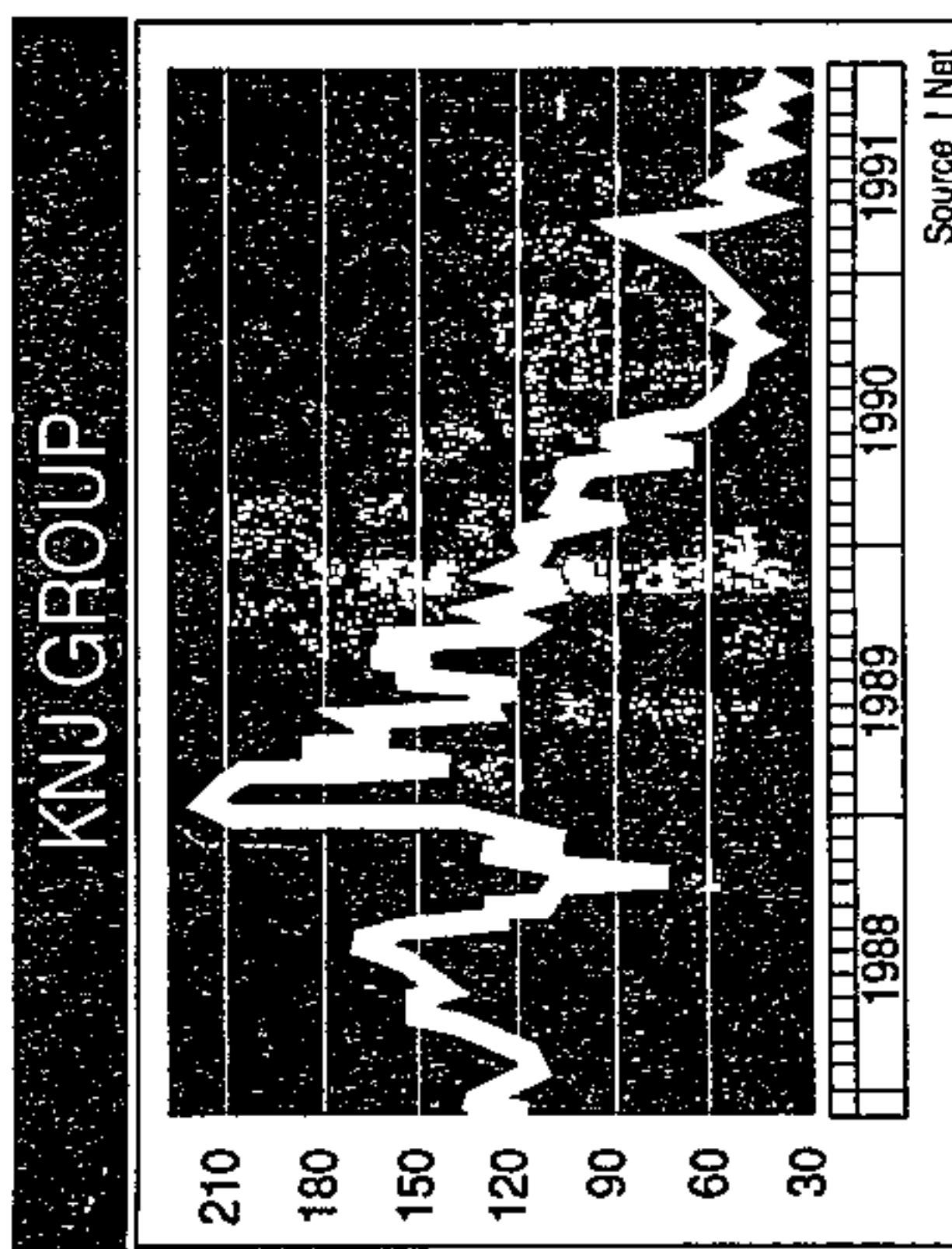
The thrust now is to train the skeleton to cope when the good times creep back

Perhaps KNJ's recovery chances could be compared with Natal's prospects of winning the Currie Cup next year If son can do it, so can father

189D



DES JAMIESON



Source: I Net

evaluate all the businesses all the time If a branch makes a loss, action is taken First prize is for it to recoup the loss and turn around But if it does not seem possible, it has to be closed"

fell 13% to R289-million and operating margin was squeezed from nearly 9% to 5%

Certain stock and irrecoverable work in progress also had to be written off "We re-

Call for lifting of ADE import protection

IMPORT protection enjoyed by Atlantis Diesel Engines (ADE) should be lifted to allow the SA tractor industry to acquire cheaper tractors, the SA Agricultural Machinery Association (Saama) said yesterday.

Saama chairman Bert Pepler said the lifting of protective tariffs would place SA tractor manufacturers in a better position to benefit from lower international prices. *Blom 29/8/91*

ADE MD Fritz Korte said the ADE engine accounted for 17% of the retail price of the agricultural tractor but did not represent a full premium on its own.

MARC HASENFUSS
and GERALD REILLY

Pepler said ADE engines would still be 30% more expensive than their imported equivalents, in spite of proposed price reductions. *(18%)*

He questioned ADE's ability to achieve these price reductions.

An IDC report on ADE says ADE's 25% price reduction programme will reduce the price gap between local and imported engines to 23% in the next 18 months. *(18%)*

ADE engines are 75% more expensive than comparable imported ones.

Fm 23/8/91

(189)

PICARDI APPLIANCES

Fm 23/8/91
Brave turnaround

(189)

A R27m turnaround in pre-tax income is a remarkable achievement for a group that lost R13,2m a year ago and was all but written off by most analysts. Even more remarkable is that after-tax profit of R14m exceeded forecast by 40%, even though turnover fell by 5% in the year ended June 30.

And make no mistake it has not been an easy economy to give effect to this recovery. It was a brave decision to sell out at fire-sale prices stocks of depressed-margin, low-end portable audio products, then accounting for 35% of turnover. But it was manifestly apt.

What has brought about this revival is that a thinned down, more motivated management and staff concentrated on higher margin white goods while focusing on efficient working capital utilisation. Against a 5% reduction in sales, stock has been cut by

12% and debtors by 16%

Interest-bearing debt fell dramatically to R62m from R106m, though it includes a R21m injection (at market-related rates) from holding company Picardi Holdings. The interest bill dipped to R17m, from R27,5m in financial 1990.

Because of the R13m loss in 1990, no tax was payable in 1991, and an EPS at 54c obviously reflect this. Had tax been paid, MD Peter Spreckley comments that 32c would have been the figure. It is well to remember this, since the tax rate for 1992, Spreckley estimates, is likely to be in the region of 30%.

Spreckley is convinced that 1992 will be a formidably difficult year for the white goods industry and feels that the company will be doing well if it can sustain operating profits. In this scenario, investors should not expect EPS to be much more than that nominal fully taxed 32c. In other words, this year's EPS is a one-off bonanza.

KIC, the main branded line marketed, has an excellent name, with both the trade and consumers. Chairman Jan Pickard clearly has great faith in the organisation, or would not have granted the R21m inter-company loan. When the economy improves, so should Picardi's fortunes.

In this light and accepting that passing the dividend is good for Picardi's financial health, a share price of 100c cannot be considered expensive. If EPS for 1992 indeed turn out at about 35c, the forward price is 2,85. Furthermore, NAV is 182c. *Gerald Hirshon*

ADE and import prices compared

By Day 22/8/91
IMPORTED tractor engines are 43% cheaper than those manufactured by Atlantic Diesel Engines (ADE), according to the findings of the Industrial Development Corporation.

However, imported spares cost between 48% and 80% more than the local ADE products, IDC said in its findings yesterday.

"The retail purchase price of an ADE-powered tractor was on average 16% higher than the price of a completely built-up imported tractor, it reported.

"But the cheaper ADE spares reduces the premium, calculated over a 10-year tractor life, to 12%."

ADE's 25% price-reducing programme over 18 months would narrow the engine price gap with the imported product from 43% to 23%, IDC said.

The discount on ADE-manufactured tractor spares and price reduction on engines would have the effect of an ADE-powered tractor with 10 years' spares costing 5% more than an imported tractor — Sapa

Star 21/8/91

Picapli responds well to treatment

By Jabulani Sikhakhane

Picardi Appliances (Picapli) has reacted positively to shock treatment applied since financial 1990

(189) ~~1990~~
The group reported a sharp turnaround in the 12 months to June, with earnings of 54c from a loss of 53c a share in the previous year

No dividend is being paid as directors have decided to conserve cash until the group's gearing ratio improves

In financial 1990 the group disposed its low-margin audio business and withdrew from the local manufacture of portable audio products and television sets

This rationalisation programme was embarked upon after Picapli reported a pre-tax loss of R13,2 million for the year

During the review period, group turnover rose 95 percent (for competitive reasons Picapli does not provide actual turnover figures)

Improved operational efficiencies, the elimination of the low-margin business and improved penetration into the appliance market resulted in operating income rising 121 percent from R14,36 million to R31,77 million

Working capital management was tighter during the year, result-

ing in net assets falling from R139,44 million to R109,07 million

As a result, the group managed to cut a further R44 million off its interest-bearing debt

The group received a R21 million loan from Picardi

Taken together, these factors helped reduce gearing from 319 percent to 130 percent

Interest payments fell 38 percent from R27,53 million to R17,15 million

This boosted income before taxation by 211 percent to R14,62 million from a loss of R13,17 million

After a tax payment of R608 000, taxed income was up 204 percent from

a loss of R13,472 million to R14 million

This is above taxed income of R10 million the directors forecast at the interim stage

Excluding the utilisation of assessed tax losses, earnings a share would have been 32c

Looking ahead, the directors are confident that Picapli's focus on branded products will see the group through difficult trading conditions

Continued tighter working capital management and further improvement in operational efficiencies will provide the basis for sustained profitability, they say

ADE and distributors to part

Business Day Reporter

1890

THE agreement of Atlantis Diesel Engines (ADE) with Propower to distribute ADE industrial engines comes to an end on October 31. An announcement is expected shortly on ADE's new distribution arrangements.

ADE MD Fritz Korte says the decision was mutual and amicable.

6/04 13/8/91

He said ADE in the past year had doubled its industrial engine sales force and had 10% of the industrial engine market at present. Its share was growing.

"This team is establishing closer links with industrial engine end-users throughout southern Africa and gaining a better understanding of this market," he said.

COMPANIES

Farm-Ag struggles out of the red

AGRICULTURAL supplies manufacturer Farm-Ag managed to struggle out of the red by year-end after an improved contribution from its associated companies.

The selling off of unprofitable operations also helped the group to a meagre R74 000, or 0,5c a share at bottom line as turnover dropped a hefty 64% to R73m (R206m) for the year to end-February 1991. No dividend was declared.

This was a vast improvement on the R7,7m or 56,9c loss a share recorded in the previous financial year. However, the inclusion of a R3,8m extraordinary item resulted in an accumulated loss of R3,7m for the year *by Day 29/7/91*

The interest bill fell to R12,4m (R19m) after group borrowings were reduced to R58,6m (R96,6m) in the period under review.

Directors are aiming to reduce borrowings further and negotiations for the dis-

MARC HASENFUSS

posal of more businesses are underway.

Agricultural chemical manufacturer Sanachem, the joint venture with Sentrachem, performed poorly due to the drought conditions prevailing in 1990 *(189)*

Farm-Ag directors said Sanachem was also adversely affected by rationalisation costs in merging Farm-Ag and Sentrachem's agricultural chemical businesses.

In addition, the benefits of the merger became apparent only in October 1990, which was too late for the 1990/1991 agricultural chemical season *(189)*

Major cost cutting programmes have been introduced at Sanachem and directors are confident that better results can be expected.

Farm-Ag's other associated companies include a 40% holding in Hack's Hosiery and a 23% stake in Bearing Man.

Woodrow in R1,25m deal

on Neumax

3/04/91 23/7/91
MARC HASENFUSS

STICKING to its policy of growth by acquisition, engineering-listed Woodrow Holdings bought pneumatic equipment supplier Neumax SA for R1,25m, said a statement issued yesterday.

The acquisition will boost Woodrow's earnings a share by 2,5c for the period ending February 28 1992.

However, it will decrease its net asset value by 5,8c a share for the period.

Neumax, which supplies the pneumatic and pneumatic actuator industry, would form an important element in the planned development of Woodrow's interests in the fluid handling market, said MD Graham Nell.

Current management would continue to run Neumax for at least 20 months.

The previous owners had signed three-year trade restraints which covered SA.

Woodrow would continue to investigate the acquisition of companies which complemented its skill and product range in its present field of operation, Nell said.

Woodrow would also dispose of products and services no longer related to the group's core activities.

The group is mainly involved in the manufacture and supply of fluid handling, hydraulic and combustion equipment.

Otis lifts itself to healthy height

By 17/7/91

MARC HASENFUSS

189

OTIS Elevator Company looks set to resume a healthy level of growth after corrective efforts by the revised management board resulted in an 82% escalation in interim earnings

Recovering strongly from disastrous results in the previous year, earnings rose to R3,1m (R2m) or 18,6c (12c) a share for the six months to May. A 9c (8c) interim dividend was paid out, covered two (one) times

Corrective actions have included streamlining the Wadville factory, replacing the mainframe computer and strengthening the estimating and contract control systems

However, analysts emphasised the R2,2m construction cost provision in the interim period last year made the results under review appear better than they were

The group is intent on delivering its promise in its annual report of a "move progressively back to a healthy position" after previous forecasts were not achieved

Expectations that Otis would resume a growth trend and increase market share were shattered when major cost overruns (R4,2m) and restructuring (R1m) caused a 76% plunge in earnings in the year to November 1990

The US controlled group modified its dividend policy earlier this year to limit borrowings and the interest payments. Otis now distributes only half the annual earnings in dividends. The strategy has kept long term borrowings at a meagre R60 000.

Analysts pointed out that the paying out of all earnings as dividends was not a bad policy, as the service orientated group did not need to retain a large slice of profits to finance capital expenditure

Otis does not reveal turnover, making it impossible to determine whether the increase in market share, predicted in the annual report, was achieved

Battle for Macadams

star 15/7/91

Diagonal Street

1890

LYNNE PEACH

Bakery equipment supplier Macadams continues its battle to provide shareholders with the growth they would like to see

In the latest annual report, chief executive Raimund Pouliart does not foresee any significant improvement in performance in the current year but regards exports, which account for 10 percent of turnover, as the key to future growth

The Macadams group manufactures, sells, installs, services and reconditions a complete range of equipment for the baking and confectionery industries, backed by professionally run bakery training facilities

An import replacement programme is under way and a number of new products, including a pizza oven and a unique moulder able to produce both bread and rolls, are being manufactured

In the year to February, group turnover decreased 23 percent from R37,7 million to R28,9 million.

If the sales from discontinued operations, specifically Aloe Catering, are excluded from financial 1990, then turnover shows an increase of three percent.

Mr Pouliart says this marginal increase does not reflect the higher volumes actually achieved because the group concentrated on selling its own products rather than more expensive, imported equipment

Operating profit from continuing operations fell 17 percent from R2,4 million to R2 million

Mr Pouliart says further improvements in net operating margins remain a key point of management focus

After interest expense of R1,6 million, pre-tax profit amounted to R442 000

This compares with R951 000

(excluding discontinued operations) the previous year

A decrease in the effective tax rate from 0,9 percent to 0,1 percent resulted in attributable profit of R441 000

This equates to earnings of 2,9c a share

No dividend has been declared since financial 1989

The balance sheet discloses a significant reduction in borrowings from R11,3 million to R5,1 million

Gearing, net of cash, decreased from 255 percent to 73 percent

Mr Pouliart says that while this improvement is pleasing, the figure still falls short of the goal of 50 percent.

Fixed asset holdings decreased from R6,8 million a year ago to R2,6 million caused by the group sale of land and buildings

The transaction resulted in an extraordinary surplus of R2,0 million.

Macadams, priced at 18c, is trading on a P/E ratio of 6,2.

Sentiment will depend on the group's ability to improve its profitability and strengthen its balance sheet.

Buying the share is recommended on evidence of a turnaround

COMMENT Macadams' share price performance has been unexciting for the past four years

This year the price has picked up from a low of 10c to its current level of 18c

A break above resistance at 20c will signal the start of a positive trend.

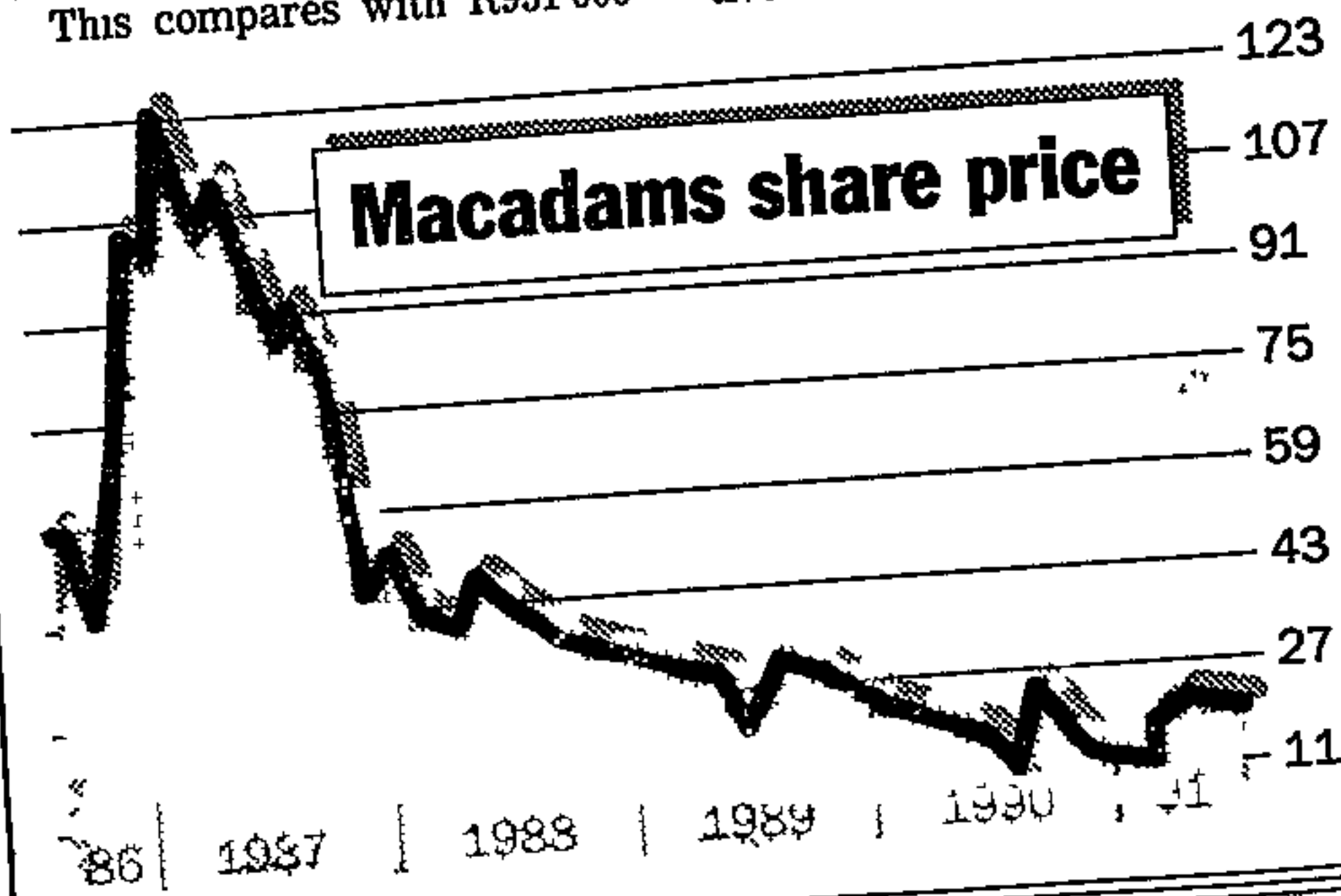
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ADE hopes to break even this year

PRETORIA — Atlantis Diesel Engines (ADE) believed it would "break even" in the current financial year, ADE MD Fritz Korte said at the weekend.

"With all our cost-cutting programmes now firmly in place we have already been able to keep engine price increases at 10% below the current inflation rate for this year."

This was in line with the intention of achieving a 20% reduction in engine prices by the end of 1992.

However, the economic situation and continued low tractor volumes would also have an effect on their ability to break even this financial year

Korte said ADE component exports for this year

GERALD REILLY

15/07/91 1517191
would amount to R34m. The company was expanding into the southern African market with the appointment of an engine distributor in Botswana in May.

(1891)
Reacting to the 33,3% drop in tractor sales in the first six months of the year compared with January-June last year, Korte said the effect on ADE's produc-

tion was cushioned by the fact that the company served other core markets

"Tractor engines currently account for about 11% of ADE's production. The remainder of our engines are taken up in the heavy and medium commercial vehicle market sectors."

The market share there was 95% and 74% respectively.

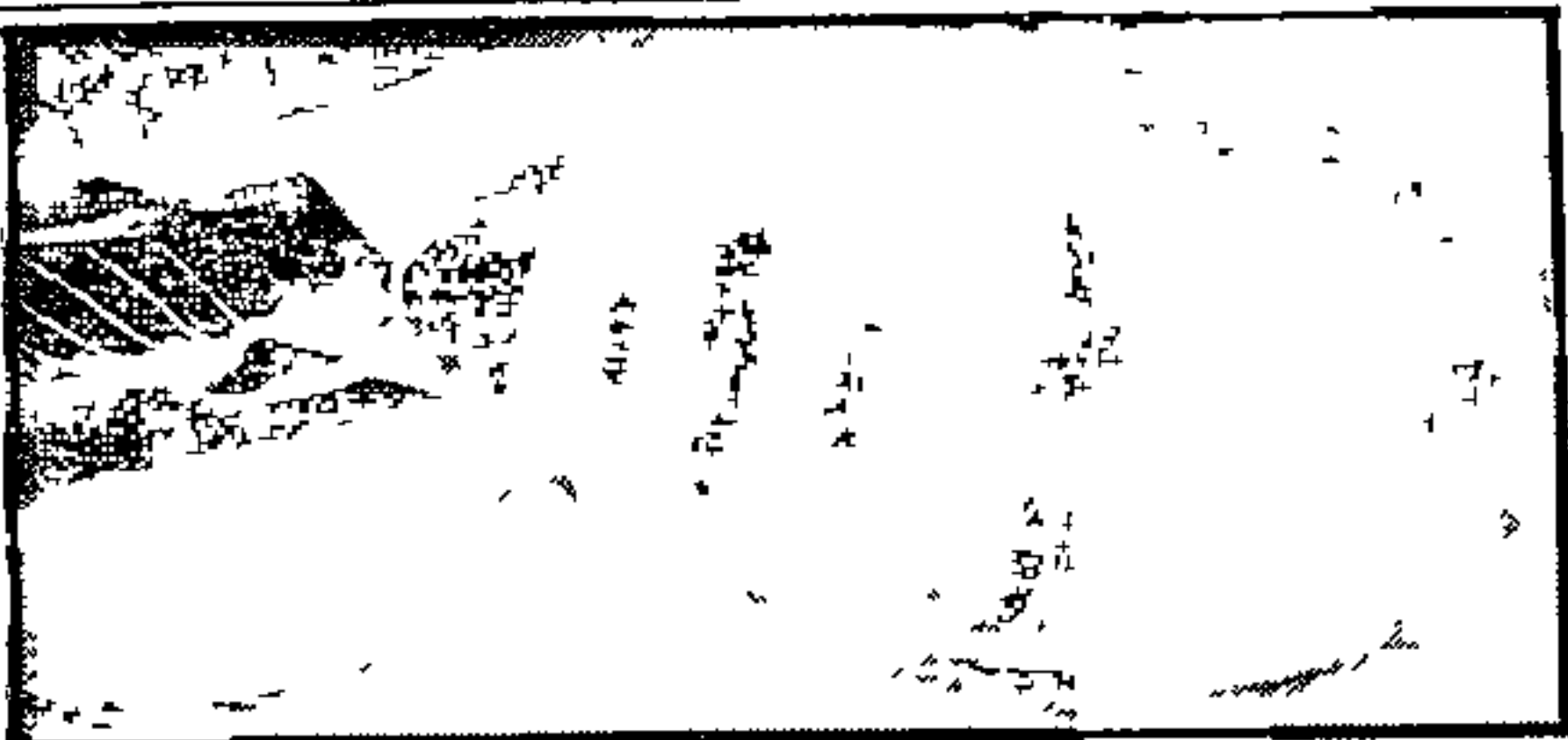
The industrial engine market was also a factor.

ADE wins local content deal, drops tariff plea

By DON ROBERTSON

THE BOARD of Trade and Industry (BTI) has reduced the local content it requires for engines made by Atlantis Diesel Engines (ADE).
Two weeks ago it agreed that local content in them be fixed at 60% until 1997 when the current Phase Six programme will be completed.
In terms of the previous agreement, ADE was required to raise local content to 70% by 1992 and to a maximum of 83% by 1997.
For vehicle manufacturers,

FRITZKORTE Cost cutter



the important aspect is that even at 60%, the engines will have a deemed 100% local content.
As a result of the concession, ADE has withdrawn its application for a 20% protection tariff on the excise value of imported commercial vehicles.
On July 1, ADE reduced the price of four-cylinder tractor engines by 5% and six-cylinder engines by 10%. This will result in a

decline of 1% in real terms on four-cylinder engines based on December 1990 prices and 6% on six-cylinder ones.
ADE also asked for the 20% protection duty on tractors to be withdrawn.
Last August, ADE embarked on a cost-cutting exercise which has kept engine price increases 10% below inflation.
Managing director Fritz Korte is confident that a similar saving will be made next year.
It should help the company to meet its target of cutting

prices by 20% in real terms by 1992.
ADE expects exports to increase to about R33-million this year from R17-million in 1990.
The company has established an assembly line for partially knocked down (PKD) engines and supplies Boeresake, which bought Massey Ferguson It can make 2 500 engines a year.
Mr Korte believes engine production this year will be about 10 000 units, rising by about 22% next year.

(Sun Times)

(STimes)

14/7/91

1849

ADE drops surcharge request

MARC HASENFUSS

(189) ATLANTIS Diesel Engines (ADE) has waived its request to the Board of Trade and Industry for a temporary 20% surcharge on imported truck engines

MD Fritz Korte said a better understanding of customer needs and the implementation of a business plan to make ADE more market driven had led to the decision

He said ADE had originally asked for the 20% protection for two years while the company's cost-cutting and rationalisation programme took full effect

Cost-cutting was aimed at reducing the price of ADE engines by 20% by the end of 1992

Korte said with the support of ADE's licensors, shareholders, suppliers and employees, cost-cutting had kept price increases 10% below the current inflation rate. He was confident ADE would achieve the reduction target by the end of next year

PRINTERS

Star 11/7/91
ADE backs
off on tariff
request (189)

Atlantis Diesel Engines (ADE) said yesterday it had requested the Board of Trade and Industry not to proceed with processing its application for a 20 percent protection tariff on the excise value of commercial vehicles.

Managing director Fritz Koerte said ADE had originally asked for this protection for two years while the company's cost-cutting and rationalisation programmes took full effect.

"These programmes, implemented in August last year, were aimed at reducing the price of the ADE engines by 20 percent by the end of 1992.

"Already our cost-cutting actions, with the full support of our licensors, shareholders, suppliers and employees, have enabled us to keep engine price increases 10 percent below the current inflation rate during 1991.

"We are also confident of achieving our ultimate target of a 20 percent price reduction by the end of next year," — Sapa.

CHUBB FM 5/7/91.

PENSION HOLIDAY (189D)

Chubb's year-on-year increase in 1991 earnings was even better than the interim result. Attributable earnings increased by 41%, compared with 35% at the interim stage. But this did not result primarily from operations. Pre-tax profit of R4,7m in the second half was about a third down from the first half.

The tax charge for the year was down by nearly a tenth at just over R4m. A boon for the group was a partial pension fund contribution holiday. Because of a large surplus in the pension fund, Chubb paid no pension contributions for part of the year. Without this holiday, EPS would have been 19% lower at 111,7c, which is just 13,3% above

LOOKS SECURE

Year to Mar 31	'90	'91
Turnover (Rm)	144	173
Pre-tax profit (Rm)	9,9	11,7
Attributable (Rm)	5,4	7,6
Earnings (c)	98,6	137,9
Dividends (c)	25	28

the 1990 EPS. The high dividend cover of 4,9 (up from 3,9) partially reflects the distortion in earnings.

According to financial director Gary Fredericksen, demand has been very weak from the new building sector, which has adversely affected demand for fire security and locks. There was heavy discounting in these sectors and Chubb says competitors have sold some products at cost to maintain market share.

The contribution to trading profit from the fire security division (R2,6m) fell by 40,3%. Locks form part of the physical security division, which boosted profit by 45,8% to R6,1m, thanks to the strong performance from safes.

Best performer was the electronic security

continue →

FM 5/7/91 (189)

division, which increased its trading profit by 57,7% to R7,8m. Fredericksen says increased demand for security in both residential and industrial areas is a worldwide trend. Relatively little of this business originates from new buildings.

Net interest payments increased by 31,1%, though long-term debt has fallen by nearly a third. Chairman Dirk Ackerman expects earnings to be maintained next year, which would require a 19% growth to make up for the non-recurrence of the tax holiday. At 725c, Chubb trades on a p/e of 5,3 and a dividend yield of 3,5%. In view of the increased demand for security, it could offer some value.

Stephen Cranston

ADE set to cut engine prices as part of bid to shave losses

By BLAISE HOPKINSON,
Business Staff

IN YET another round in its fight for survival Atlantis Diesel Engines (ADE) is set to cut prices on certain engines next month

Heading for a loss in the year to June, Atlantis-based ADE is pulling out all stops to remain in play. The company will reduce the prices of its four and six cylinder engines by 5 and 10 percent respectively on July 1.

Managing director Mr Fritz Korte said the price of four cylinder engines would be 1 percent down on the December 1990 prices, while the six cylinder engine would cost 6 percent less.

"The biggest criticism of ADE has been that its engines were more expensive than imported engines. This, customers felt, led to substantial price increases of

agricultural tractors

"This perception, with the introduction of the Phase VI local content programme in mid-1989, led ADE management to embark on a major cost-cutting and rationalisation programme with the assistance of its shareholders, licensors, suppliers and employees."

Retrenchments and rationalisation were helping to reduce losses, but Mr Korte warned the company would report a loss this financial year.

Virtually all diesel trucks assembled in South Africa used ADE engines and "badge engineering" had become virtually standard practice.

Competition by manufacturers for shrinking truck orders was fierce and it had become something of a buyers' market.

Mr Denis Kaye, chief executive of major transport group Laser, said recently this was the first time the company had been able to bargain for better truck prices.

By January this year, ADE was able to keep tractor and truck engine price increases well below the rate of inflation with a 2,5 percent increase, which was followed by a 2 percent increase in April. This was in accordance with ADE's stated intention to reduce engine prices by 20 percent by the end of 1992.

"It is, however, well-known that farmers are experiencing difficult times," said Mr Korte.

"As ADE has always striven to do what it can to assist the South African agricultural sector, we made the decision to further reduce the prices of our tractor engines," he said.

ARGUS 21/6/91

1890

ADE hits back with price cuts

MARC HASENFUSS

ATLANTIS Diesel Engines (ADE) will reduce the price of its tractor engines by between 5% and 10% next month in a bid to compete with cheaper imports

A statement released yesterday said ADE had also withdrawn its application to the Board of Trade and Industry to increase the tariff structure for agricultural tractors.

Group MD Fritz Korte said yesterday the price of four-cylinder engines would be 1% down in real terms against December 1990 prices, while six-cylinder engines would cost an effective 6% less.

The price reductions form part of ADE's strategy to remain competitive against cheaper imported engines by reducing prices on all its diesel engines by 20% in real terms by the end of 1992.

Korte said the biggest criticism of ADE engines was that prices were higher than imported engines "This, customers felt, led to substantial price increases of agricultural tractors" 6/04 21/6/91

According to industry estimates some imported engines cost up to 40% less than ADE products

While ADE's controversial application made to the BTI for a two-year temporary surcharge of 20% on imported truck engines remains, spokesman Koos Liebenberg said ADE was reviewing the application and a final decision would be made at the end of the month

COMPANIES

SPECIALIST materials manufacturer Sondor Industries has started to feel the effects of waning business levels in the building and motor industry

The Cape Town-based group reported a 25% drop in earnings on an annualised basis to R3m (R4,3m) or 13,7c (18,2c) a share for the year to end-March 1991

Financial director George Copeland said bottom-line earnings were reduced mainly by increased tax provisions, which saw the tax bill double to R2m. There was also a considerable slow-

Sondor shows 25% earnings drop

^{R 15 cm 14/6/91}
down in demand for Sondor's products

Sondor's first six months are generally more productive than the second half, which includes five working months due to factory shutdowns in December

The group's results for the six months to end-September showed a 15% increase in attributable earnings to R2,1m (R1,8m) or 8,74c (7,4c) a share

The results under review are not comparable to the previous year as the group

MARC HASENFUSS

changed its year end from June to March

Turnover was R19m (R14m in the nine months to March 1990) and pre-tax profit R5m (R4,4m in the nine-month period last year). A final dividend of 3c was declared, bringing the total payout to shareholders to 5,5c a share, covered 2,3 times

The group is mainly involved in the conversion of open and closed cell ex-

panded rubbers and plastics for the motor and building industry

Copeland said R4m had been invested in plant and machinery to expand the group's range of polyethylene and vinyl acetate products. This would eliminate the need to import these products and expand the group's markets, especially into the footwear industry

Sondor's share is priced at 70c on the JSE, after dipping to a 60c low in May

(1891)

BUSINESS

Cummins lends Propower some marketing muscle

CUMMINS Engine Company, the US-based manufacturer of diesel engines, is supporting its local distributor Propower, an NEI Africa subsidiary, in a major expansion drive in the SA market

This was announced by Arthur Mulligan, Cummins's director in charge of engine distribution in Africa and the Middle East, in Johannesburg this week when he handed over a plaque to Propower MD Mike de Beer to mark an association of 45 years between the two companies

He also announced that John Harris, Cummins's regional manager for Africa and a mechanical

8/10/91 189D
ZILLA EFRAT
engineer who has been associated with Cummins internationally for 22 years, would be working "very closely" with Propower from Johannesburg

"While Cummins has maintained a continuous presence in SA for the past 45 years, I believe it is now appropriate to strengthen our commitment to the region in order to pursue the tremendous opportunities that are now developing," said Mulligan

Cummins, through Propower, has

been a major player in supplying diesel engines to the mining industry, off-road vehicles, heavy transport, power generation and marine. Vast potential is seen in these market sectors.

Cummins had been impressed by the way Propower had kept abreast of diesel technology.

It was able to provide a vital service to Cummins, Mulligan said

"We have full confidence in the new team put in place at Propower by the parent NEI Africa group and we believe firmly we are all set to make a big impact in the local market," he said

COMPANIES

ADE asks for time to prove its true worth

CAPE TOWN — Atlantis Diesel Engines (ADE) will make a loss in its financial year to end-June but the effect of its cost reduction programme will see a break-even point being reached the following year, MD Fritz Korte says

Turnover of SA's only diesel engine manufacturer is expected to be down R450m in the year to end-June from the comparable 1989 figure of R600m when ADE made a profit

The introduction of VAT and destocking would pull down sales this year, Korte said in an interview this week

The heavy commercial market is expected to fall 23% this calendar year to about 6 000 units from 7 800 last year, the medium commercial market 12,5% to 4 200 (4 800) units and tractors by 36% to 2 500 (3 900) units. Industrial engines should fall to about 5 000 (5 700) units

An average 10% growth is forecast for 1992 with heavy commercial vehicles up at 6 500 units, medium at 4 700 units, and tractors at 3 000

Benefits

Korte says the projections are based on a conservative view of growth in the economy

ADE has a 95% share of the heavy commercial vehicle market, 75% of the medium market, 80% of the tractor market and 10% of industrial engine market

The benefits of the cost reduction programme started in August will flow through only in the 1992 financial year. Korte says suppliers and ADE's licensors, Daimler Benz and Perkins, have played a large role in this exercise by discounting and backdating concessions

The retrenchment programme is complete with a total of 300 salaried staff and 600 hourly paid workers losing their jobs. The workforce now totals about 1 800 people. ADE's management structure was also consolidated as part of the cost-cutting

Costs will be cut by 20% which will be passed on as a price decrease in real terms to customers over two

years. Prices increased 2,5% in January, 2% in April and there may be a slight increase in October, giving an annual rise of about 10%

Korte is adamant that ADE just needs two years and will then be able to compete with international engines within the terms of Phase Six of the local content programme

ADE is keenly awaiting the outcome of its application for a 20% import tariff on imported trucks, but Korte says its viability will not be threatened if the application is turned down. However, a duty would smooth the road of the diesel manufacturer's return to profitability

"Only one customer, Nissan, has indicated its intention of bringing in their own truck with their own engine. Our biggest customers are Toyota and Mercedes Benz and both have been very positive towards ADE's attempts to get its act together," says Korte

He estimates the number of diesel engines being imported in terms of Phase VI of the local content programme at about 3 400 units a year

Korte adds government is very sympathetic to ADE and believes the decision on the import tariff application will depend on proof of ADE's long-term viability

However, he concedes that in the long term if all customers decided to bring in their own engines ADE would be in a difficult situation as volumes, already critical for economies of scale, would decline and would nullify the cost reduction programme

While the National Association of Automobile Manufacturers of SA (Naamsa) has voiced opposition in principle to the tariff application, it appears that it will not actively lobby against it and would be prepared to live with an import duty, though would prefer a duty on only the engine and not the whole truck as ADE has applied for

The importance of the price reduction lies in the fact that ADE's engines cost 40% more than imported ones which are produced under different economies of scale and with

LINDA ENSOR

● KORTE

lower input costs

Korte says by reducing prices by 20% ADE engines will still be more expensive but adds that the end user will benefit in terms of spare parts and service by having uniform engines. He estimates that the aftermarket for ADE engines is about 50% to 100% cheaper

Responding to the view that ADE should be closed as there are no longer grounds in the post-sanctions era to maintain a high cost diesel manufacturer, Korte says ADE should be given the chance to compete at a reasonable level

The original value of the investment was about R450m but total capital expenditure in replacement terms is now well over R1bn

"The population of ADE engines in SA has helped set up a cheap and reliable parts supply and a cheap and efficient service in SA. This should be taken into account and measured against any extra cost which may be paid for an ADE engine. I say give us time. We are going to prove to the people of SA that ADE is something to be proud of"

Sale of company HQ helps bottom line

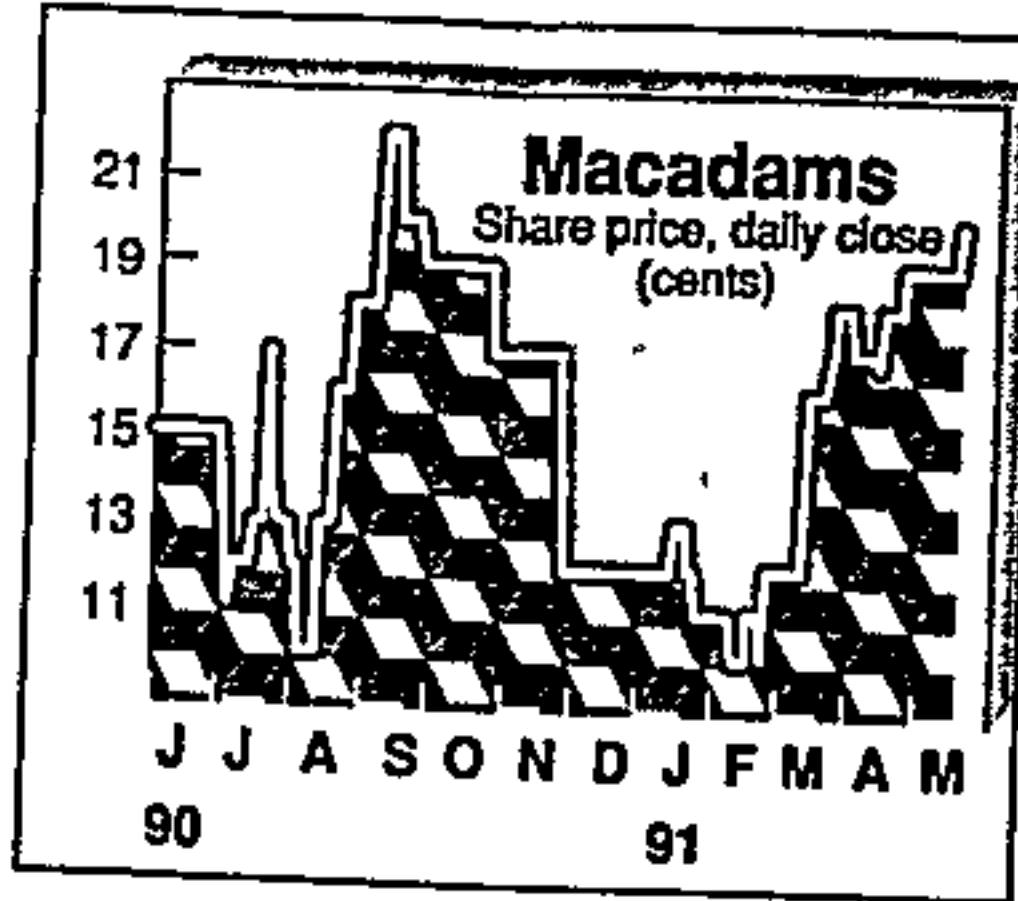
CAPE-based bakery and confectionery equipment manufacturer Macadams benefited from the realisation of R2,01m through the sale of its factory and head office building, to turn in a bottom-line profit of R2,45m for the year to end-February

The company's earnings compare with a net loss of R3,10m in the previous financial year, where extraordinary losses of R3,98m were incurred in discontinuing operations of its Aloe catering division

The disposal of Aloe saw turnover for the year decline from R37,7m to R28,9m MD Raimund Pouliart said the comparative turnover for the previous year, excluding Aloe's contribution, would have been R28,0m However, the small increase in sales

MARCIA KLEIN

revenue "was not indicative of the higher volumes actually achieved" He said that Macadams focused on its own products rather than on the



Graphic: LEE EMERTON Source: INET

sale of more expensive imported equipment, which resulted in a drop in turnover even though volumes were up on last year

The interest bill increased by 6,7% to R1,59m (R1,49m), which Pouliart said did not reflect the full benefits of the property sale, and net income was halved to R442 000 (R888 000)

Earnings, including the extraordinary item, were 15,9c a share (a loss of 20,1c a share)

Gearing was down from 255% to 74%, but no dividend was declared in line with management's commitment to reduce gearing to 50%

While Pouliart did not expect positive earnings to be maintained in financial 1991, he said he did not expect "any major fluctuations in performance" in the current year

Analyst: Sappi may start picking up in 1993

SAPPI should start showing real earnings growth in its 1993 financial year as world paper and pulp markets are expected to firm by the middle of next year, says Davis Borkhum Hare analyst Pierre Greyvensteyn

In the year to February 1991, Sappi's attributable profits declined 38,1% to 402c a share The paper and pulp giant was affected by softer local and international markets and strikes at two mills

However, Greyvensteyn forecasts earnings growth of about 4,5% in fiscal 1992 and 25% in 1993

Dividends, however, are expected to remain at 200c a share

ZILLA EFRAT

Earnings in the 1993 year will be boosted by firmer prices and increased plant throughput and efficiency following the ongoing capital expansion programme

However, in the short term Sappi will be under pressure to improve earnings in fiscal 1992, especially against the background of tight margins and high finance costs

Greyvensteyn expects international prices to remain depressed for the next 12 months because of slower international consumption coupled with excess installed capacity and

more to come in both 1991 and 1992

In the current year, Sappi could also face competition from imported papers because of the excess capacity abroad, as well as some dumping on the local market

As a result, price increases are expected to remain below the inflation rate this year But the group could benefit if the rand weakens against the dollar

Greyvensteyn says Sappi's return on total assets has deteriorated sharply from 16,1% in 1985 to 8,6% in 1991 This suggests that since 1987, efficiency at plant level has seriously deteriorated

OTIS FM 17/5/91 189
REBUILDING LIQUIDITY

Activities: Makes, sells, refurbishes, erects and services elevators and escalators

Control: Otis Elevator (US), ultimate holding company is United Technologies Corp

Chairman: A M D Gnodde, MD R E Markham

Capital structure: 17m ords Market capitalisation R29m

Share market: Price 170c Yields 7.1% on dividend, 7.1% on earnings, p e ratio, 14.2, cover, 1.0 12-month high, 360c, low, 170c

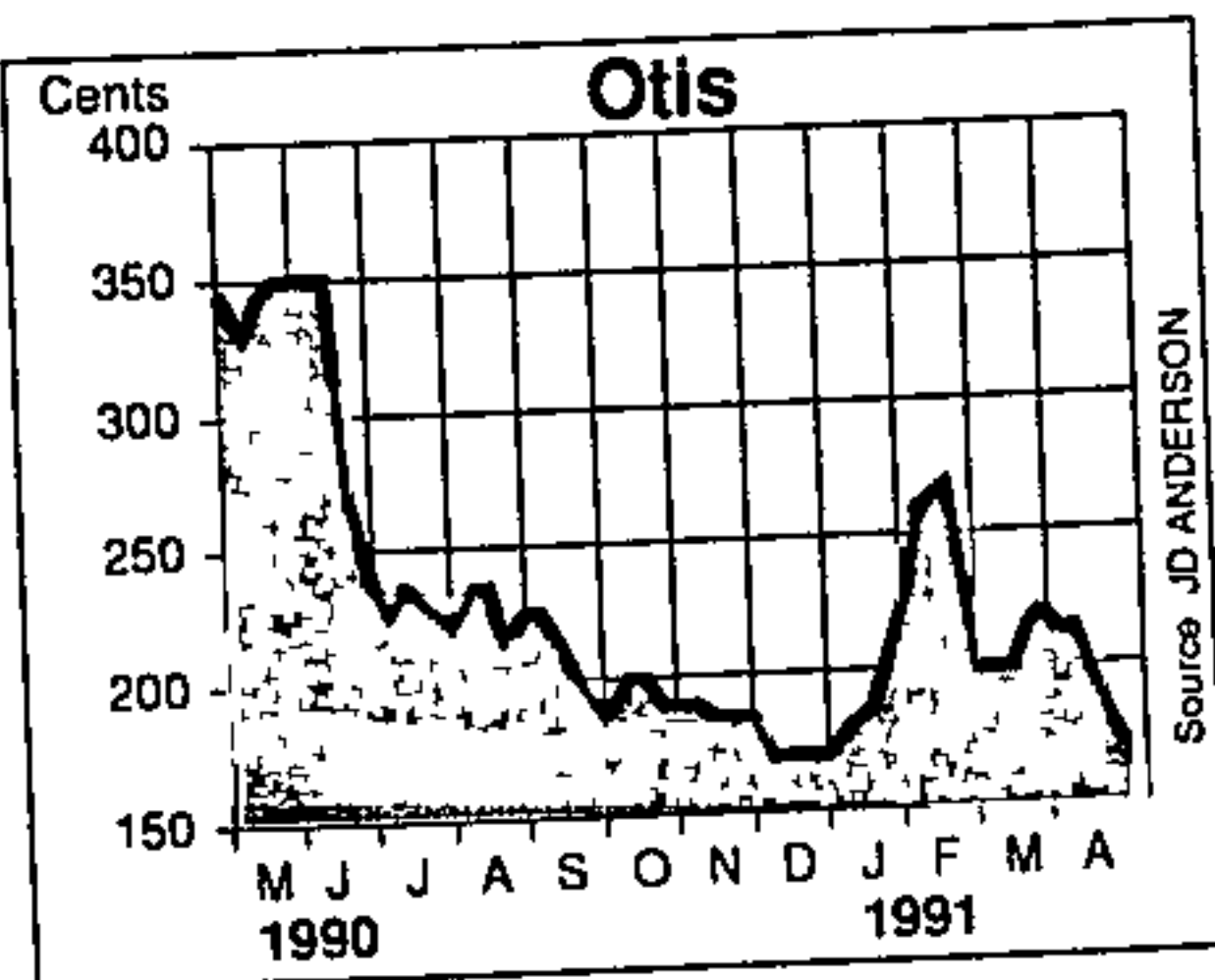
Trading volume last quarter, 404 000 shares

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	0,1	—	3,6	1,8
LT debt (Rm)	0,07	0,05	0,06	0,06
Debt equity ratio	n/a	n/a	19,9	10,4
Shareholders interest	0,48	0,37	0,36	0,43
Int & leasing cover	n/a	n/a	54	12,7
Return on cap (%)	61	51	46,4	20,8
Turnover (Rm)	63	72	92	98
Pre-int profit (Rm)	14,5	16,4	17,2	6,4
Pre-int margin (%)	22,8	22,8	18,7	6,5
Earnings (c)	43,2	47,2	51,0	12,0
Dividends (c)	—	42	45	12
Net worth (c)	66	71	78	77

Poor economic conditions and tougher competition in some sectors were among causes for the plunge in profitability last year, but it is apparent from the comments by Otis chairman Dru Gnodde — and the action taken — that there were also major failures within the company

Until the 1990 year, Otis seemed a solid enough operation, though its potential to grow was constrained by its specialised area of activities, the board's reluctance to take on much debt and the low dividend cover

These policies, of course, are not unusual for a subsidiary of a US multinational. At the same time, a parent like Otis Elevator (and, ultimately, United Technologies) has the muscle to step in and take effective



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action when things go wrong. It is too soon to see the benefits of the measures taken so far but the corrective action has plainly been extensive

Last year's problems were largely at operational level. Gnodde cites flat and highly competitive elevator and escalator markets, a few major developments provided relief but always at extremely low margins. The company secured fewer new equipment orders, though an increased penetration of the mining market, where the value per unit is high, buffered the value of new work secured

There was an absolute decline in the modernisation market where, also, competitive activity increased, causing the company's intake of modernisation orders to drop significantly

Remedial actions have included the strengthening of estimating and contract control procedures, improved financial control systems, focused contract management and strengthening of senior management. MD Peter Bredenkamp resigned and was succeeded by Roy Markham from the UK. Two new directors were appointed. "Restructuring costs" were incurred in the form of early retirement packages of R1m

Despite the profit slide, net working capital dropped from the previous year's R14,3m to R7,2m, borrowings were reduced and gearing was cut to 10%. Markham notes that new procedures were implemented to ensure proper estimating and cost control disciplines

In the elevator market, new products have been launched and efforts are being made to increase penetration of the low-rise sector of the market, in which Otis has lagged

However, Markham notes that the company's fortunes "depend very much on the economic health of SA". And, even if management does produce an early recovery in profit, investors are unlikely to get too excited. Gnodde says last year's profit decline has placed a severe strain on cash resources, so the policy of distributing all available dividends must be modified — though the board will endeavour to ensure at least half

the annual distributable earnings are declared as dividends

With the cover now at 1.0, growth in dividends will thus lag that of earnings for a while. At 170c, on a 14.2 earnings multiple, the share looks expensive. *Andrew McNulty*



Otis's Gnodde modifying the dividend policy

Fw 10/5/91 (189)

Among other significant profit contributors, Willard Batteries did well, lifting its operating income by about 20%. One of the previous year's problem companies, Delta Controls, made a useful contribution this year. Brown Boveri Technologies (BBT) produced a good result at pre-tax level and played a role in improving the group's trading margins. But its effective tax rate is rising and its contribution to after-tax profit was static. It is expected to reach a full tax rate during the current year.

Lascon had what management describes as a difficult year, with trading margins squeezed in a competitive market, though the profit was roughly maintained.

With dividend and tax payments to be made, some demands will be made on Powertech's cash holding during the current half, but Watt still expects that the group will remain "relatively cash flush," assuming that no major acquisitions are made, which is essentially what management plans to do with the cash. On that basis, there should be net interest income in the 1992 financial year.

However, the share looks fully priced at 330c, where the earnings multiple is 10,7 and the dividend yield 2,8%. *Andrew McNulty*

POWERTECH Fw 10/5/91
CASH SURGE (189)

Powertech has recently been one of the best performers in the Altron group, and the market was obviously expecting robust results for the 1991 year. Since early February, the share price has climbed from 210c to the present 330c.

There should not have been much disappointment with the figures released this week. The trading performance remained strong, and there was also a sharp swing in liquidity, with the net borrowings of R9,2m outstanding at the previous year-end turned into net cash and deposits of R56,6m. Most of this swing occurred in the second half — at mid-year borrowings stood at about R50m.

The preliminary figures do not break down the trading profit and finance charges, but MD Peter Watt says the 25% improvement in pre-tax profit resulted from better pre-interest margins as well as a sharp reduction in the interest bill.

An improving trend was apparent at the interim stage, when the operating profit was up by 17% with the net interest bill down by R2,6m, or just over a third. Pre-tax profit was thus up by a quarter at the halfway stage, and that pace increased marginally during the second half.

Several reasons are cited for the rising

LIQUIDITY RISING		
Year to Feb 28	1990	1991
Turnover (Rbn)	1,16	1,20
Pre-tax profit (Rm)	101	127
Earnings (Rm)	37,1	41,2
Earnings (c)	27,8	30,8
Dividends (c)	8,4	9,3

levels of liquidity. Among these, 55%-held Aberdare, the biggest profit contributor to Powertech, was generating strong cash flow from mid-year. Also, Powertech's capital spending was relatively low during the year, and the net increase in fixed assets (excluding acquisitions) was only about R6m.

However, Watt says another important factor was "very stringent asset management." Tight control was maintained over stocks, whose value declined.

Powertech holds steady as Fintech turns around

1890 1890
6/10/91 6/10/91

ROBERT LAING

ALTRON's information technology arm, Fintech, staged a dramatic turnaround in the year to end-February

Its electrical engineering arm, Powertech, held its sales steady despite the slump in the engineering industry

Fintech, which offloaded its PC retail group Sequel and other loss-making divisions in 1989, is back in the black with attributable earnings of R9,4m compared with 1990's loss of R20,1m

The group resumed dividend payments, declaring 20c a share on earnings of 84c (188,4c loss previously) a share

Subsidiary Fintech Informatics (formerly Punch Line Holdings) is on the road to recovery with attributable earnings of R3,1m (R3m loss), or earnings of 8,6c (90c loss) a share

Powertech improved its attributable earnings by 11% despite the scarcity of new engineering projects as government and industry cut capital expenditure to the bone

The group's attributable earnings increased from R37m to R41m, or 30,8c (27,8c) a share. The dividend was 9,3c (8,4c) a share

The group's subsidiaries held their sales steady, and turnover increased fractionally from R1,16bn to R1,20bn

Brown Boveri Technologies' (BBT's) turnover increased moderately as a result of its acquisition of Yelland

Two BBT subsidiaries, Medium Voltage

Switchgear and Standard Products, were closed at a cost of R1,13m to Powertech because of heavy competition and higher import surcharges

Strikes and stayaways lost the group 30 working days and wiped R150m from its turnover during the year, Powertech executive chairman Peter Watt said

With Eskom's power station programme completed, the gold mining industry struggling and no major engineering projects on the horizon, Powertech is looking to the electrification of underdeveloped areas for its future growth

Eskom estimates two-thirds of SA's population does not have electricity at home, and has earmarked R5bn to spread its grid to underdeveloped areas

Watt said "Community participation and a return to normality are pre-requisites if the task of infrastructure development is to be resumed

"Once community support and participation renders the development process viable, Powertech will be well positioned to play a key role in upgrading living standards"

Powertech ended the year with a R57m cash surplus

The group expects this will put it in a position to take advantage of new investment opportunities

ADE fighting to stay in business

S/Times (Bus/T) 2/14/91 189D

THE SURVIVAL of diesel-engine manufacturer ADE is threatened.

Hit by poor demand and the Phase 6 local content rules that make it easier for motor manufacturers to import diesel engines, ADE has asked the Department of Trade and Industry (DTI) to raise tariffs on imports from 40% to 60%.

But the Government's policy is to reduce import protection. ADE's protection is already well above the Government's guidelines.

What makes it worse for ADE is that the Government's desire for less industrial protection is endorsed by a recent report of the Industrial Development Corporation (IDC), the major ADE shareholder. The other shareholder is Daimler Benz of Germany.

The IDC says total investment in ADE is R372-million and that accumulated losses since its establishment in 1981 amount to R35-million.

It says "If ADE is viable under the rules of the local content programme, then it has as much right to existence as the rest of the motor industry."

Vigorous

Without the additional protection it will clearly not be viable. Its future thus hangs on whether the DTI is prepared to grant its request.

The National Association of Automobile Manufacturers of SA (Naamsa) representing commercial vehicle assemblers and the SA Agricultural Machinery Association (Saama) for tractor makers vigorously oppose ADE's application.

Most manufacturers have indicated that they will consider importing engines if they are cheaper than ADE's. But there are other considerations.

ADE has also asked for a 20% import duty on fully built trucks and not only on engines. This effectively makes the cost of importing an engine higher than a mere 20% protection duty on it.

The DTI says the application has been received and is open for comment until June 8, after which a decision will be taken. DTI deputy director-gen-

By DON ROBERTSON

eral J A Lambrechts says the IDC report contains recommendations only and that no policy decision has been taken.

The IDC says ADE's application for protection is to give it time to implement a cost-reduction programme.

"It is not considered practical to achieve this in under two years," says the IDC.

As part of the programme ADE has promised to reduce the real price of its engines by 20% within two years.

But whether or not this is achieved, vehicle manufacturers will still have to pay the extra costs of buying in SA.

ADE managing director Fritz Korte said yesterday "I am hopeful that the Government will grant us this temporary protection to see us through these difficult times."

"If I had a guarantee that volumes would not decline in the next two years, we would not need the protection. We have had a few cases of manufacturers importing engines, but I am convinced that most will not walk away from us."

"The aim of the current cost-cutting exercise, however, is to make ADE competitive within the provisions of the Phase Six policy. This is considered achievable."

To assist ADE, Daimler Benz and Perkins will reduce the cost of components they supply to it. Most SA suppliers have also cut prices.

ADE has increased exports from R17-million in 1989 to an expected R34-million this year. The production of components has risen by about 50% in the past 12 months.

Lower

Efforts are being made to increase ADE's share of the industrial engine market to 30% from the present 10%.

Mr Korte says "After our meeting with Naamsa on Tuesday, however, there are indications that sales volumes will be lower than expected this year."

"We had conservatively expected sales of 11 700 engines. Now it looks as though the figure will be about 10 000."

ADE needs sales of between 13 000 to 14 000 engines to break even.

Humdrum year feared for household goods

BN 189D
B/100/18/4/91
MARCIA KLEIN

NEGATIVE real growth in the sale of white and brown goods is expected over 1991

Sales of appliances this year would be measured off a high base, due to the dramatic increase in demand after the lifting of hire purchase restrictions in March last year, industry operators said

Growth in appliance sales had been steadily decreasing after reaching a peak in October last year

Retailer Liaison Committee chairman Derek Russell said consumer spending, which stayed high for most of 1990 "fuelled by credit", would be modest this year

He estimated that appliance sales would show a negative growth rate of between 7% and 8% over 1990, and 1991 would be a "difficult year" for the industry

Russell said legislation which brought in HP restrictions in 1988 had "knocked the electrical market heavily in terms of sales growth, and demand levels for electrical products fell off dramatically"

By the time restrictions were reduced in March 1990, furniture sales were increasing by over 20% while appliance sales were growing by only 5%

With the resurgence in the electrical appliance market after March, appliances did not come back as strongly as sales of audio equipment and TV

In the 12 months to December, appliance sales were 26% up on the previous year, reaching a peak in October and showing a steady decline since then

February's sales figures had bucked the trend slightly, but this was off a low base as sales figures for February last year had been negative. The downward trend since last October was likely to continue this year, Russell said

However, there was huge potential in the medium-term, and the introduction of

refrigeration and electricity into homes could see sales grow dramatically'

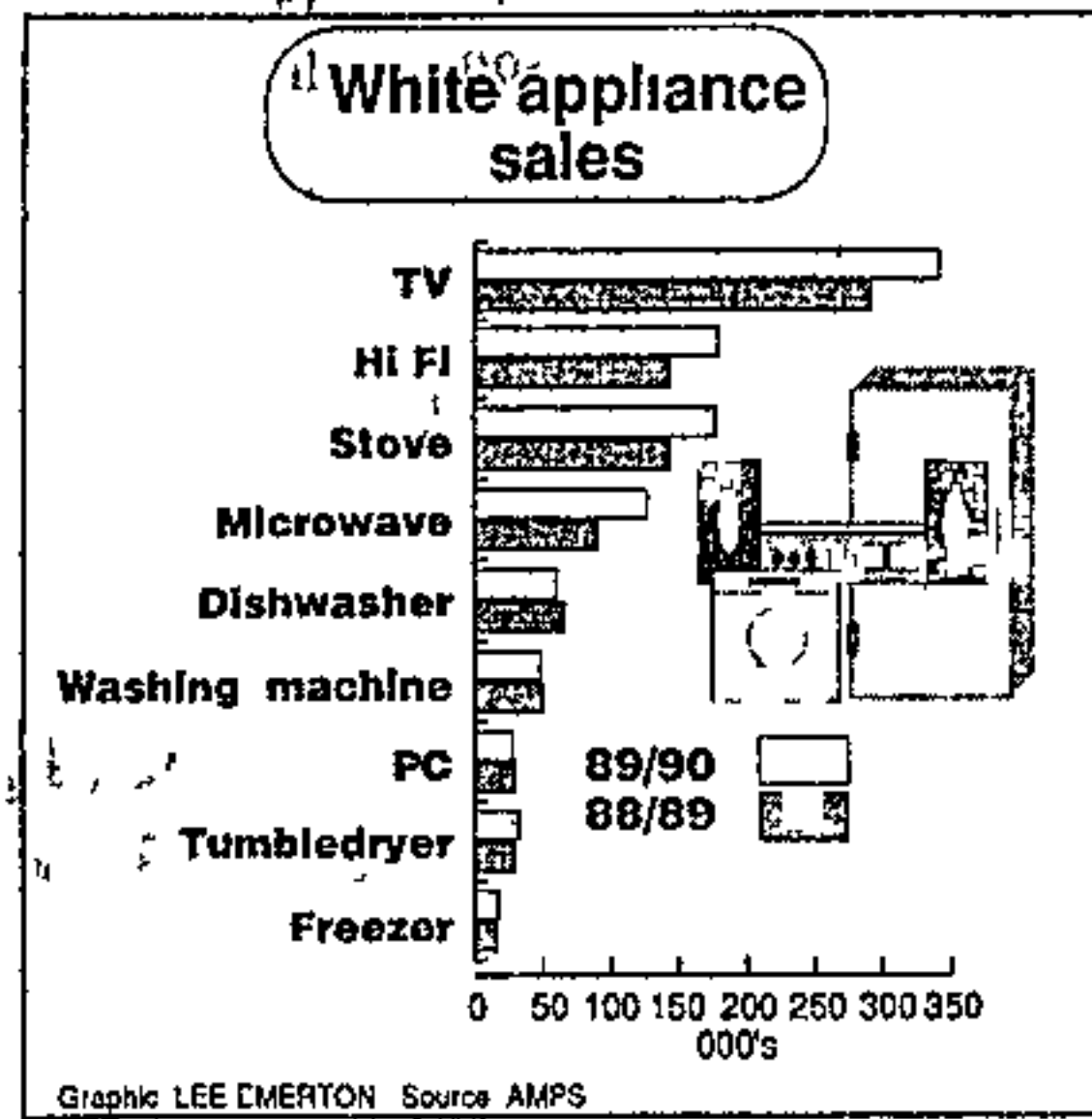
OK marketing director furniture and appliances Arthur Solomon said there would not be growth in the sale of white and brown goods this year. Growth would be up by about 15% in real terms, in line with inflation

The market for TV sets would be about 300 000 for colour units and 200 000 for portable black and white. About 70 000 to 80 000 VCR units would be sold

Solomon said the increase in sales since last March meant that the base had increased dramatically. This made real growth this year particularly difficult

Buying patterns had changed, favouring electrical appliances, with the electrification of township areas. Recent trends included the upgrading of TVs from black and white to colour, and buoyant sales of smaller electrical appliances

In the black consumer market, there had not been much growth in sales of video recorders and M-Net decoders



Braun steps up investment in SA

1890

MARCIA KLEIN

BRAUN International, maker of high quality appliances and personal care products, has strengthened its commitment to the local market with a significant increase in its investment in SA 6 Jan 19/4/91

German-based Braun AG, which is represented in nearly every country worldwide, announced in a live M-Net Business Broadcast yesterday that it was making a "significant new investment" into what it considered a key export market.

The investment would enable SA Braun distributor Frank & Hirsch to broaden its product range locally, expand marketing and sales support for dealers, improve product availability and stabilise pricing.

Frank & Hirsch product manager Cliff Sampson would not disclose the investment amount, but said it would be about five times more in 1991 than in 1990.

Initially the investment will be in marketing Braun products, but this would extend to product and services as demand increased. Sampson said Braun AG saw SA as a major opportunity for its range of household appliances, shavers, haircare and personal care products.

The range would be supported by a marketing budget 50% higher than the nearest competitor, and all products carried full services and back-up. Product warranties were being extended in certain instances, and automatic irons now had a three-year guarantee.

Braun AG vice-chairman Archie Livis said Braun's renewed commitment to the SA market was in line with the group's desire to expand its worldwide operations.

Otis plunge prompts cash rethink

8 (Day 9/4/9)

MARC HASENFUSS

ELEVATOR group Otis will modify its past policy of distributing all available earnings, as the sharp decline in attributable profit during 1990 placed a severe strain on the group's cash resources

In his annual review chairman Dru Gnodde said that future dividend payments would depend on the foreseen needs of the business in order to limit borrowings and the costs of servicing them

The board would endeavour to ensure that at least half of the annual earnings available for distribution were declared as dividends, he said

Earnings fell 76% to R2m (R8,6m) or 12c (45c) a share for the year to end-November 1990 as new equipment orders fell and margins tightened. All earnings were paid out in dividends.

However, Gnodde said that the new SA would re-open the door for exports to countries which had traditionally been strong Otis markets

MD Roy Markham said Otis had introduced a new range of packages for improving the appearance and operation of existing elevators

"We see this as a major opportunity for increased revenue whilst serving our customer needs in a cost effective and efficient way"

During 1990 the group launched a new high-rise, multicar group control system, the Elevomic 411, and had received an order for the first installation in SA which

189
would be operational by mid-1992

Markham said this was the most sophisticated elevator system available in the world, and it would enhance Otis' ability to maintain and strengthen market share in the high rise sector

The modernisation market continued to show potential although the general economic climate had a significant effect on decisions to invest in existing buildings by property owners and developers, he said

The group continued to explore the specialist elevator requirements in the mining industry and supplied new lifts to a number of mines during 1990 "We can expand this activity subject to investment programmes in the mining industry itself," he said

Aimark claims turnabout despite suffering drop

BEVERLY HUCKLESBY

1890

DCM-LISTED Aimark Holdings again recorded a sharp drop in earnings in the 18 months to December 1990

The group, which markets consumer-durable goods such as microwave ovens, VCRs, and hairdriers, has posted a 65% decline in earnings a share to 2,07c (6c)

Aimark reported a 6% drop in income before taxation and interest to R2,1m (R2,2m) However, a massive rise of 274% to R1,5m (R399 000) in the interest bill cut net income before tax to R647 000 (R1,8m)

Despite a substantial drop of 64% to R324 000 (R899 000) in taxation, Aimark's profit plummeted to R323 000 (R930 000) *81 Day 14/3/91*

In the six months ended December 1989, Aimark reported a loss of 1,75c a share compared with earnings of 6,58c in the same period the year before

Chairman Ivan Cohen said yesterday "we have achieved our objectives and although it took longer than expected, the company has made a turnaround Our industry was badly hit by the recession, but it recovered in the second half of last year.

"We have a new financial director and a revamped marketing department which has helped with our new marketing strategy of selling our products through our warehouses"

The company had new product lines in the TV business and most of the operating areas were looking better

"Last year we had a problem with supplies. There was a fire in the factory of our Korean supplier, which caused delays and finally substantial losses

"Our gearing in 1990 was way out of line at over 70% and we are hoping to reduce it this year," he said

Altron's top-level moves 'unrelated'

6/Day 12/3/91
GILLIAN HAYNE

ALTRON Group executive director Richard Savage's departure was not linked to the arrival of Charles Stride, who became Altron's deputy chairman from the beginning of March, Altron Group executive Jacques confirmed yesterday

Savage had resigned his post from the end of April but would remain on Altron's board as a non-executive director, Sellschop said

Savage joined Altron in 1988 "to complete certain assignments for the group. Having done so, he has now

elected to resign from Altron in favour of pursuing other interests. Stride has been employed in an executive financial capacity because of his considerable knowledge of merchant banking and finance. His portfolio will include seeking opportunities further to expand the growth of Altron's interests"

By contrast, Savage's portfolio concentrated on rationalisations and expansion options within Altron's international interests

"A further strengthening

of Altron's management resources is evident in the appointment of immediate past CSIR president Chris Garbers to the Altech board" (189D)

John Sayers has been promoted to financial director of Altron. He will assume areas of responsibility previously in Savage's portfolio

Another appointment has been that of Hannes Steyn, until recently director acquisitions of Armscor. Steyn will be CE of a division of the Altech group reporting to its executive director Don Sneddon

Sharp drop in fortunes for Otis Elevator

By Peter 25/7/91

MARC HASENFUSS

189D
 "Comments" during the period under review
 Looking to the future, directors ex-
 pected profits to show a significant im-

A CHANGE in business mix, coupled with major cost overruns and restructured expenses, caused a sharp drop in earnings for Otis Elevator company.

Attributable profit plunged 76% to R2m (R8.7m) for the year to end-November 1990, translating into earnings a share of 12c (51c).

A final dividend of 4c was declared which, on top of the 8c interim dividend, meant the group paid out earnings in full.

The total dividend for the previous financial year was 45c. As in the interim report, turnover was not disclosed. But directors said the figure slightly exceeded the R91.8m recorded in 1989.

In the group's 1989 annual review MD Roy Markham said he expected Otis would resume a growth trend as the order intake was very healthy and an increase in market share was predicted. Markham said on Friday the group's services business had reflected static growth, while the slowdown in the modernisation of buildings had led to a decline in the number of lifts installed.

A 63% drop in operating profit to R6.3m (R17.2m) was exacerbated by a 57% increase in the interest bill to R502 000 (R320 000).

The vastly reduced tax bill from R8.6m to R3.8m had minimal effect on bottom line.

The R2.2m cover for foreseen losses

indicated in the group's interim report was exceeded.

The calculated losses incurred on contracts currently in the course of completion amounted to R4.2m, and had been provided for in the year's results, Markham said.

The necessary steps had been taken to prevent a recurrence of these losses, he said.

"Management has been strengthened and capital has been invested to establish a sound base to handle not only market needs, but also allow for future growth in operations."

In a bid to cut costs, the group had also seen a number of "early retire-

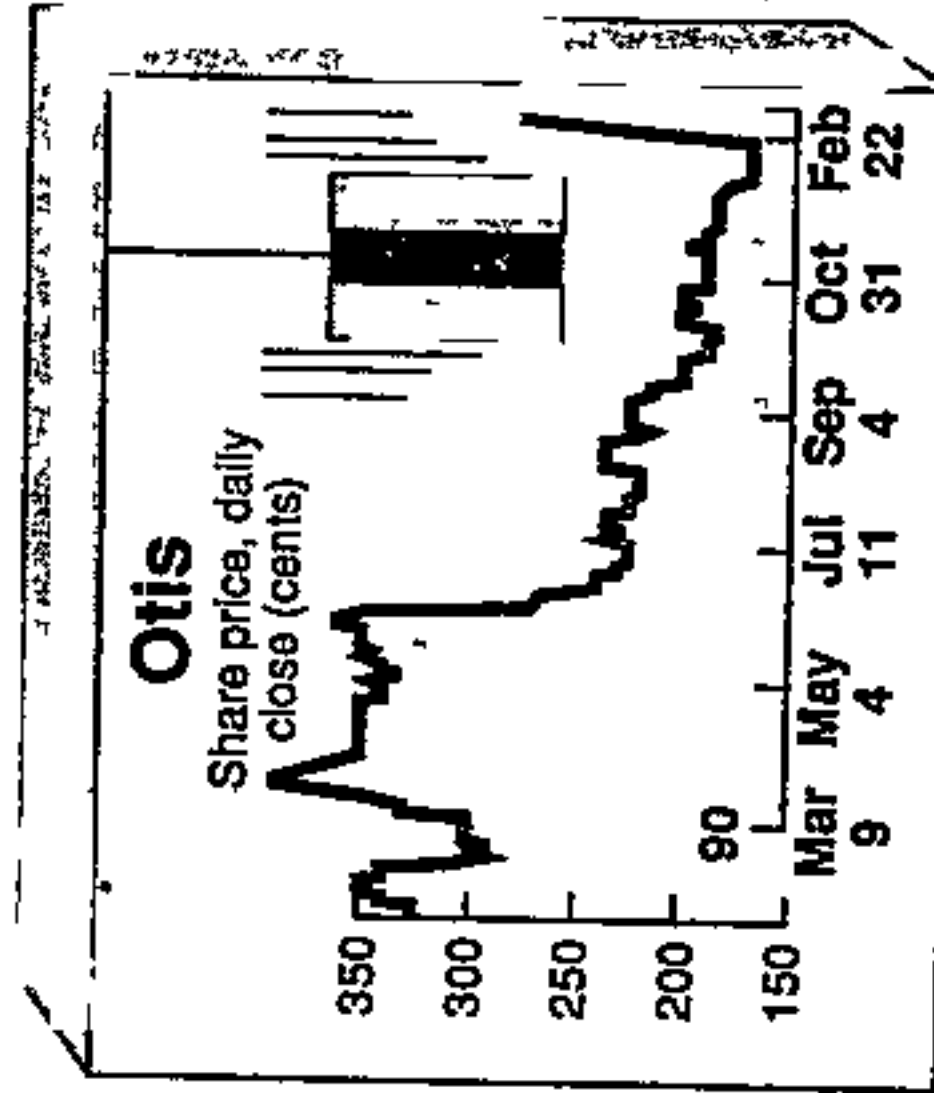
ment in 1991, already confirmed by first-quarter results.

Analysts said the trend in the construction sector from high-rise to low-rise buildings had significantly curbed the number of lifts sold.

With construction activity expected to slow down this year Otis would have to look for growth in its after sales markets, analysts said.

The US-controlled group (51% held by Otis New Jersey), which sells, manufactures, erects and services elevators and escalators, had shown a slow but steady growth pattern since 1986.

The share, which saw some trading last week at 270c, is stuck between its March 1990 high of 390c and its December low of 170c.



Graphic: LEE HMET TON Source: JSE

Altron prospects spark price gains

ZILLA EFRAT

ALTRON group shares have made some of the largest price gains on the JSE in the bullrun over the past fortnight ahead of expectations of better results for the year to February.

Shares in the group all hit yearly highs in the past two weeks, although they came off slightly towards the end of last week on profit-taking. *189* *By 25/2/71*

George Huysamer & Partners analyst Jan van den Berg says there is strong demand for the share from the institutions.

Frankel Max Pollak Vinderine analyst Mike Haworth adds that the group's rise should be seen in relation to the general firming of the industrial sector on improved political and economic perceptions.

The shares are also benefiting from the movement into "pale blues" or second-line industrials.

Haworth says Altron subsidiary Fintech is expected to show a good recovery in the year to February from previous losses. Altech should produce improved results and Powertech is expected to turn in a reasonable performance.

The recent appointment of Charles Stride, currently managing partner at Fisher

Hoffman Stride, as Altron deputy chairman and to the board of its subsidiaries may have also strengthened market perception of the group.

Altron group executive corporate relations Jacques Sellschop says no major new developments are taking place.

While there has been some talk that the Anglo group is increasing its stake in Altron companies, AMIC chairman Graham Boustred will not comment on rumours.

Altron closed 200c lower on Friday at 5 000c a share. It peaked at 5 500c on Monday, well off its yearly low of 3 000c in April. Pyramid company Ventron closed at 2 200c, 200c off Tuesday's high and almost double the 1 025c a share seen last March.

On Friday, Altech closed 100c off the 10 000c peak reached the previous Friday, but up from May's low of 5 500c a share.

Fintech hit a peak of 600c on Thursday, but ended the week at 575c, an improvement from April's bottom of 325c.

Powertech moved from 170c in October to a yearly high of 270c on Thursday. It closed 15c lower on Friday.

Opposition to ADE's appeal for protection

TRACTOR sales declined sharply in January, leading the SA Agricultural Machinery Association (Saama) to reject appeals by Atlantis Diesel Engines (ADE) for government protection against imports.

ADE has appealed for the introduction of a temporary 20% tariff on imported diesel engines.

January sales figures showed a sharp 30% fall to 139 (200) units compared with the same month last year

EXECUTIVE SUITE

MARC HASENFUSS

In a statement yesterday, Saama chairman Corwyn Botha said ADE should not receive government protection as the focus should rather be on protecting the end consumer of these engines from price increases

Botha said imported tractor engines were vastly cheaper than the ADE product

B/Dan 7/21/91
ADE has asked for the introduction of import duties for at least two years to relieve it from its financial difficulties

ADE claims the measures, if introduced, will result in a 20% reduction in the price of its diesel engines

Saama said tractor sales showed a hefty 30% decline in sales last year to 3 902 (5 646) units, and it was predicted the trend would continue this year.

By William Wells and Jack Lindstrom

THE WAY TO BUILD COUNTRY

CONSTRUCTIVE



ADE wants temporary tariffs on competition

MARC HASENFUSS

ATLANTIS Diesel Engines (ADE) has called on the Board of Trade and Industry to impose temporary tariffs on the importation of diesel engines to relieve it from its present financial difficulties

ADE MD Fritz Korte said yesterday that it would be necessary for the proposed 20% import duty to be effective for only two years, giving ADE sufficient time to recover from its financial predicament

ADE, established to improve SA's self-sufficiency in diesel engines, has been affected by the fall in sales of medium and heavy commercial vehicles and tractors over the past two years. Engine production waned from almost 23 000 units in 1984 to just over 11 000 units last year.

The drastic cuts in Defence Force spending announced last year had only a marginal effect on ADE sales, Korte said.

Korte explained that under Phase VI of the local content programme ADE was required to source its engine exports through a vehicle manufacturer in order to qualify for a duty rebate. ADE then had to negotiate its share of the rebate (usually a 50/50 split) with the manufacturer.

However, accumulated rebate revenues

allow vehicle manufacturers to offset the cost of importing diesel engines, which is eroding ADE's rapidly shrinking market.

With sanctions against SA expected to fall away in the near future, ADE will be faced with increased imports from overseas engine suppliers.

Korte said a comprehensive rationalisation programme had been undertaken to ensure the group rode out the recession.

Korte confirmed that the group would retrench an undisclosed number of its 740 salaried staff. He hoped this would allow ADE to reduce its diesel engine prices by at least 20% during the next two years. This follows the retrenchment of more than 600 junior staff members.

A motor industry analyst said although ADE had the potential to rectify its dire financial position, much depended on the outcome of Industrial Development Council's (IDC) report on Industrial Strategy for SA (ADE is financed by the IDC).

He predicted ADE's structure would be vastly transformed in order to break into diversified domestic markets effectively.

ADE merges operations

W/k 2/2/91
AKB US
MAGGIE ROWLEY
Business Staff
189 D

ATLANTIS Diesel Engines (ADE) is continuing the cost reduction programme launched late last year by consolidating its manufacturing and support facilities

MD Mr Fritz Korte, says that the merging of production and support functions, effective immediately, is being undertaken with the full co-operation of ADE's licensors, Mercedes-Benz of Germany and Perkins Engines of England

Up to now, the two production facilities have operated independently

"The savings resulting from our cost reduction actions have enabled us to keep engine price adjustments for the first two quarters of 1991 well below the inflation rate," says Fritz Korte.

ADE's price adjustment for January 1991 on its agricultural and commercial vehicle engines averaged 2.5 percent. The price adjustment for the second quarter will take effect on April 1 and has been set at 2 percent.

The company has also appointed a task force to investigate further areas of cost saving and the team's findings will be submitted in March

"The reshaping exercise is essential if we are to achieve economies of scale in the limited South African market," says Mr Korte



en up and we are committed to the sector ”

Barlows Appliances' Phillip Bellingham says better tools are being used in the factory and the company has become more mechanised, which has inevitably led to a reduction in the labour force

KIC, which has more than half the refrigeration market, has maintained production at almost full capacity. Whereas steel costs increased by 14,5% and the cost of plastics by even more, KIC was able to hold price increases for refrigerators at 11%. The company has been forced to move out of the lower end of the audio market, but it has moved back into profitability without any changes to its range of white goods.

Retailers offer no encouragement that manufacturers will soon see the industry turn around. Russells MD Mias Strauss says his target market, the mid-range consumer, is now showing extreme discipline and does not buy a major appliance on impulse. "It has become a replacement-only market." He says many refrigerator models have pierced the R1 000 level, causing increased consumer resistance.

Dion MD Jannie Els explains "Fridges and freezers are traditionally used to bring traffic into the stores. Sometimes they are actually loss-leaders, but at the best of times they provide a margin of just 10% to 11%."

The Dion business was built on major appliances, but the profits are generally made in higher-margin gifts and garden furniture. Els says the prices of major appliances have increased below the rate of inflation, by about 10% a year over the last two

WHITE GOODS (189D) (HW)
SALES MELTDOWN

FIM
 11/2/91

When the economy became unglued in 1989, one of the first victims was the white goods industry. Sales in this category — which includes refrigerators, freezers, washing machines, tumble dryers and dishwashers — were flat in 1988 and 1989 and declined 5,8% by volume last year.

However, after a belated recovery in the final quarter of last year, sales are expected to fall a further 3% this year.

The industry, which has three major domestic producers, KIC, Defy and Barlows, has been working at 60%-70% of capacity. And that's only for one shift. If the industry worked on a double shift, it would be using only 30%-35% of capacity.

Nevertheless, Defy MD Ross Heron believes there are some reasons for optimism. "We have improved our margins by working hard on our production costs with a programme of value-engineering. The product available on the market now is significantly better than it was. Moreover, we are not experiencing swings in demand of 15% which we saw in the mid-Eighties."

Defy has rationalised its product range, but SA has a broad range of market segments so it has maintained a presence in the luxury, middle and lower markets. Also, the company has retrenched 400 people and closed its refrigeration factory in Pinetown. Since it merged with Ocean Appliances in 1989, a further 120 head office jobs have been cut.

"We are not yet happy with the returns," Heron says, "but the industry has been shak-



Dion's Els sales are in the deep freeze

years. But prices are still more than twice those in the US, though he says they are comparable to prices in many European countries.

One reason for the high prices is import duties of between 15% and 30%. Even locally made products contain parts that must be imported, such as compressors, which are the most costly items in a refrigerator or freezer. Another reason is that local producers lack economies of scale.

In spite of the poor demand, there is often a shortage of certain products. Twin-tub washing machines have been scarce this year. Imports are not an alternative because the high tariffs make them unaffordable for the average householder.

Amic and Dallas firm enter joint venture

1890 Business Day Reporter

ANGLO American Industrial Corporation (Amic) and New York-listed Dresser Industries of Dallas, Texas, have entered a 50-50 joint venture. b1 Day 28/11/91

Called Komdresco, it combines Amic's earthmoving equipment distributor KSA with the construction and mining equipment businesses of Dresser SA.

The venture, formalised on Thursday, positions Komdresco as a major supplier of mining, construction and materials handling equipment in SA.

Dresser Industries operations vice-president Gene Leeson says the joint venture is "yet another strong signal of Dresser's long-standing determination to continue a significant presence in SA".

KSA, a wholly owned subsidiary of Amquip, is a member of the Amic group.

Former KSA MD Neil Harvey will be Komdresco's executive chairman, and former Dresser SA MD Maurice Allen will be its president and chief operating officer.

The new venture does not affect the Wayne, security and industrial valve divisions of Dresser, which will continue to operate as part of Dresser SA.

Anglo links ^(189D) with Dresser

Stimes 27/1/91.

ANGLO American has merged its earthmoving and materials handling operations with the SA arm of US-controlled Dresser Industries Inc

KomDresCo, in which the Anglo group's Amquip and Dresser will each hold 50%, will have sales of more than R400-million in its first year. It will be the second-largest player in its main fields of operation.

The merger will bring together Amquip's KSA, which distributes Komatsu and other earthmoving and materials handling equipment, and the construction and mining equipment business of Dresser SA.

Dresser's petrol pump distribution, tungsten carbide drilling bits and industrial valve divisions will remain under the control of the Dallas-based corporation.

Orders

In spite of the downturn in construction, both Dresser and KSA exceeded their budgets in 1990 and started this year with record order books.

"This is a sign of Dresser's determination to maintain a significant presence in SA," says Gene Leeson, vice-president, operations, of Dresser Industries. He signed the merger agreement with Amic deputy chairman Leshe Boyd.

Mr Boyd says the merger will include SA manufacturing.

Neil Harvey, formerly re-

By Ian Smith

sponsible for KSA, will be executive chairman of KomDresCo. Maurice Allen, former managing director of Dresser SA, is president and chief operating officer.

Mr Allen says that although the construction industry had been hit by the downturn, the group's operations in open-cast mining have done well. Both companies won big orders towards the end of last year.

KomDresCo is also well represented in the Lesotho Highlands Water Project.

Tractors

Dresser SA says there is up to 90% local content by selling price on some of its heavy equipment and 100% on belt conveyors. KSA says SA content is up to 70% on some products and is "very high" throughout the range.

KomDresCo makes crawler tractors, wheel loaders, excavators, cranes, off-highway trucks, continuous mining and underground haulage equipment, crushers and forklift trucks. It sells draglines, power shovels and drills on an agency basis.

Mr Allen says the merger will broaden the product range and branch network and allow the group to capitalise on SA manufacturing capacity.

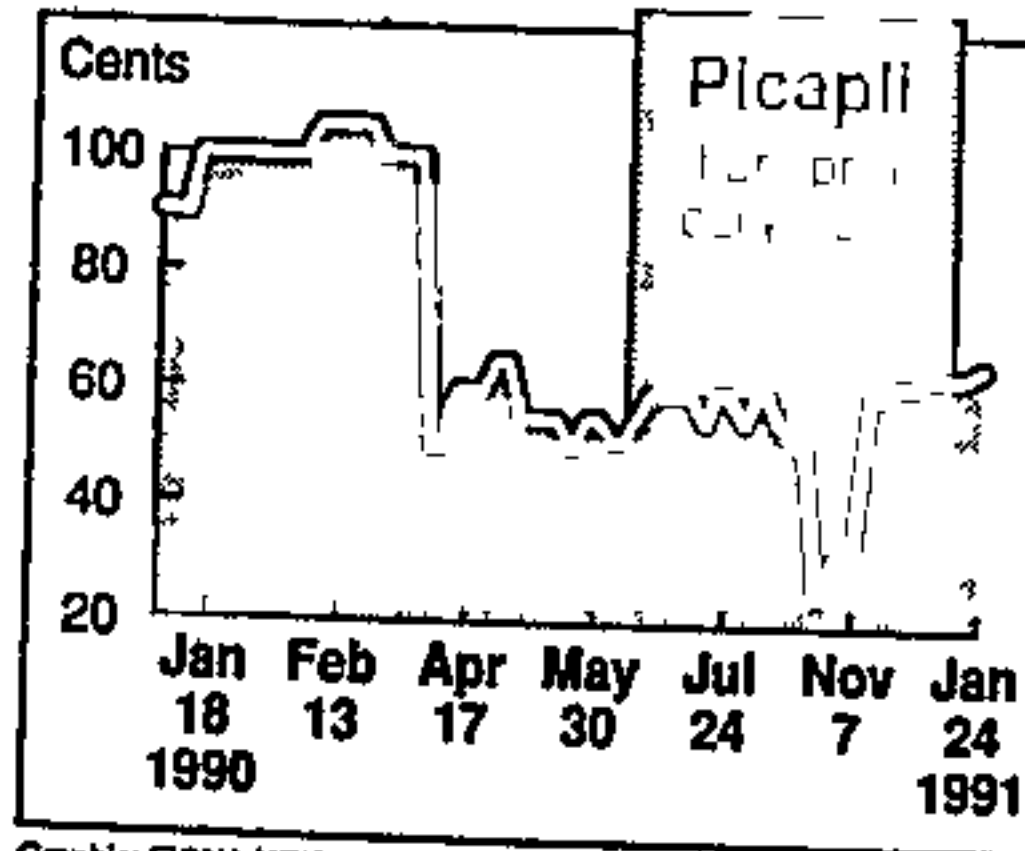
Strenuous efforts begin to pay off for Picapli

LESLEY LAMBERT

CAPE TOWN — Picardi Appliances (Picapli), the only operating company left in the Pickard empire, has shown a remarkable turnaround after last year's shock treatment and should exceed its projected earnings of R10m for the year.

The white goods manufacturer — recently the object of a bid for Picardi Holdings — has reported attributable earnings of just over R7m for the six months to end-December, after losing R13,7m during the previous full year to June 1990.

A punishing rationalisation programme undertaken last year has also cleaned up the company's over-gearred balance sheet, cutting back stock and debtors and slashing interest bearing debt from R158m in December 1989 to R85m. External borrowings have been further reduced by a R12m group loan.



Graphic: FIONA KRISCH Source: JSE

Picapli's troubles can be traced back to 1987 when the stock market crash foiled a rights issue intended to fund future expansion.

Substantial bank borrowings were used as an alternative means of funding the expansion and trouble loomed as government increased import surcharges and imposed financial disciplines to cool the economy.

The company was caught with excess stocks with consumer demand slackening.

Management decided shock treatment was necessary and set about withdrawing from unprofitable markets at radically reduced profit margins and cutting debt.

The results have started to show. During the interim period under review, debt and working capital were reduced, the interest bill fell from R15,2m in December 1989 and R27,5m in June 1990 to R9,6m, tax was minimal as a result of last year's losses and Picardi Holdings committed itself to recapitalising Picapli from internal resources.

MD Peter Spreckley and financial director Ed Teare are pleased with the results.

"Last year was the year of rationalisation. Now we have returned to profitability," Teare said.

"Our balance sheet is healthier and close to the levels where it can sustain profitability.

"Operating performance has been consistently good."

ANIES

Suregro does R6,5m deal — but as a precondition

B 12/19/91 LESLEY LAMBERT

189D1

CAPE TOWN — Sure Group (Suregro) has sold a major portion of its materials handling business to Saficon Industrial Equipment for about R6,5m — as a precondition to its proposed merger with Laser Transport

The sale is confirmed in a fourth cautionary announcement today in which Suregro advises its share and debenture holders to be cautious in their dealings until a further announcement has been published

The announcement states that the exact purchase price for the material handling business, which trades as Forklift Hire, will be determined by January 11 and paid by January 22

It also confirms that the sale of the business is a precondition to current negotiations with Laser Transport and that details of its effects will be announced only once these negotiations have been concluded

Laser's financial director, Eric Puccini, said yesterday the negotiations would be concluded by the end of this month once both companies' net asset values had been updated. Recent calculations put Laser's net asset value at R24m and Suregro's at R6m

Puccini said Suregro had agreed to sell Forklift Hire to Saficon before negotiations with Laser began. This meant that Suregro was left with the rent-a-rig hire business, allied spare parts and truck manufacturing, all of which were compatible with Laser's business, he said

Manufacturing - Basic Metals
Exports

Jan - Dec 1991

STEEL FM 18/1/91

189

PREPARING FOR A TURNAROUND

The international steel market is not offering SA producers the kind of easy money they enjoyed in 1988 and 1989 when high world demand coincided with a weak rand. Prices for steel and steel products have declined by 20% on average over the past 12 months.

What's more, prices are even more competitive in SA's new markets in Asia than in traditional US and European outlets largely lost through sanctions.

But that could all change quickly — a Gulf war could stimulate demand for steel products and there could be an easing of sanctions in the next few months if parliament, as expected, approves several major reforms.

Iscor now exports more than 40% of its output and the company still produces many value-added steel lines at a lower cost than European or American mills. Iscor's Piet du Plessis says "We don't have a problem filling our order book but the softening dollar prices has made the international steel market very competitive."

SA steel producers often have less difficulty finding markets because they aim for niches and smaller orders, the SA industry accounts for less than 1% of world production. Iscor produces 5,4 Mt a year and Anglo's Highveld Steel a further 1 Mt, out of world steel production of 770 Mt. Middelburg Steel & Alloys produces 150 000 t out of world stainless steel production of 10 Mt.

As for the effect of a war, Highveld chairman Leslie Boyd is reluctant to comment on the year ahead until he knows "what kind of war" is going to take place in the Gulf. Mintek chairman Aidan Edwards says wars have historically stimulated economies and particularly the demand for heavy products such as steel.

"There will also be a need for greater self-sufficiency for steel-based consumer products as world production shifts to a war economy. This will lead to more downstream production."

Steel & Engineering Industries Federation chief economist Michael McDonald says an extended war could lead to growth in the sector. He adds that the steel and engineering sector expanded rapidly with the demands of World War 2. On the other hand, the war could push the world from a mild to a deep recession.

Ironically, the lifting of sanctions may not hold as much promise for SA producers as had been thought. Middelburg Steel MD John Gomersall says that even when sanctions are lifted, quotas will be a further barrier to exports.

"SA will be trying to build up its quota for sales into the EC from nothing and trying to break into basically static markets."

Iscor's Du Plessis says, however, that the company has noted sanctions may ease and it is in a position to take advantage of such an opportunity on short notice. Iscor developed close ties with European and American markets before sanctions though it will now have to compete with suppliers who have replaced them.

There are new opportunities, however, from increased downstream production, particularly among stainless steel products. Says Gomersall "We should increase the size of the stainless steel industry by downstream fabrication and not rely on massive exports of primary stainless steel."

Further primary ventures are already looking unlikely. The R2bn Columbus project, a joint venture between Highveld, Samancor and Taiwanese investors, is now officially postponed.

The most high profile of the downstream industries have been the new catalytic converter plants announced by Degussa, Johnson Matthey and Delta Motor Corp. They will use both locally produced stainless steel and platinum. A total of 2m catalytic converters will soon be produced in SA annually out of a total world demand of 35m. Edwards says "Once these industries have a foothold in this country, then they are likely to increase their output."

Less glamorous but just as important are steel tubes and pipes. Manufacturers of these products have been in the export market since 1970 but, thanks to improved export incentives for manufactured goods, exports have increased from a 155 000 t average from 1985 to 1989, to 174 000 t last year.

Robor Industrial Holdings' Mike Gahagan says that in the present weak market, tubing is being exported to keep plants at full capacity rather than make huge profits.

McDonald warns that SA will retain a competitive advantage only in certain products. "It makes sense to produce seamless tubes and exhausts. It makes less sense to try to produce technology-intensive products."

SA will never be a large-scale exporter of cars or TV sets."

All players in the sector are watching productivity very closely. Gomersall says it is imperative that the industry becomes more mechanised in order to stay internationally competitive. "Government policies that favour the increased use of labour are sadly misguided," he says.

Gahagan says all industrialists need to play the productivity game. "With inflation well ahead of our competitors, we have to be increasingly efficient, which unfortunately, in certain cases, means retrenchment. It is no longer appropriate for industrialists to believe a deteriorating exchange rate will sort everything out."

Meltdown steel feels the crunch



Activities: Manufactures, processes, galvanises, distributes and exports steel products, tube, pipe, stainless steel and aluminium.

Control: Barlow Rand 84%.

Chairman: F Sherman, MD M R Gahagan

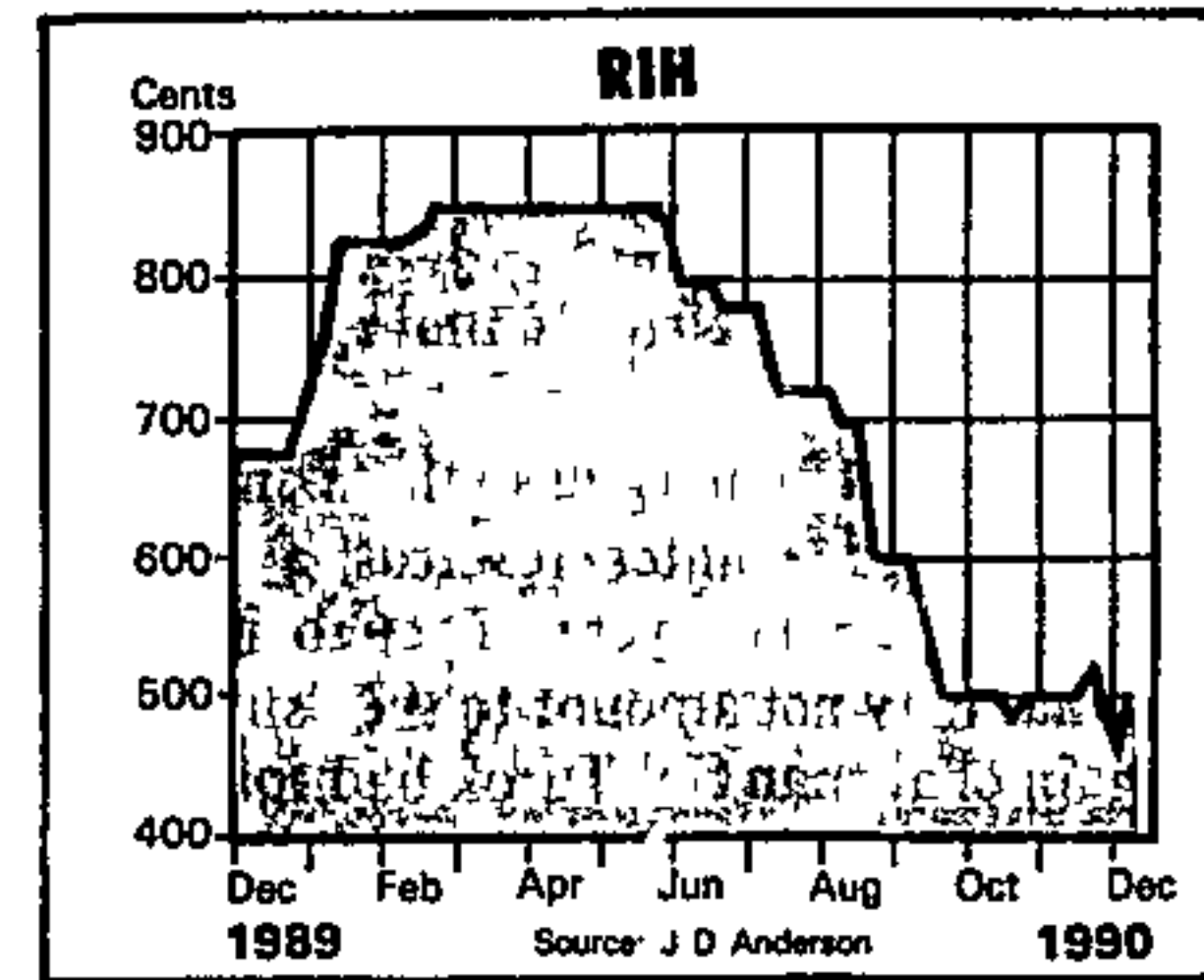
Capital structure: 32,4m ords Market capitalisation. R146m

Share market: Price 500c. Yields 12,4% on dividend, 25,6% on earnings, p e ratio, 3,9, cover, 2,1. 12-month high, 850c, low, 450c

Trading volume last quarter, 32 400 shares

Year to Sep 30	'87	'88	'89	'90
ST debt (Rm)	20.9	32.9	60.1	34.8
LT debt (Rm)	nil	nil	nil	2.2
Debt equity ratio	0.10	0.14	0.29	0.16
Shareholders interest	0.60	0.57	0.58	0.82
Int & leasing cover	30.9	10.7	7.4	5
Return on cap (%)	1.42	1.14	15.6	14
Turnover (Rm)	445	601	784	788
Pre-int profit (Rm)	29.3	41.5	57.8	50.7
Pre-int margin (%)	6.58	6.90	7.57	6.45
Earnings (c)	75.3	106.2	149.5	128
Dividends (c)	32	45	62	62
Net worth (c)	486	547	639	697

sions, and it is clear from the 27,4% decline in profit contribution from the manufacturing division, in comparison to the 7,3% decline at the merchanting division, why management elected to sell Robor Trading.



Further highlighting the problem at the Reef branch, the manufacturing division's turnover increased by 1,4% and merchanting turnover decreased by 1,2%.

The export division suffered a slight softening in margins. Though export sales were hampered by domestic steel shortages for most of the year, the division's 9,3% turnover increase was the best performance in the group.

Management says the sharper than expected domestic downturn resulted in excess stockholdings and borrowings for part of the financial year. The situation was substantially corrected by year-end, with short-term debt almost halved from the previous year-end, helped by partial receipt of proceeds from the disposal of operations.

The debt equity ratio improved to 16%, while interest and leasing cover was down at 5,1 times. Management expects the group will produce modest growth in the current year. Timing of profit flow will, however, result in lower earnings in the first half. Owing to the lower domestic demand, more product is being made available for export, and the group's order book for this year is "satisfactory."

With the strong balance sheet, the group is

COMPANIES FM 4/1/91 (189) B

in a good position to take advantage of a domestic upturn, but it will have to rely more heavily on the export side for some time.

After setting a 12-month high of 850c in May, the share has shed 400c and trades some 35% below new worth. It should show good recovery potential.

Gerhard Stabber

RIH FM 4/1/91 (189) B

SHEDDING BALLAST

Robor Industrial Holdings (RIH) struggled for years to lift the profitability of the Reef trading and processing operations of Robor Trading, but without success. When the downturn came, it prompted management to sell the operation to Baldwins Steel, a Dorbyl subsidiary.

The problem caused a R12,2m attributable trading loss at RIH in the 1990 year, and a further R2,4m of discontinuation costs and losses is shown as an extraordinary item.

Earnings dropped by 13,9%. Nevertheless, the board pegged the dividend at 62c, as the long-term benefit to RIH should include not only an end to losses and the drain on cash flow, but also the "refocusing of management attention."

The downturn affected all three RIH divi-

Usko steels itself for tough '91

LIZ ROUSE

STEEL manufacturer Usko's profitability will remain under pressure until market conditions improve and interest rates decline, chairman Floors Kotzee says in his annual review

He says no great improvement in the demand for the company's steel products can be expected yet

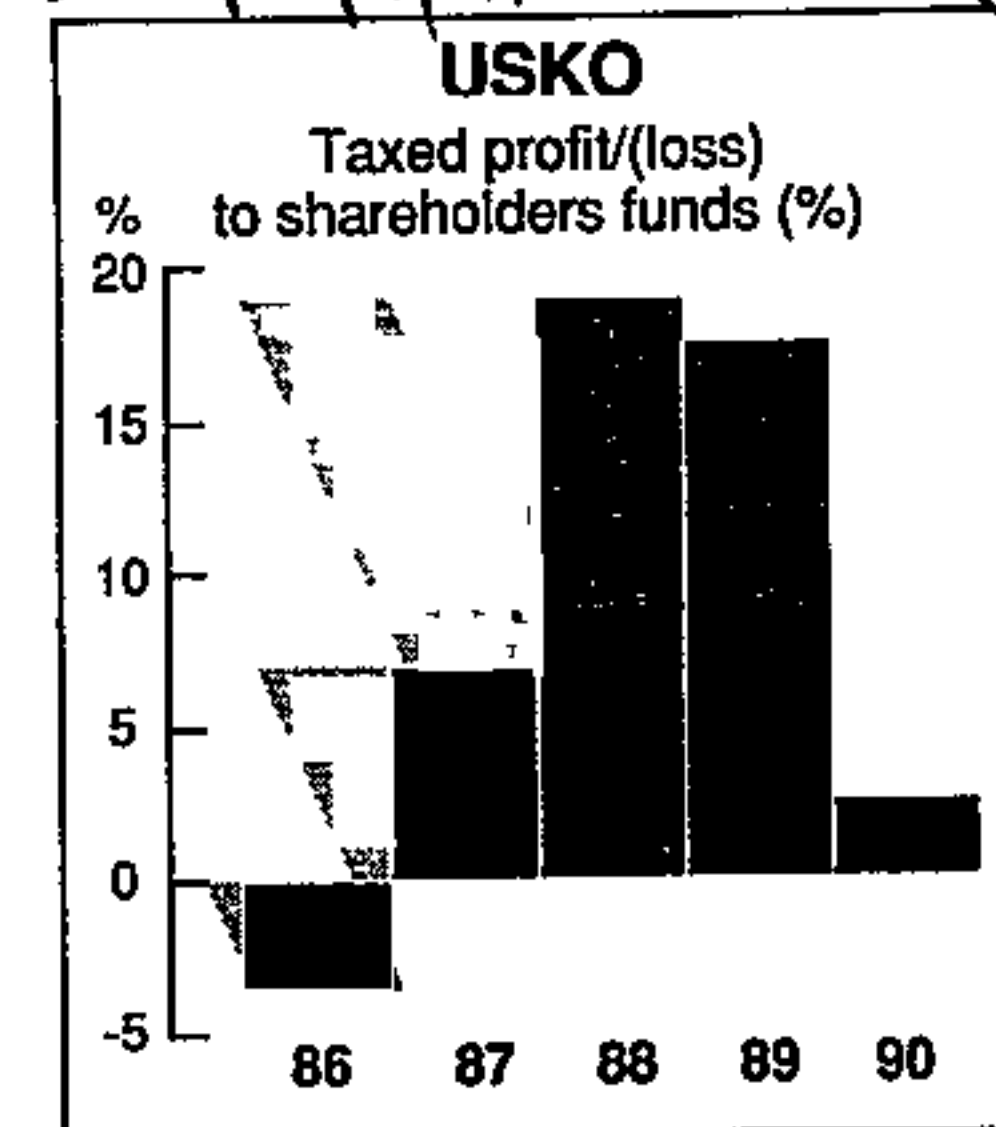
A programme has been launched to market surplus production capacity. However, the steel division's profitability will remain under pressure

The vanadium plant's total output is exported. Kotzee says earnings of this division depend on the world price of vanadium pentoxide flakes as well as on the rand/dollar exchange rate

At the present rand price levels, vanadium will not contribute significantly to group profits, although it is expected current low prices will not prevail for much longer, Kotzee says

However, Kotzee is concerned about the rand, saying that with the gold price remaining low, it is doubtful whether the downward pressure on the rand can be resisted much longer

The non-ferrous division should continue to contribute towards group profits. However, no major relief is



expected for the group's financial burden, Kotzee says

Usko's net cash outflow amounted to R20,7m in the year to end-September 1990. The financing structure is therefore less favourable and is receiving the director's attention, Kotzee says

The dividend was passed because of Usko's high interest burden and uncertain economic conditions. The group's dividend record is erratic — in the past five years only two dividends, 13c each, have been paid — in 1988 and 1989

The group's five-year review shows that taxed profit to shareholders' funds declined to 2,7% from

17,7% in 1989 while shareholders' funds shrank by 4% following a decline of 8,3% in 1989. In 1987 and 1988 shareholders' funds showed a growth of more than 15%

Kotzee says no major capital expenditure and investments are envisaged for the current year

Usko spent R21m on the building of a vanadium plant for the production of vanadium pentoxide flakes. The commissioning costs amounting to R10,3m, are shown as an extraordinary item in the 1990 financial statements

The Rhovan mine, which was established to supply magnetite ore for the vanadium plant, also started production in September

The costs of financing expenditure, plus the decline in funds generated by business activities and the conversion of R30m variable rate cumulative preference shares to long-term loans, resulted in a rise in financing charges to R26,2m from R14,9m in 1989

An increase of R1,5m in depreciation and an 8% decrease in income from investments contributed to Usko's income attributable to ordinary shareholders declining to R1,2m from 1989's R21,8m. The loss after the extraordinary item was R9,6m (1989: R16m profit)

Stainless steel industry showing some resilience

Star 10/11/91

(1808)

The old chestnut that the ferrochromium and stainless steel industries are commodity businesses has never been more true than in 1990

World stainless steel production for the year is estimated at 10,2 million tons, a level similar to 1989

The signs of a general slow down in the world economy, led by the US, is likely to result in a fall in stainless production in 1991 of around 5 percent to 9,75 million tons

In line with this, world prices will remain low, although there may be variations in regional markets depending on their particular circumstances

In South Africa, a combination of continuing high interest rates, the depressed state of the mining industry and an absence of any major new capital projects means that we are likely to be in line with the global trend

The one possible light on the horizon is the potential for fabricators to take advantage of the MS&A and GEIS export incentive schemes

For ferrochrome producers, the outlook for 1991 is not so good. A combination of the knock-on effect from the fall in stainless steel production capacity will keep prices low

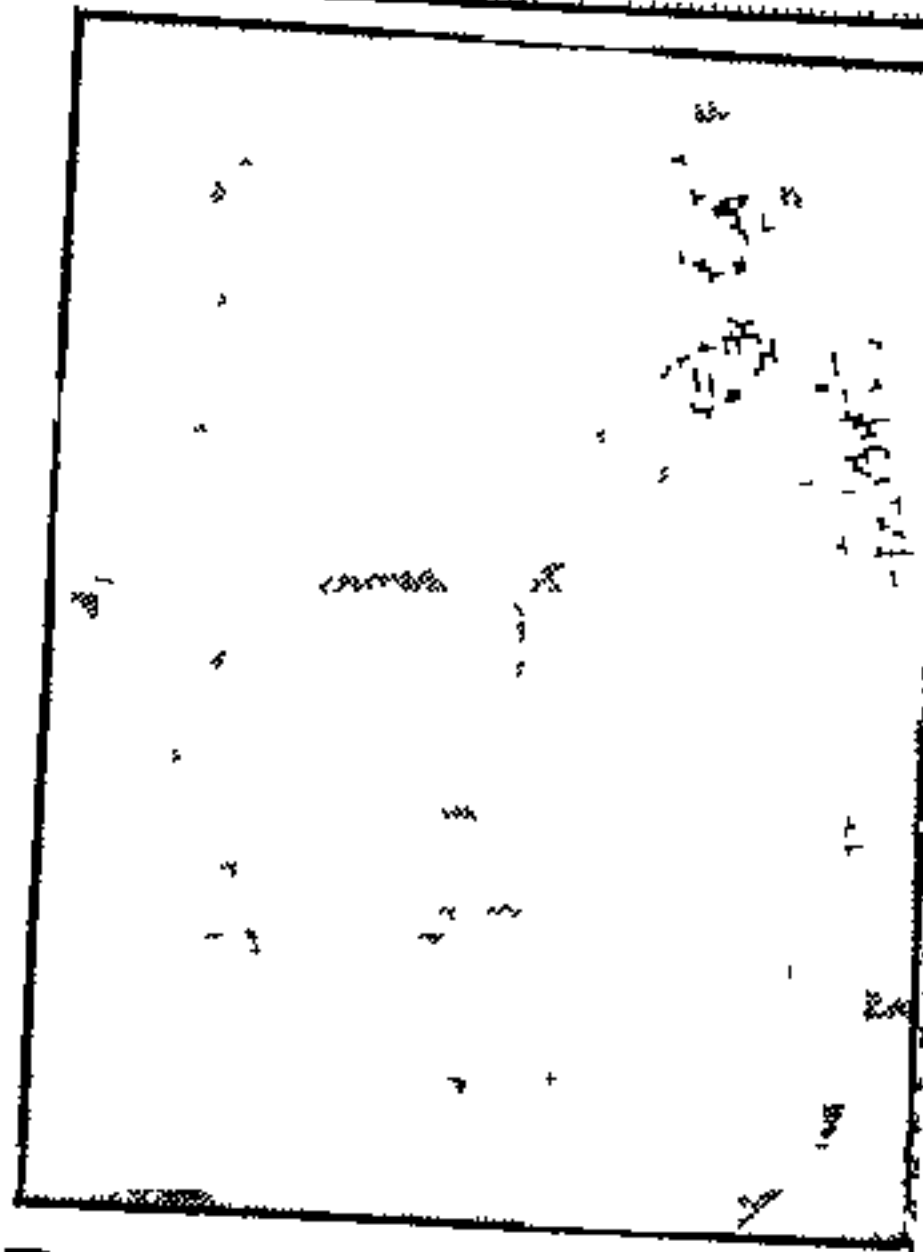
Little profit

At current ferrochrome prices, very few, if any, producers anywhere in the world are making a profit. For many of the less competitive producers, the question is more how much they are losing and how long they can stay in the market.

Obviously, this situation cannot continue, and in reaction to this, rationalisation is beginning, particularly among the higher cost non-African producers.

It is estimated that in 1991, around one million tons of capacity will be rationalised, although it is uncertain how much of this will represent permanent closures, and how much will be temporary moth-balling

OUTLOOK '91



By John Gomersall,
Group Managing
Director, Middelburg
Steel and Alloys

of production units.

This will bring operating capacity more in line with the 1991 estimated demand of 2,4 million tons

As low-cost producers, the South Africans can weather the downturn better than most, and may even benefit in the long term through increased market share as the rationalisation continues

Turning to ferrochromium prices for 1991, there is evidence that producer rationalisation may over-compensate in the first half of next year, and there may even be a tightening in the market. This may result in a small upward movement in prices, particularly in the spot market

Although 1991 will not be a good year for our industry, it is important to understand the highly cyclical nature of the business

The long-term prospects for stainless steel (and hence for ferrochromium) are exceptionally good, with average annual growth rates of at least three percent. Profitability will return and when it does, the South African industry will be well-positioned to take maximum advantage of the upturn

Samancor expects profits to fall

189B
Blpaw 22/1/91

MATTHEW CURTIN

THE continued low price of ferrochrome and strong rand/dollar exchange rate were set to cut Samancor's profits in 1991, MD Hans Smith said yesterday.

In December, Samancor had hoped it could negotiate first-quarter 1991 prices of 51 US cents a pound, against 47c in last year's fourth quarter, but strong competition kept the increase down to only 2c. However, Smith said the underlying circumstances were right for a price rise. Smith said the bottom limit of the alloy price was governed by low cost producers, namely SA, but "at 49c there is no money in the ferrochrome game". At that price SA producers would only be able to break even, while the international competition was only able to break even at 55c.

The ferrochrome price is theoretically determined on the open market, but as SA producers supply 40% of world demand they dominate pricing.

The year to end-June 1990 was a record 12 months for Samancor with group turnover of more than

Samancor MD Hans Smith

R2bn and distributable income rising 18% to R538,8m.

Smith was still confident high volumes of ferrochrome would be sold this year. Samancor expected minimum ferrochrome sales growth of 3% a year.

With the downturn in 1990 and low expectations among producers, most had undertaken "vicious destocking programmes" which had made room for increased production.

The slack demand has allowed Samancor and its competitors to complete maintenance of furnaces

deferred just over a year ago when booming demand kept everyone operating at full blast. Smith said maintenance was complete but plants were operating only at 65% to 70% of capacity.

He said international carbon steel production would see a further contraction of at most 3% in 1991, mainly in Europe and America while Japanese demand steadied. Samancor's widespread and consumer-based marketing strategy would ensure it was not significantly affected.

Manganese production under-

pinned Samancor's revenues in 1990, contributing 60% (45%) of operating profit.

Smith said the company would continue to benefit from its large reserves of high- and low-grade manganese ore. There was still a shortage of high-grade ore worldwide and Samancor's Mamatwan sinter plant allowed for the upgrading of low-grade ore.

Ferro-manganese dollar prices shot up 50% in 1989/90, but Smith said they were likely to be checked in 1991, particularly with increased supply from Taiwanese and Chinese low-grade producers.

There was still life in the R2bn Columbus stainless steel joint venture with Highveld Steel and Taiwanese partner Yieng Loong which was shelved last June.

Several factors had compromised the scheme including deteriorating economic conditions in Taiwan and the indecisiveness of export incentive mechanisms in SA. Both SA companies were "cautiously optimistic".

Worldwide ingot production in 1991 would be 10-million a year, growing 3% a year, but Columbus would be operational at 300 000-tons of crude stainless ingots a year no earlier than 1994.

Picture ROBERT BOTHA

nary item Kotzee expects it will take weeks rather than months to sort out the problems in the roaster section of the old part of the vanadium plant. Meanwhile, Usko is likely to pay penalties to Rhombus Vanadium for not taking the required quantity of ore from the mine. Kotzee notes that the penalties are not significant in terms of group earnings.

Though it is unlikely that Usko's markets will improve this year, some positive aspects should help the bottom line. Capex spent on increasing productivity will result in better margins in this year. The destocking by dealers and clients, especially in the mining sector, has tapered off and will probably end during the year.

Kotzee says the vanadium plant will start



Usko's Kotzee
export programmes

contributing to earnings, despite the low price. Export programmes are being developed for special steels, which carry a higher margin.

However, the biggest problem facing management is the large debt burden, which has pushed the debt:equity ratio up to 124%. Management is addressing this but Kotzee declines to divulge any details.

He agrees, though, that profit will only recover when local demand for special steels picks up. Until then, shareholders can only hope that management can rectify the debt problem and that the few positive aspects will help to cushion the interest costs. The share still looks expensive.

Gerhard Slabber

USKO F M 25/1/91 189 B

DEBT PLAN NEEDED

After Usko's profit dived by 94% in financial 1990, the share price still stands on a p e of 30 — which some analysts think is unrealistically high. One view is that the price has been influenced by the net worth and the expected future contribution from vanadi-

Activities: Making steel and vanadium pentoxide

Control: Iscor and Metkor 27% each

Chairman: F P Kotzee, MD J H Kaltwasser

Capital structure: 30,9m ords Market capitalisation R37,1m

Share market: Price 120c Yields 3,27% on earnings, p e ratio, 30,6 12-month high, 345c, low, 100c Trading volume last quarter, 271 000 shares

Year to Sep 30	'87	'88	'89	'90
ST debt (Rm)	22 0	17 1	74,1	10 8
LT debt (Rm)	52 7	38,2	86,2	149 2
Debt equity ratio	0 84	0 56	1,00	1,24
Shareholders interest	0 45	0,48	0,36	0,36
Int & leasing cover	2,1	5 1	2 8	1,1
Return on cap (%)	7,4	13,7	10,7	8,8
Turnover (Rm)	378	435	544	613
Pre-int profit (Rm)	19,9	40,3	42 7	35,0
Pre-int margin (%)	5,1	9 3	7 6	5,5
Earnings (c)	16,6	90,1	73,1	4,0
Dividends (c)	nil	13	13	nil
Net worth (c)	350	439	489	456

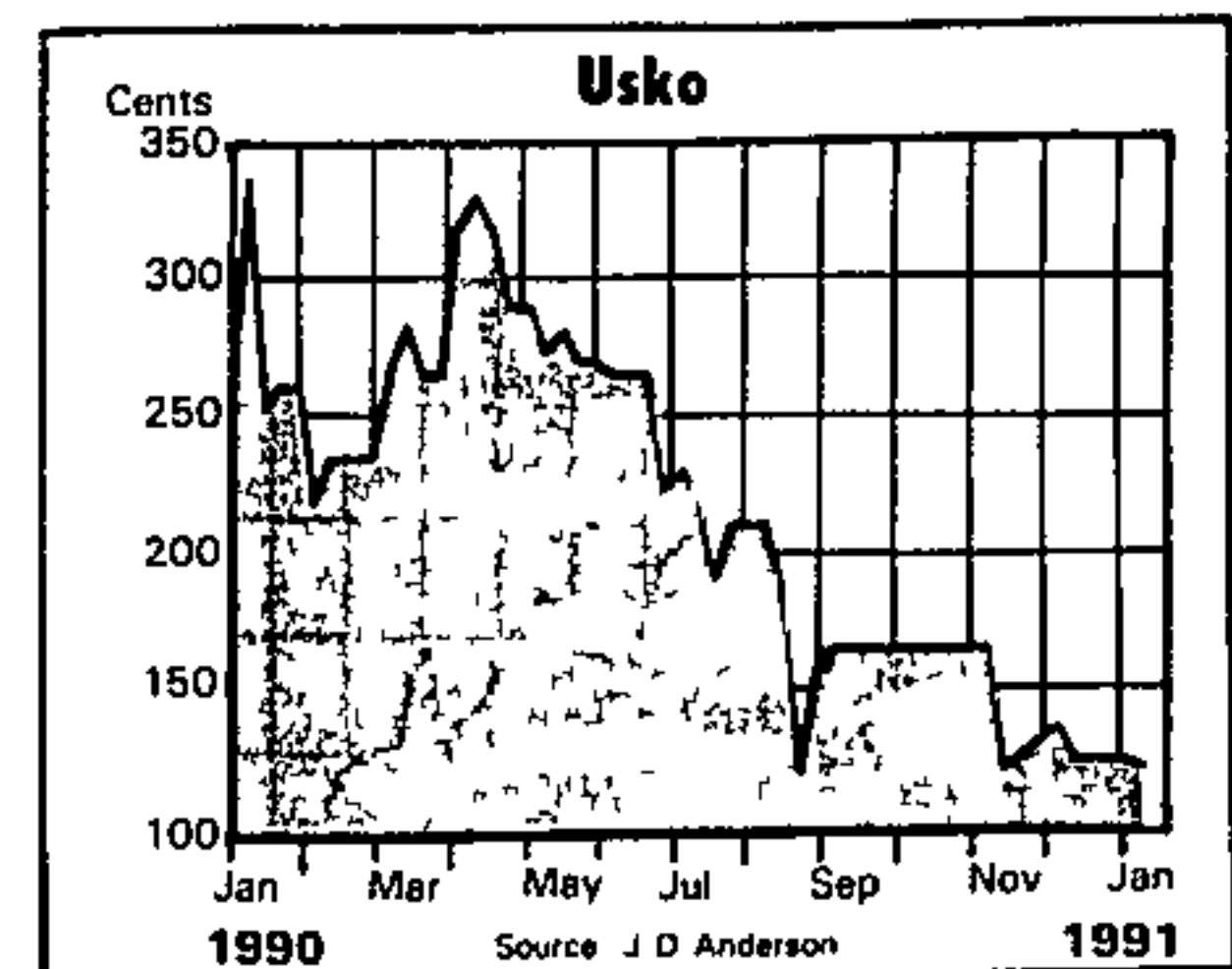
um, rather than the historical earnings

For his part, chairman Flores Kotzee believes some of the factors that caused the profit collapse were non-recurring and others, like the weak local and international markets, will not persist indefinitely. But this is perhaps an oversimplification of the group's problems. Its entry into the oversupplied vanadium market could have been better timed. A slowdown was expected in the worldwide steel markets — which influence vanadium demand — but Usko's management was probably surprised by the extent of the downturn. And the difficulties were compounded when the group's local steel markets also withered.

Local demand for Usko's steel products fell steeply in the second half, mainly in the automotive and mining sectors, and the decline was boosted by destocking by dealers and consumers. This setback forced management to export lower quality commercial grade steel billets, to fully utilise the smelting and continuous casting capacity.

Operating profit fell by virtually a third and what was left was wiped out by a near doubling in financing charges. Interest-bearing debt was increased to fund capital expenditure of R21,9m. Finance charges were also boosted by the conversion of R30m prefs to long-term loans.

The vanadium plant, commissioned last September, made virtually no contribution to group income and the R10,8m commissioning cost was written off as an extraordi-



Acquisition puts dent in CMI interim results

MATTHEW CURTIN

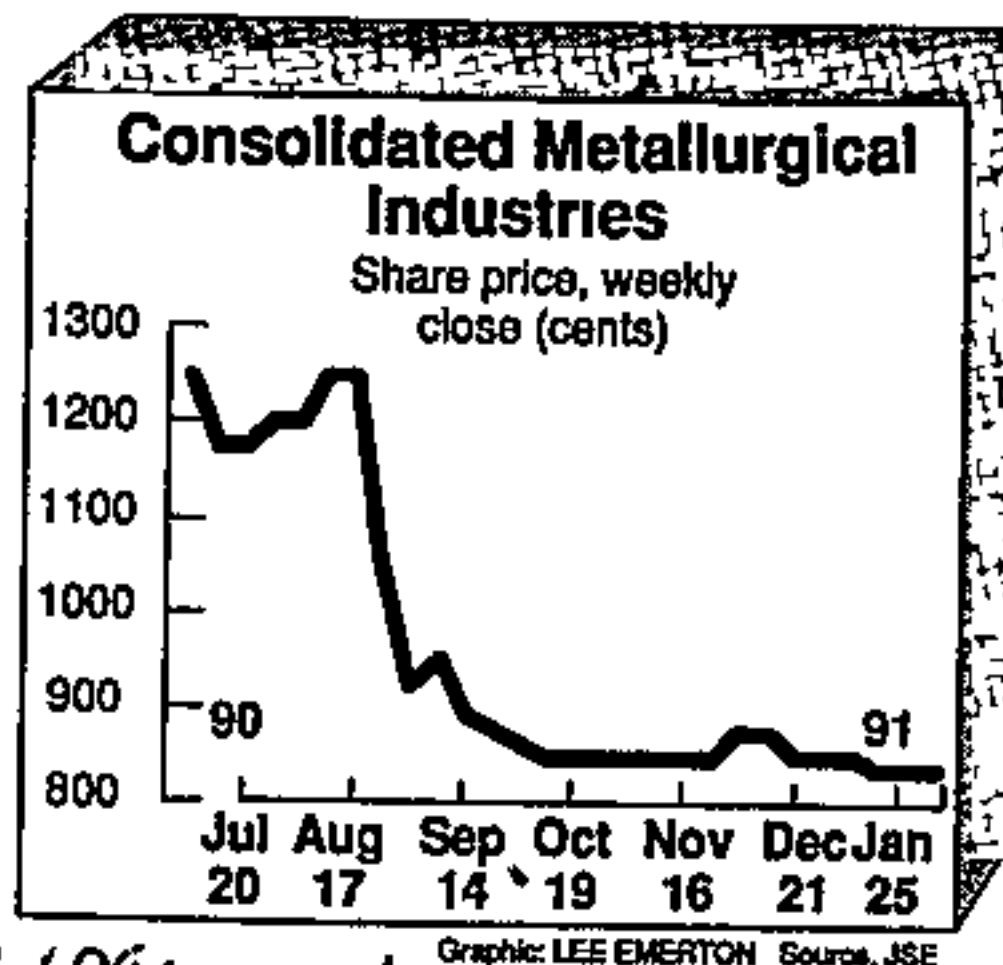
CONSOLIDATED Metallurgical Industries (CMI) turned profit into loss in the six months to end-December as its purchase of Purity Ferrochrome dented its interim results.

In September, CMI paid R181m for Purity's ferrochrome smelter and mine near Rustenburg, lifting its ferrochrome capacity to 330 000 tons a year, about 10% of Western world supply

However, operating inefficiencies at Purity's new refinery increased costs and pushed CMI into an operating loss

The refinery's problems are expected to be resolved in the next few months

CMI's newly appointed chairman David Kovarsky said yesterday that despite higher sales, volume from the enlarged operation reduced ferro-



189B
15/Dec 29/1/91
chrome prices and a strong rand combined to cut the interim turnover to R102m (R129m)

He added that the depressed ferrochrome market and the interest payments due on money borrowed for the Purity deal were the two factors behind the poorer interim results

CMI turned in an operating loss of

R5,1m for the interim

He said unit costs were above average for the period because of "inefficiencies" at the company's newly commissioned Rustenburg plant

The company was adjusting to the former Purity smelter and consequently suffered "teething problems" which would be rectified by the time the plant was fully commissioned

He said this would be in the next few months

Although he expected sales volume would be maintained for the next six months and noted ferrochrome prices had stabilised, Kovarsky said these factors would not cover increased interest charges and CMI would still be in the red in June this year

"There is an encouraging market swing for ferrochrome, with the spot price up to the contract price of 49 US cents a ton, but the price would have to reach around 55c for CMI to return to profitability in June," he said

Call for 'elegant' ferrochrome strategy ⁽¹⁸⁹⁾

by Day 4/2/91
MATTHEW CURTIN

FERROCHROME producers in SA could revive their fortunes — damaged by a fierce price war which has left local companies operating at marginal levels — by ditching their current marketing policy for a more "elegant strategy", Chromecorp Technology (CCT) CE John Vorster said last week.

Vorster said it was a myth that price-cutting was the way to increase market share as SA producers were always ready to match each others' prices.

SA is responsible for 40% of world chrome ore production.

While the rivalry among these producers — Samancor, Consolidated Metallurgical Industries (CMI), Middeburg Steel & Alloys (MS&A) and CCT

— precluded the likelihood of a cartel being established, a new, more cooperative marketing approach could boost ferrochrome prices and industry profits.

Vorster said CCT was at present turning down orders because buyers' prices were simply not cost effective. Analysts say free market ferrochrome prices are still below US 45c/lb, a price SA producers cannot match.

Ferrochrome prices peaked at more than US 80c/lb two years ago but dropped by about 40% as stainless steel demand fell away in the face of oversupply. The SA price for the March quarter is 49c, up 2c from the previous three months.

Vorster said if all producers resisted the urge to meet buyers' demands for lower prices that were driven by small

amount of post-war reconstruction necessary in the Gulf. At that rate, excess capacity would be worked through by 1996 and SA producers would be set to enjoy profits approaching those in the boom of the late 1980's.

Technological development was increasingly important for the industry. Vorster said SA lacked skilled manpower resources and had to make do with the relatively unskilled personnel available.

Existing ferrochrome production techniques were electricity intensive, but the cost of investing in the latest technology — the Krupp process recently installed by MS&A — was huge.

CCT would wait to see how successful the new low-energy technology was, before investing in it on a smaller scale.

at a time when the ferrochrome market was more bullish.

As for branching out into stainless steel production, as Samancor had hoped to do with the ill-fated Columbus plant joint venture with Highveld Steel & Vanadium, Vorster said CCT was not interested. "We will never compete with our customers," he said.

Any ferrochrome producer embarking on stainless steel production would inevitably lose ferrochrome orders from its new competitors. So in deciding to move downstream the producer would have to weigh up the benefits of one against the other.

A company like Samancor might profit from turning currently wasted excess capacity into steel production, Vorster added.

Prospects for coal not as promising

Steel exports are set for a R400m boost

Blomay 6/2/91

189B

THE EC's proposed lifting of economic sanctions could see the value of SA steel exports boosted by an estimated R400m if previous export levels are regained.

However, the prospects are not as promising for coal and Krugerrands, the two other products affected by the EC move.

Highveld Steel chairman Leslie Boyd said yesterday the steel industry had been exporting 500 000 tons of finished steel to EC countries prior to the ban and he was confident the new political developments could see SA producers regain this market.

SA's 1990 steel exports were an estimated 2-million tons. The country produced about 7-million tons of finished steel last year.

If SA were to export as much steel to the EC this year as it did in 1986, the total current value of the deals would be about R400m.

However analysts have warned against euphoria over the proposed EC decision, saying regaining prior markets would be an uphill battle, especially in the face of a world recession.

Boyd said the steel markets in EC countries were more profitable as their steel prices were higher than elsewhere.

He said Highveld Steel was ready to take immediate advantage of export opportunities to EC countries, to replace tonnage not being sold on the domestic market.

Seifsa said yesterday that although the reopening of the EC market was good news for SA steel exporters, it would not necessarily affect export trade immediately.

Regaining lost export markets would be

MARC HASENFUSS

a formidable challenge for SA exporters, but SA steel producers were well geared to supply markets in Europe.

New jobs might be created to replace the estimated thousands lost in the industry.

The UK and other EC countries represent SA's largest single export market and the loss of iron and steel sales there had seriously affected the profitability of SA steel producers.

Iscor spokesman Piet du Plessis said the proposed lifting of EC sanctions was good news for Iscor, increasing its marketing scope extensively.

Although Iscor was currently at full production it could gear up at short notice.

ROBERT LAING reports that coal producers expect no volume bonanza when sanctions are lifted, but prices could gradually shed the political discount they have had over the years.

"Even if sanctions were lifted tomorrow, we couldn't export more coal because our ports are running at full capacity," an analyst said.

When sanctions were imposed it cost SA a quarter of its traditional coal market.

SA coal is sold at between \$3 and \$5 a ton less than world levels for various reasons. Some producers say it is mainly a "political discount", others say the coal's low-heat/high-ash quality pulls its value down.

The price has also been reduced by competition between local collieries.

Krugerrand exports, running at an annu-

□ To Page 2

Steel

Blomay 6/2/91

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at 2,5-million coins prior to sanctions, were unlikely to come anywhere near that figure when sanctions were lifted. In 1986 sales stopped completely.

ANDREW GILL reports overall SA exports to the US have slumped by almost R1,9bn since the imposition of the Comprehensive Anti-Apartheid Act in 1986 and the outlook for regaining market share is bleak.

In dollar terms, overall exports to the US were down \$745m to \$1,3bn from \$2,02bn in 1986.

Sacob deputy director Ron Haywood

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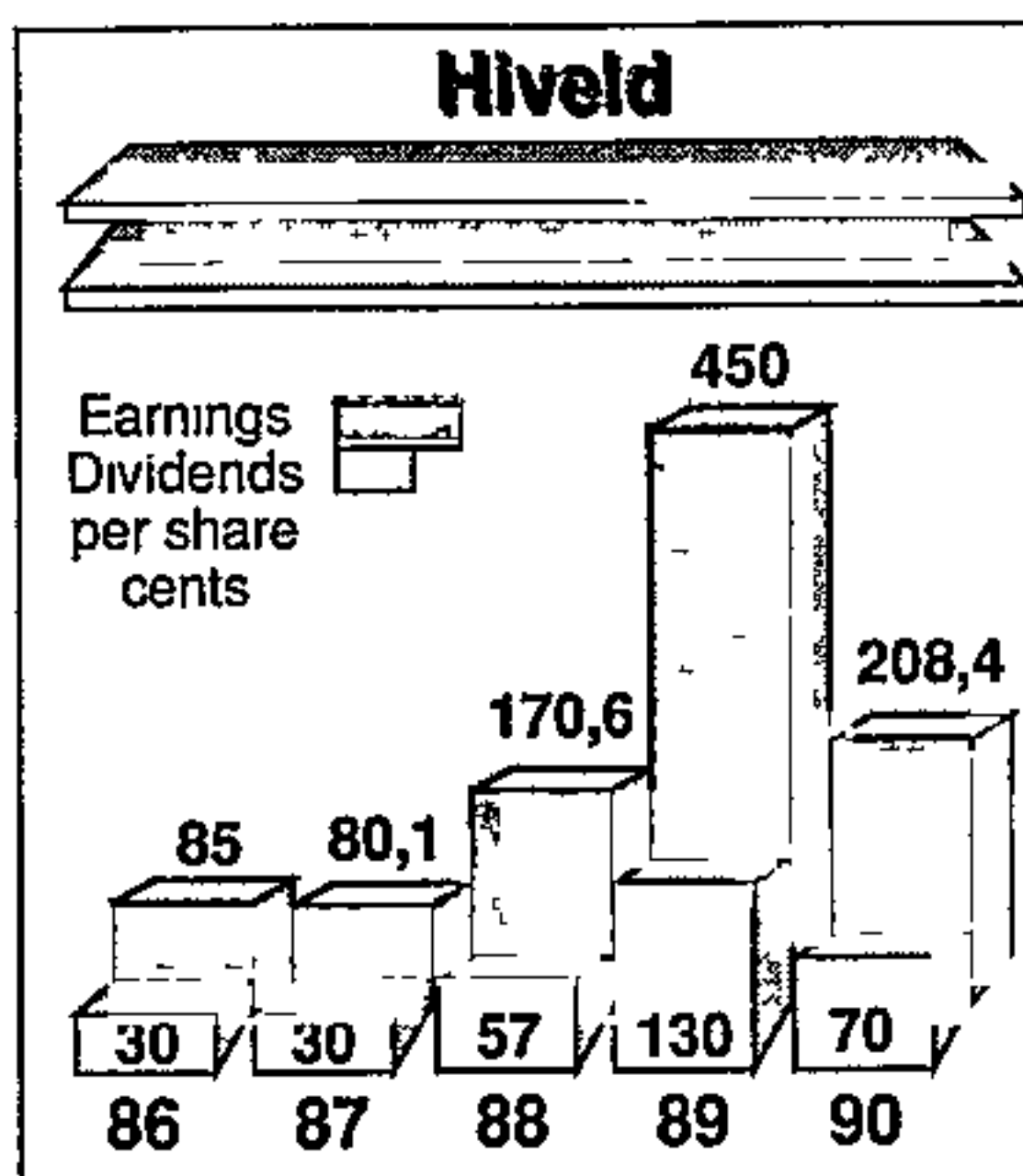
said such an immediate positive response from EC countries to political reform was very reassuring.

However he warned that there was no quick fix for the economy.

BILLY PADDOCK reports from Cape Town that Foreign Minister Pik Botha said at a briefing yesterday sanctions and boycotts had delayed negotiations and a constitutional settlement immeasurably.

He said it was because of concern about the moral and economic situation, not sanctions, that reforms came about.

● Comment Page 8



Graphic: LEE EMERTON Source: HIVELD

Hiveld earnings a share cut in half

PETER GALLI

189A

LOWER export prices and a stronger rand-dollar exchange rate slashed earnings for Anglo American's Highveld Steel and Vanadium (Hiveld) by 54% to 208,4c (450c) a share in the year ended December, chairman Leslie Boyd said yesterday.

He said earnings for financial 1991 would reflect a further decline as the full negative effect of changes to government's export incentives hit primary producers' income statements.

He said increased domestic demand for Hiveld products during 1991 was unlikely.

However, Boyd said Hiveld was "poised" to take immediate advantage of US and EC steel markets if they reopened to SA this year. *By Day 12/2/91*

SA produced half a million tons less steel in 1990 than in 1989 and still had excess capacity. He said SA, as a low-cost producer, could still compete in the US and European steel markets.

Turnover fell 11,3% to R1,43bn (R1,6bn), pre-tax income by 64,4% to R201,3m (R566m) and attributable income by 53,4% to R150,2m (R322,4m).

The steel producer declared a final dividend of 40c, maintaining the total distribution at 70c, excluding a 60c extraordinary dividend paid in 1989.

Commenting on the slump in the company's bottom-line, Boyd said world steel consumption had fallen by about 1% from 1989's record of 786-million tons, with steel production declining by about 2% as a

□ To Page 2

Hiveld

By Day 12/2/91

— result of inventory reductions

World steel production would decline further from the high levels of the past two years, maintaining downward pressure on international steel and alloy demand.

This would be partly offset by the temporary and permanent closures of vanadium and ferro-alloy production capacity due to low dollar prices, he added.

Finalisation of contractual and government arrangements for the Columbus stainless steel joint venture with Samarcor was proving to be time-consuming.

A 10% cut in Western world vanadium consumption, coupled with overcapacity due to new plant developments, slashed prices to levels seen in the early '80s.

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□ From Page 1

Hiveld's R82m pelletising plant would start producing pellets in March, Boyd said. "Iron ore pellets will be used in increasing quantities, which should result in lower raw material costs and improved efficiencies."

In a move to stabilise markets, production at Hiveld's Vantra division had been progressively reduced until the total capacity of 18-million pounds of vanadium pentoxide was idle at end October.

Production of five million pounds a year resumed in January but, to keep the market tight, no inventory was being kept.

Hiveld's ferro-alloy divisions were performing satisfactorily considering the difficult market conditions, he said.

Protection for rolled steel

ROBERT LAING

1898

THE SA Rolled Steel Producers' Co-ordinating Council's appeal for extra tariff protection has been successful

In terms of Friday's Government Gazette, basic categories of flat-rolled iron and non-alloy steel plus bars, rods and irregularly wound coils of iron and non-alloy steel will have an additional duty placed on them from February 7, if their free-on-board price is lower than local producers' ex-mill prices *8/1000 11/2/91*

The council — which represents Iscor, Highveld Steel, Scaw and all other SA mills — asked for additional tariff protection two weeks ago. The council said the protection was necessary because of a sharp rise in excess steel capacity coming on line in the Far East

F M 15/2/91 (189)

was right in line with chairman Leslie Boyd's predictions given in the last annual report

Boyd's willingness to make a concrete forecast on earnings, and his accuracy, are a welcome change from the vagueness that characterises the comments from the chairmen of so many companies. While others have used the Gulf War and SA's turbulent political situation as reasons to avoid predictions for 1991, Boyd acknowledges these uncertainties but forecasts Hiveld's earnings are going to drop again.

That should be negative for the share price, except for one important detail — the group stands to gain handsomely from the lifting of sanctions and, judging by international reaction to President F W de Klerk's speech on February 1, this could happen faster than many had expected.

Hiveld's two most profitable markets for steel exports were the EC and US, both of which were lost through the imposition of sanctions. The displaced steel was successfully shifted to other countries but Hiveld's sales teams have kept in touch with former customers in the sanctioned markets.

Boyd reckons Hiveld could easily recapture its lost markets once sanctions go and he smiles at the prospect of selling steel into the UK at an exchange rate of £1/R5. Greater steel exports would compensate for dropping domestic demand and avoid lay-offs. Hiveld is looking to reduce labour through attrition, while new recruitment has been frozen, and Boyd is calling for restraint in wage negotiations to help the drive to hold down inflation.

That puts Hiveld right at the sharp edge of the politico-economic scene. Boyd is scathing on the stance taken by ANC deputy chairman Nelson Mandela in threatening mass action to disrupt business in response to any lifting of sanctions by the EC. Boyd says economic improvement is crucial to successful political developments and questions whether Mandela has the real interests of all South Africans at heart.

Another key factor in Hiveld's performance will be the vanadium pentoxide market, which collapsed last year to the point where Hiveld closed its entire Vantra division by October. Conditions have since improved slightly and Hiveld is now running one furnace with an annual production capacity of 5m lb, compared with its total capacity of 18m lb.

Joker in the pack is would-be competitor Usko, which is having extended commissioning problems with its new plant. Says Boyd "It's good they are having plenty of problems because their handling of their marketing arrangements has been irresponsible from the outset."

At end-December Hiveld was still in a strong financial position with R194m in the bank. The group can easily afford the proposed project to upgrade vanadium slag at its Vantra plant at a cost of between R25m and R50m. The slag is exported and beneficiated overseas.

However, the future of the Columbus stainless steel project remains uncertain. Ne-

MELTING PROFITS

Year to December 31	1989	1990
Turnover (Rm)	1 613	1 431
Pre-tax profit (Rm)	566	201
Attributable (Rm)	322	150
Earnings (c)	450	208
Dividends (c)	130	70

F M 15/2/91 (189)

gotiations with the proposed foreign partner have ceased and Boyd says the economics of the scheme look marginal, particularly given government moves to end export incentives.

At 1 575c, Hiveld is on a 4.4% dividend yield and looks fully priced.

Brendan Ryan

HIGHVELD STEEL

RESILIENT

F M 15/2/91 (189)B

Despite the 53% drop in attributable earnings, the 1990 financial year was the second best on record for Highveld Steel & Vanadium (Hiveld) and the group's performance

Benefits for Highveld in vanadium pentoxide plant

B/Dan 13/2/91

189B

MATTHEW CURTIN

HIGHVELD Steel & Vanadium's announcement on Monday that it intended to start a R25m-R50m vanadium slag beneficiation operation would bolster the company's performance and make an important contribution to SA export revenues, JD Anderson analyst David Russell said yesterday.

He said Highveld was ideally placed to beneficiate the vanadium slag or spinel it currently exports for processing in the US and Europe.

Highveld chairman Leslie Boyd said this week the slag had been exported because of cost and technology advantages and high duty barriers abroad. He added that foreign costs had become less competitive and that it was more appropriate to beneficiate here in SA.

A recent reduction in EC duty barriers and the prospect of European and US sanctions falling away would improve the market for Highveld's vanadium pentoxide.

Highveld already produced vanadium pentoxide from vanadium-bearing iron ore at its Vantra plant, but gradually wound production of the plant down to zero by October last year. That coincided with Rand Mines' decision to close its newly commissioned Vansa operation — a response to weak demand which eventually led to better prices towards year's end.

As a result Highveld felt sufficiently confident by January this year to restart Vantra's new kiln.

Russell said with the beneficiation of the slag Highveld would have a "fully vertically integrated process" from ore to beneficiated product.

Highveld produced steel from iron ore, a byproduct of which was vanadium slag, and mined vanadium ore, both of which would now be processed into vanadium pentoxide, used for strengthening ferro-alloys.

He said Highveld would enjoy profits from the export beneficiated product several times greater than from selling the vanadium ore.

Highveld's control of the whole vanadium production process would in turn increase its influence in an increasingly competitive vanadium market. Usko's new plant, the new Western Australian vanadium supply and erratic Chinese supply would be in direct competition with Highveld as sanctions fell away.

Boyd said on Monday the company was exploring two options for beneficiating the slag at Vantra, either by a brownfield venture adapting existing plant for converting the slag to vanadium pentoxide, or through a greenfield venture from scratch, involving new, state-of-the-art technology.

Russell said Highveld produced about 47% of the world's vanadium pentoxide last year. The company predicted an oversupply of 3,5-million pounds for 1990 at 100,5-million pounds — down from 102-million in 1989 when supply matched demand.

Iscor promises a trickle not a flood

By JOHN CAVILL

LONDON. — Iscor has promised not to flood the European market with South African steel exports when sanctions are lifted, according to an editorial in the most recent Metal Bulletin (MB)

The MB says European Community and US consumers "are likely to place immediate orders" for SA steel which "enjoys a reputation for quality to easily match European standards".

But, it says, "the ease with which Iscor, Highveld and Middelburg could slot back into the international steel market" raises problems for the current balance between the US and the EC. In addition EC steel producers, led by Germany, are faced with a 3% drop in European consumption and are opposing the renewal of last year's import quotas for Brazil, eastern Europe and "excessive liberalisation of their market to third country imports".

"South Africa's steel producers are aware of the potential threat and Iscor in particular has sent out an early signal that ... exports will trickle rather than flood into the EC" when sanctions end

STEEL FM 22/2/91 189B

THROWING THEIR WEIGHT AROUND

Government is about to lavish more special favours on the steel industry. At the request of the Rolled Steel Producers' Co-ordinating Council, the Board of Trade & Industry has proposed much higher formula duties on imported primary steel products.

Iscor would be the major beneficiary because it produces 90% of SA's rolled steel. But the giant steelmaker is keeping a low profile, it is referring all comments to the council.

Steel users, of course, are unhappy with this latest round of protectionism. Robin Bosomworth of the Independent Wire Converters says downstream steel fabricators were at last obtaining international orders because they had access to competitively priced raw materials. "Iscor has performed poorly as a public company, so it is keen to be in a position to ask for higher domestic prices." He claims that some domestic prices are 75% greater than Iscor's export prices.

Michael Hoffman, president of the Steel Merchant Stockholders of SA, says: "It cannot be in SA's strategic interests to weaken the steel industry. At the same time, duties should not be encouraged to the point that they deviate entirely from the principle of free trade."

Mike Gahagan of RIH, the main manufacturer of steel tubing, says that in order to become competitive, the cost of primary steel products must be reduced. "With high duties there is little incentive for primary producers to become productive and reduce costs."

But Middelburg Steel MD John Gomersall says SA fabricators are often keen to blame their raw material suppliers. "We have won export markets by aggressive marketing overseas, and not by bitching about the cost of nickel and other inputs. Stainless steel accounts for a low percentage of a stainless steel product's final cost. If a fabricator wishes to get into export markets, we have a scheme in which a 10% rebate is available for products made for export."

Under the formula duty system, the lower the landed price, the higher the duty. For instance, hot-rolled steel is subjected to a straight duty of 5%. But if the price is less than R596/t, the formula duty kicks in and the duty is fixed at R596/t minus 95% of the landed cost.

The proposed changes, published in the

Government Gazette on January 25, would mean some substantial tariff increases. The price that triggers the formula duties would more than double to R1 340/t for most categories of hot-rolled steel, from R706/t to R1 670/t for cold-rolled steel, from R894 to R1 945 for galvanised steel, and from R691 to R1 240 for wire rod.

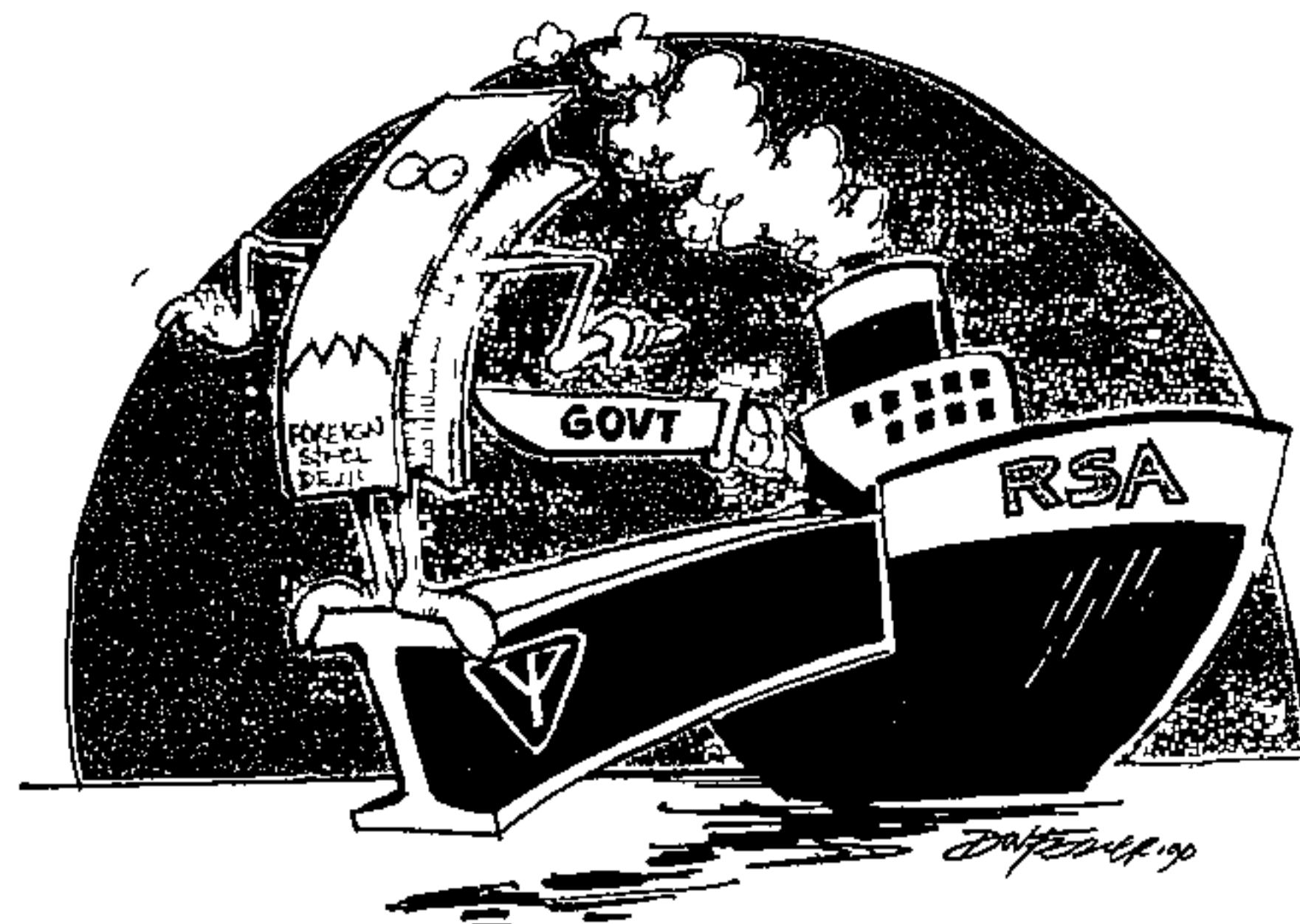
Anybody wishing to comment on the changes has another two weeks to make a submission to the board. It will take a final decision in the next few months.

The council's Johann van Zyl defends the increased protection. "The reference prices now in use have not been updated for seven years, so we are just asking for price adjustments in line with price movements. This should not be interpreted as a request for further protection."

Gomersall promises that increased formula duties will not lead to an automatic increase in domestic prices, in either stainless or carbon steel. In any case, he argues, imports can play only a small role

is clearly no will to do so at the board. Board officials were not available for comment this week.

On top of the increased duties, government has taken another step backwards and banned the import of four types of steel, including hot-rolled iron bars. Van Zyl says a ship from Brazil that was bound for Iraq was stuck in Cape Town because of the Gulf War and planned to unload its cargo at well below international prices. He says this was unacceptable to local steel mills so import of the products it was carrying is temporarily banned.



"There is always a certain amount of distress cargo being imported, but fabricators would be hard-pressed to establish regular lines of contact with suppliers who can provide them with lower prices on an ongoing basis." He adds that formula duties are at least preferable to the quotas that apply in the US and EC.

Highveld chairman Leslie Boyd maintains that the duties on steel are not excessive in comparison with other duties. At a basic 5%, they are certainly well below the 10%-20% duties enjoyed by paper products and the 30%-35% clothing duties. "If these duties were removed, we would not be unduly depressed."

In a recent report on tariff policy, the Industrial Development Corp recommends the phasing out of formula duties, but there

Functional stainless steel gets a cosmetic lift in SA

24/2/91

Stw 24/2/91

189B

Malcolm Fothergill

A SOUTH African process for printing colours on stainless steel will be unveiled this Thursday, February 28, at Mintek.

The process, the work of Mintek scientist Janice Hurly, has been on the drawing board for two years.

A pilot plant is running at Mintek, doing small batches for local firms

Ms Hurly, a data analyst for the Mossgas project before joining Mintek, took the idea for the process from an article that described how coloured stainless steel was being used in Japan, mainly for roofing and baths.

The South African process uses the same chemicals as the Japanese, but otherwise it is an entirely local development

Ms Hurly explains

How to direct

A NEW Deloitte

that stainless steel has a natural oxide layer. When this transparent film is artificially forced to grow thicker, light reflected from the surface of the metal causes colours to appear.

"We can get five colours — bronze, blue, gold, green and a purply-blue, but we don't recommend the latter because it's difficult to produce homogeneously"

The first part of the two-part process is to produce the colours, which is done by dipping the metal into a chemical bath.

The second is an electrolytic process in which chrome oxides

are forced into the pore spaces, sealing off the metal

By screening off areas of the metal and re-etching, different colours can be combined.

Applications include jewellery, pots and pans and cladding for buildings

Mintek has not yet decided how to transfer the technology. Options being considered include licensing outside companies and opening a colouring job-shop

Ms Hurly's work has already won her and her husband a trip to Europe, her prize in the National Inventiveness Awards competition last year.

Incentive schemes of

A CAPE-BASED company has come up with a system that allows companies to design and administer their own incentive schemes

"Considerable experience in this field has taught us that

at any time."

Mr Taylor
agement to
stantly and

Samancor seeking Govt backing for R2 billion plant

Stew 26/2/91 (1891B)

By Derek Tommey

South Africa may soon get a R2 billion-plus stainless steel plant if the Government agrees to support the project

However, the fate of the plant would also be dependent upon the ending of trade sanctions

The companies planning the project are confident sanctions will have disappeared by 1994, when the plant would start operating

Although the Government has yet to make a decision on the plant, officials at Samancor, one of the partners in the project, are optimistic the backing will be forthcoming.

The plant would give a substantial boost to the hard-pressed construction and engineering industries

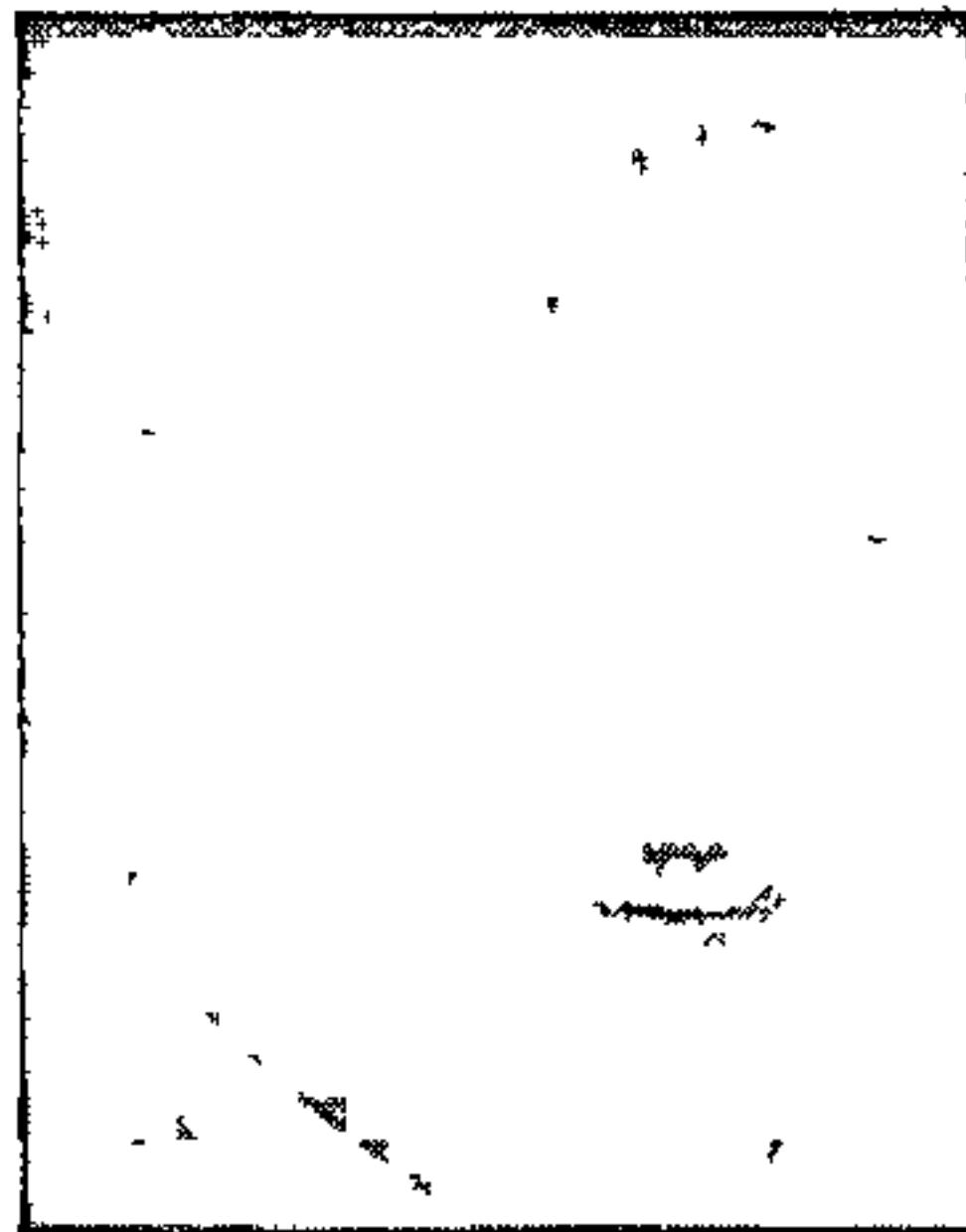
And it would also have strong political connotations. This is because it would demonstrate to the world that SA businessmen are still willing to make major investments, despite the uncertain political outlook.

The companies directly involved in the project are world leaders in their spheres

Samancor is the world's largest producer of chrome and manganese and Highveld Steel is the largest producer of vanadium pentoxide

Hans Smith, managing director of Samancor, gave details of the plant at a press briefing in Johannesburg yesterday afternoon

He said the original intention had been to establish it in Taiwan, where projects of this type are granted five-year tax holi-



Hans Smith can compete on production costs

days. But negotiations had fallen down

The two companies then investigated setting up the plant in South Africa. They determined they could compete with the rest of the world on production costs

But unless there was some tax incentive, they could not compete on capital costs.

These incentives would not be for the life of the plant.

The project would comprise both a hot mill and cold mill and employ 1 500 people

Because it would stimulate the fabrication of stainless steel items, it had great job-creation potential.

Mr Smith said an oversupply in the manganese and ferrochrome markets had resulted in a 13 per cent drop in turnover and a 44 per cent decrease in Samancor's attributable income for the six months to December

The ordinary dividend has been

maintained at 40c, but the extraordinary dividend, paid for the past two years, has been passed

Group turnover dropped from R1 billion to R871 million and attributable income to R182 million from R325 million

Mr Smith said production and sales of manganese alloys were reduced in response to low prices and poor demand in an oversupplied market

Sales volumes of manganese ore also declined, although prices had remained firm, he said.

Overall, the profits of the manganese division (ore and alloys) declined by 22 per cent from the record levels of the previous period

He said ferrochrome prices remained weak throughout the period, to the extent that operating losses were incurred in the last two months of the half-year

Samancor had tried to stabilise the market by demanding 51 US cents a pound for ferrochrome, but other South African producers had undercut it.

However, Samancor was well-placed to compete and "if they want a price war they can have it", he said

Mr Smith said capital expenditure was R56 million in the reporting period, compared with R117 million in the previous period

Expenditure of R90 million was forecast for the second half of the financial year

Net cash holdings reduced to R306 million, compared with R415 million at June 30 1990

Mr Smith warned that profits in the second half of the current financial year were likely to be substantially lower than those of the first half

Aid sought for R2bn stainless steel plant

From DEREK TOMMEY

JOHANNESBURG — South Africa might soon get a R2 billion-plus stainless steel plant if the Government agrees to support the project

And prospects for the plant would also depend on the ending of trade sanctions

The companies planning the project are confident sanctions will have disappeared by 1994, when the plant would start operating

Although the Government has yet to make a decision on the plant, officials at Samancor, one of the partners in the project, are optimistic about the backing

SUBSTANTIAL BOOST

The plant would give a substantial boost to the hard-pressed construction and engineering industries

And it would also have strong political connotations. This is because it would demonstrate to the world that SA businessmen were still willing to make major investments, in spite of the uncertain political outlook

The companies directly involved in the project are world leaders in their spheres. Samancor is the world's largest producer of chrome and manganese and Highveld Steel is the largest producer of vanadium pentoxide

Mr Hans Smith, managing director of Samancor, said the original intention had been to establish the plant in Taiwan, where projects of this type were granted five-year tax holidays. But negotiations had fallen down.

The two companies then investigated setting up the plant in South Africa, and determined they could compete with the rest of the world on production costs

But unless there was some tax incentive, they could not compete on capital costs

WHAT INCENTIVES?

The Government, which has said it wants to encourage exports, has been asked to state what incentives it would be prepared to grant. These incentives would not be for the life of the plant, but only until it moved into a positive cash flow position

Mr Fred Boshoff, managing director of Columbus Stainless Steel, said a feasibility study had been completed, which would be submitted to the two boards concerned

The project would comprise a hot mill and cold mill and employ 1 500 people direct, but because it would stimulate the fabrication of stainless steel items it had great job-creation potential

FIM 113/91.

SAMANCOR

HURTING

Last year's crunch in the ferrochrome market meant Samancor's interim results would be down, but the 44% drop in attributable earnings is far worse than the market had expected. The share price may weaken sharply as a result.

The diversified group's manganese and other mineral interests, along with its strong financial position, compensated to some extent for the drop in chrome profit. But it appears manganese ore and alloy sales volumes are well down on market expectations, while costs rose sharply.

The market was looking for a total dividend of around 150c to 160c for the year to June. Samancor has declared a 40c interim and MD Hans Smith says the group hopes to maintain last year's "ordinary" final of 60c to make a total of 100c. That puts the share on a forward dividend yield of 4,3% at current prices of R23, and makes Samancor look expensive.

Chrome division profit plummeted 87% compared with those of the six months to December 1989, while manganese division earnings were 22% down. The group earned net interest income of R61,2m, against R60,4m for the previous comparable six months.

WORN DOWN

Six months to	Dec '89	Jun '90	Dec '90
Turnover (Rm)	1 003	1 003	871
Pre-tax profit (Rm)	578	337,8	319
Attributable (Rm)	325,7	213,1	182,5
Earnings (c)	195	127	109
Dividends (c)	70	110	40

A key point to emerge from this week's press briefing is that the SA ferrochrome producers appear to be their own worst enemies. On market fundamentals, there appears little reason for the ferrochrome price to have plunged to last year's lows of 47c/lb, where almost every producer was making losses. The SA producers account for about half of world ferrochrome output, and are the world's lowest-cost manufacturers with a break-even cost of about 49c/lb. Break-even for SA's foreign competitors is around 60c/lb, with perhaps one company able to compete at about 55c/lb.

Smith says any SA company selling below 55c/lb is not marketing responsibly, though they are all doing it. Main reason is price-cutting to maintain market share even at a loss, and Smith blames his competitors — CMI, Middelburg Steel & Alloys (MSA) and ChromeCorp Technology (but does not exclude Samancor.)

He says Samancor, as the largest ferrochrome producer, last year tried a policy of being the first SA company to start quarterly price negotiations, taking a tough line to hold prices firm. He says the group's stance was

FOX

FIM 113/91

(189)

rapidly undermined by its competitors cutting prices and Samancor had to react.

The good news is Smith reckons sanity is about to be restored to the market. Losses are now being incurred which a company like CMI, being totally dependent on ferrochrome, can afford less than Samancor, which is still making profits on its other business.

He reckons the price is headed back to 55c/lb "sooner or later," and this trend will be reinforced by the end of various tax breaks which will further hit SA producers' revenues. This year sees the end of export incentives, while export promotion subsidies will be abolished by March 1992. Through these subsidies, companies got a 200% write-off of expenses related to export promotions and commission costs.

Power rebates, through which the ferro-alloy companies got back from government 30% of the power costs incurred in production of alloys for export, will cease after December. These three tax breaks were worth R150m before tax to Samancor in the year to June 1990.

Turning to manganese sales, Smith reckons international steel mills tried, and succeeded in many cases, to bluff their suppliers about the downturn in the market. He says the downturn in world consumption of carbon steel has not been that severe — only 2,5% against gloomy estimates of up to 10%. Samancor, which based its market research on fundamental demand for manganese and played down the destocking effect by consumers, has managed to keep its prices firm.

FOX FIM 113/91 (189)

but volumes have suffered

Even so, Smith is forecasting second-half earnings "substantially" lower than the R182,5m earned in the first half

Brendan Ryan

continue

Price war bloodies SA's ferrochrome

SI Times
3/13/91

189B

By DIRK TIEMANN

SOUTH AFRICA's ferrochrome producers seem to have cut their own throats by expanding capacity and cutting prices.

A price war lasting more than a year wrecked balance sheets

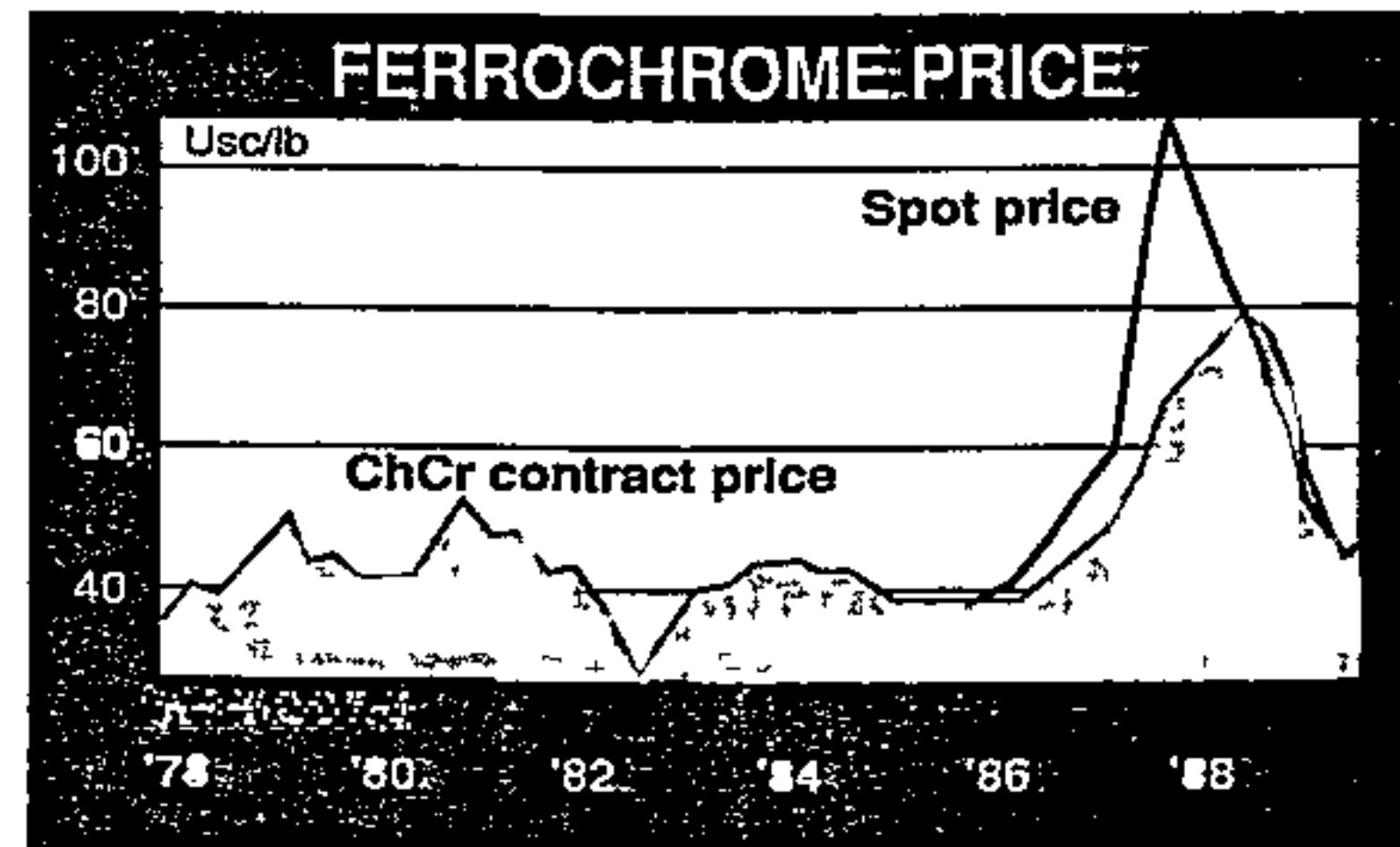
Chromecorp Technology executive chairman John Vorster says producers have adopted the fallacious maxim of "cut prices and get more business"

"At current prices of about US49c a pound, producers should at best be breaking even"

Lowest

Mr Vorster says "Some producers wanted to force foreigners out of business by keeping prices ridiculously low. This did not work because the foreign governments subsidised their industries to safeguard employment, among other reasons. We should price our product at US55c"

SA is the lowest-cost producer in the world. The breakeven price, excluding



export and power incentives, should be US51c a pound. Foreign producers face a higher cost structure and break even at about US55c a pound.

Japan, which produces about 300 000 tons of ferrochrome a year, breaks even at US65c a pound.

Mr Vorster says "World demand is about 2.4-million tons of ferrochrome, of which SA has the capacity to produce about 1.6-million tons (67%). But all producers have had to cut capacity by a third to survive."

"By closing some furnaces we should get US55c a pound. Although we are the lowest-cost producers, all things being equal, this is not so if we have to carry a third of plant capacity."

Mr Vorster says some producers doubled capacity when the market was oversupplied. The oversupply will take about three to five years to disappear.

Squeeze

CMI, which had not increased its 130 000-ton capacity for 14 years, doubled it in 12 months when it bought Purity Chrome. It has a total capacity of 300 000 tons a year.

Middelburg Steel increased capacity from 280 000 tons to 400 000 in 18 months. Chrome division managing director Paddy Probert gives reasons for poor prices: "There was a 10% capacity shortage in 1987 when ferrochrome prices began to rise. They peaked at US81.5c a pound in

the second quarter of 1989.

"Ferrochrome capacity was increased by a million tons. But stainless-steel demand slowed and manufacturers dropped their orders and squeezed ferrochrome suppliers."

"The price dropped to US68c in the fourth quarter of 1989 and to US47c in the second quarter of 1990. European buyers were pushing for US40c, the price ruling from 1983 to 1987."

"Nickel and ferrochrome are the costliest ingredients of stainless steel. The nickel price is determined by the London Metal Exchange and there is little flexibility. Therefore stainless-steel manufacturers put us under pressure."

Samancor opened another furnace last year, bringing capacity to 650 000 tons. Chairman Brian Gilbertson said at the time that room for more expansion existed.

Samancor now has two furnaces out of action and the ferrochrome plant is running at 70% of capacity.

Chromecorp Technology came on stream in January 1989 with 120 000 tons of ferrochrome when the price was US67c a pound. Soon after, the price rocketed to US83c a pound. Chromecorp now has an annual 180 000-ton capacity.

Samancor managing director Hans Smith says a price of US55c is desirable. He is counting on cost pressures in the industry to restore prices. Mr Smith discounts any benefits that could be derived from the lifting of sanctions. "Manganese and chrome

products were declared strategic by the Americans and were not subject to sanctions. The benefit for product sales will be zero, but securing foreign funding will become easier."

Samancor, which controls 50% of the SA ferrochrome market and is the world's largest producer, has been forced to change its pricing strategy because of undercutting by competitors.

Mr Smith says "As the leaders we have always been prepared to bear the brunt of going into the market first. When we went into the market at US51c our competitors undercut us."

"We did not surrender market share easily, but keeping a steady higher price has not been too successful."

Samancor ties up its supply contracts in February, but this year it has declined to come in with a single price.

Power

Mr Smith says "We do not want to get our heads chopped off. The ridiculous competition continues."

He hopes that cost pressures will force prices up as competitors lose power and export rebates. Rebates make up 30% of power costs. Export incentives disappear this year. Export promotion subsidies go on March 1992.

Samancor's interim results to December 1990 reflect the state of the industry. Attributable income dropped by 44% to R182-million on a 13% turnover fall to R871-million.

Mr Smith says the industry is viciously competitive and the small price increase to US49c a pound is not enough to offset inflation and the stronger rand.

Profits of the chrome and ferroalloy division were 87% lower than for the same time in the previous year.

SA supplies 45% of the world's ferrochrome. It and Zimbabwe hold 90% of world chrome ore reserves.

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Wedge listing terminated

LIZ ROUSE

187

THE DCM listing of Wedge Holdings, the troubled steel company whose shares were suspended on March 16, 1990, was terminated on Friday.

According to the JSE's general committee, at a special meeting held on November 27 last year Wedge was given until March 1, 1991, to lodge documentation to be approved by the committee.

Failing this, the listing of the shares would be terminated at the close of business on that day.

As no documentation has been received the listing of Wedge's ordinary shares of 20c each has been terminated.

Wedge chairman Peter Thomas said the termination of the listing was expected as Wedge warned that the collection of the amounts due by debtors and a former employee (who Wedge said owed the company R2,4m) would take a number of years to settle.

W/E AR605

9/2/91

BUSINESS

OM still buying Iscor shares

189B

By BLAISE HOPKINSON

OLD Mutual is still buying Iscor shares in spite of the steel giant's 30 percent drop in earnings for the first half.

Mr Rowland Chute, Old Mutual's assistant general manager, in-vestments, said this week the share re-mained a good long-term investment.

"It is often worth tak- ing a closer look when a market is down. There might just be something you have missed," he told a media briefing.

He added, "In the long term Iscor is a real growth asset."

He warned that South Africans had to expect a bouncy ride for the economy.

"There is an environ- ment for an upswing in industrials but be cau- tious, it is going to be a bouncy ride."

He said Old Mutual's unit trusts had attempt- ed to remain largely in- vested in equities in the past year instead of tak- ing better advantage of relatively high money market rates.

He added the overall scrip shortage was caused by a low annual turnover of equities on the JSE.

It would take, for ex- ample, a month to build a R10 million position in blue chips like Barlows, Lonrho, SAB or Sasol while the same amount would take more than 18 months to invest in com- panies like NBS, Volks- kas and Amaprop.

He said the Old Mutu- al had invested heavily in equities last year for its mutual fund and pen- sion portfolio and was therefore well placed for the projected growth in equity prices.

Old Mutual is bullish on the prospects for in- dustrial shares which are currently in a "neu- tral" phase— in that they are neither over- bought nor oversold.

AMIC Fm 15/3/91
STEEP SLIDE (189) B

A sharp deterioration in the performance of major earnings contributors Highveld Steel, AECI, Mondi and Boart International has hammered profits at Anglo American Industrial Corp (Amic)

Earnings at these companies, which last year contributed nearly three-quarters of the group's equity earnings, plunged 38,7% in the year to end-December. As a result Amic's earnings fell for the first time in five years, slipping 29% to R451m, with turnover up a mere 6% at R6,1bn

The group's performance was well down on management's objective, stated in the last annual report, of maintaining earnings at the 1989 level. A further decline in the current year seems likely, especially when one considers the performance slumped considerably in the latter half of the year

Most of Amic's ills can be attributed to the effects of recession, both at home and abroad. Few if any of the group's diverse interests in sectors such as mining, engineering, paper, chemicals, agriculture and the motor industry will have been able to escape the effects of cuts in mining expenditure, high interest rates, depressed international

commodity prices and decreasing returns on exports. Reduced volume offtake resulted in lower capacity usage and plant shutdowns, says chairman Graham Boustred

Export incentives for Highveld and Mondi, as well as capital expenditure allowances, helped to cut Amic's tax rate from 33% to 20% — resulting in a tax saving of about R100m. However, much of this was offset by interest charges more than doubling to R121m. Management attributes much of this interest hike to higher interest rates and extensive borrowings at Mondi that were only curbed after the company's rights issue late last year

The fall in group profit was accentuated by a steep correction in the earnings of Highveld Steel. After climbing 165% in its 1989 year, on the back of exceptionally high vanadium prices, earnings were more than halved last year to R150m as a result of the drop in vanadium, steel and ferro-alloy prices

Wholly-owned Boart and associate company AECI saw earnings slip 24%, to R66m and R238m respectively, because of weakening export revenues and depressed local markets. Similar factors, together with prolonged industrial action, pushed earnings at unlisted Mondi down 45% to R89m. Of Amic's major earnings contributors, only 100%-owned Scaw Metals and associate company Tongaat-Hulett improved earnings, though both below the inflation rate. Poor sugar crops and the recession are expected to cut Tongaat's earnings by 25% in the year to March 1991, says Boustred

Last year's recapitalisation of Mondi to raise R454m for expansion at home and abroad resulted in Amic reducing its stake in the company from 63% to 53%. Equity raised by Mondi, together with a revaluation of its forestry assets, helped to improve Amic's debt equity ratio from 20% to 13%. Further attention to the group's balance sheet, as well as production efficiencies, seems likely as management comes to grips with slow growth in sales

Recovery in both the domestic and international economies is likely to be slow and a turnaround at the broad-based industrial conglomerate will not be easy. Management again cautions that this year Amic will do well to maintain earnings of the previous 12 months.

Investors are also likely to take a cautious stance. The share is trading at R82, up from R70 after announcement of the interims in August, and stands on a p/e of 9,8 with an earnings yield of 10,2%. Though earnings improvements are likely to be slow in coming, the share has considerable potential for capital appreciation

Simon Cashmore

GOING DOWN

Year to Dec 31	1989	1990
Turnover (Rbn)	5,78	6,12
Trading profit (Rm)	1 128	571
Share of retained earnings of assoc (Rm)	247	222
Investment income (Rm)	92	88
Attributable (Rm)	636	451
Earnings (c)	1 180	836
Dividends (c)	350	350

Steel users say Iscor move may rebound

MARC HASENFUSS

RECENT anti-dumping duty protection requested by Iscor through the Rolled Steel Producers (RSP) could rebound against SA steel producers anxious to re-establish themselves in EC and US markets, say steel users.

The Independent Wire Convertors Association (IWCA) have made representations to the Board of Trade and Industry (BoT) to counter the application.

IWCA chairman Robin Bosomworth said Iscor's application, far in excess of any anti-dumping requirement, was aimed at gross protectionism and would lead to increased domestic prices and the elimination of competition.

He said the RSP could not have two-

tier pricing at home and apply for anti-dumping legislation against others without reaction from the protectionist lobbies in those countries

Bosomworth pointed out that a Taiwanese manufacturer could land steel products in SA, manufactured from Iscor steel, cheaper than a local manufacturer could buy his steel from Iscor.

He said the formula duty system was flawed and should be phased out.

Iscor contends that its domestic steel price is competitive by world standards. The price of domestic steel increased 14% in January.

18/3/91
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Interest will be paid in the currency of the Republic of South Africa



Major steel maker's sales fall

B/Daily 2/13/91
MELBOURNE — Broken Hill Proprietary Co (BHP), Australia's biggest company and major steel maker, said this week its domestic steel shipments fell 16% to 267 000 metric tons in February from 319 000 tons in February last year. Domestic steel shipments fell 21,5% to 2,6-million tons in the nine months to February from 3,3-million tons in the period a

(189)
year earlier. BHP has turned to export markets because a recession in Australia has eroded demand for its steel.

Export shipments jumped 30% to 183 000 tons in February from 141 000 tons in February 1990.

They rose 79% to 1,5-million tons in the latest nine months from an amount of 821 000 tons previously — AP-DJ

Ferroalloys holds back Ass Mang

By Derek Tommey ^{Star} 22/3/91

Associated Manganese increased its operating profits in the year-ended December

But a steep drop in the earnings of its subsidi-

ary, Ferralloys, resulted in its consolidated attributable profit dropping 33,9 percent, the company reports

Earnings dropped from R144,6 million equal to 4 075c a share in

1989 to R95,6 million equal to 2 695c in 1990

The final dividend has been cut by 79 percent from 1200c to 250c. This brings the total dividend for the year to 750c, which is a drop of 68 percent on last year's 2400c.

Handwritten scribbles and marks at the bottom of the page.

HIGHVELD STEEL & VANADIUM

FM 22/3/91

189B

END OF PROFIT BOOM

Activities: Produces steel, vanadium products ferro-alloys carbonaceous products and metal containers and closures

Control: Amic 51,9%

Chairman: L Boyd, MD T E Jones

Capital structure: 71m ords, 1.2m S ords
Market capitalisation R1.1bn

Share market: Price 1525c Yields 4,6% on dividend, 13,7% on earnings, p e ratio, 7,3, cover, 3,0 12-month high, 1950c, low, 1150c Trading volume last quarter, 1,1m shares

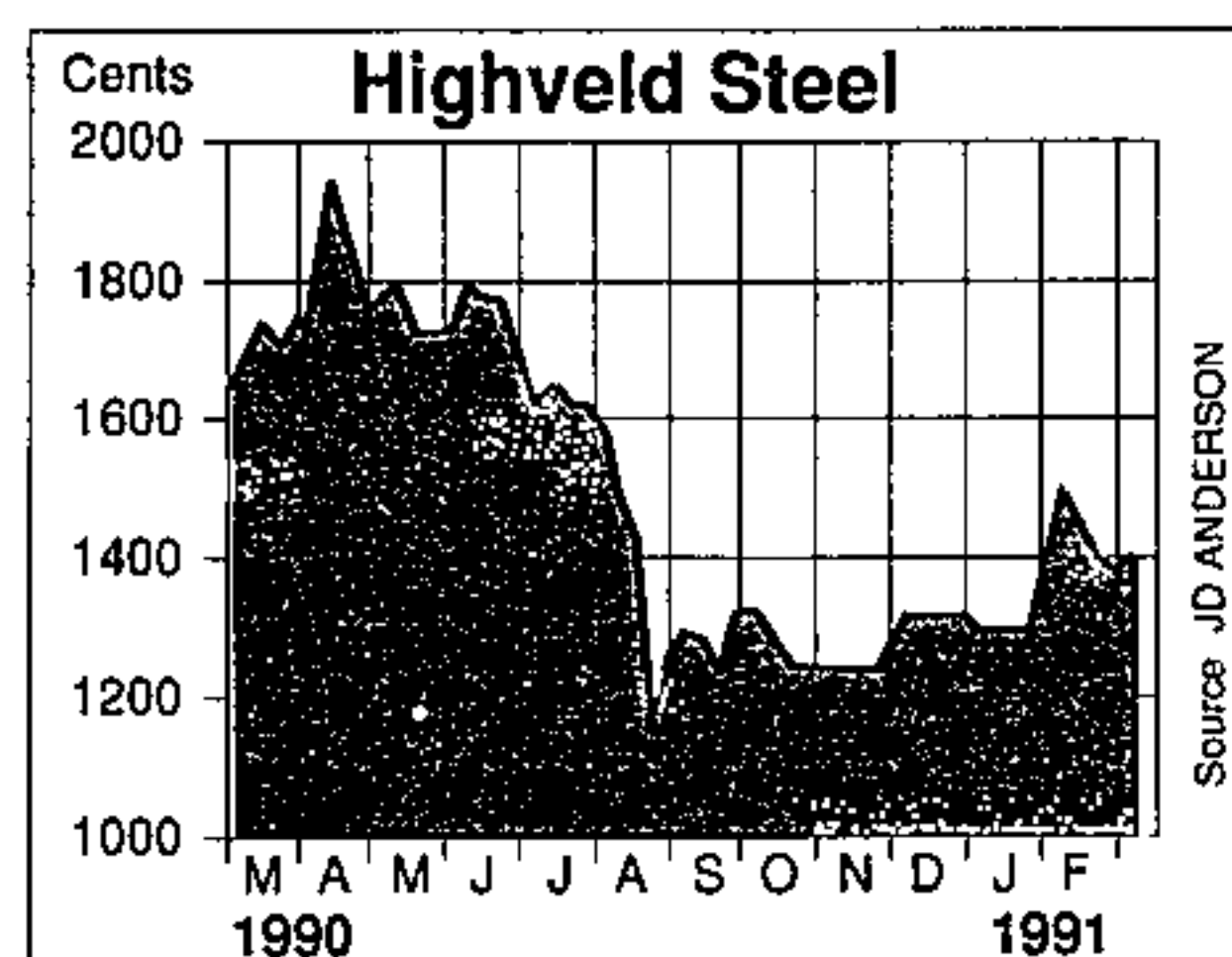
Year to Dec 31	'87	'88	'89	'90
ST debt (Rm)	10.3	25.2	6.1	46.0
LT debt (Rm)	—	—	—	—
Debt equity ratio	0.69	0.13	—	—
Shareholders interest	0.36	0.41	0.42	0.48
Int & leasing cover	3.5	12.7	n/a	n/a
Return on cap (%)	10.9	23.6	34.8	10.1
Turnover (Rbn)	0.85	1.19	1.61	1.43
Pre-int profit (Rm)	103.8	243.1	534.4	156.6
Pre-int margin (%)	12.2	20.4	33.1	10.9
Earnings (c)	80.1	170.6	450	208.4
Dividends (c)	30	57	130	70
Net worth (c)	486	597	892	1031

Highveld Steel & Vanadium's share price has remained surprisingly firm, considering last year's steep swing in profitability, with further deterioration forecast

Like most commodity producers, the group saw its profit peak in 1989 and the subsequent decline has been precipitous, last year's 54% slide in EPS removed most of the exceptional gain achieved in the previous year. Demand shrunk for all three of Highveld's main product lines — steel, vanadium and ferro-alloys — and the group suffered from lower prices as well as reduced sales volumes.

No breakdown of divisional performance is included in the annual report but it seems profitability held up relatively well on the steel side — though the operating margin must have narrowed considerably. Chairman Leslie Boyd says downward pressure on international US dollar prices of steel continued well into the 1990 year, particularly in flat products.

Demand for long products in export markets available to the group remained firm, despite strong competition arising from the



Highveld Steel's Boyd earnings will decline further

return of many producers who had previously withdrawn owing to buoyant domestic markets. Profitability on export steel sales declined markedly as a result of this and the strengthening of the rand against the dollar.

In the domestic market, steel sales remained satisfactory during the first half, but by mid-year steel merchants and end-users had embarked on inventory reduction programmes as the economy slowed and lead times from domestic mills improved.

Aside from the recession, prospects of a pick-up in local sales this year are clouded by the market reaction to the domestic steel price increase, averaging 14,5%, from January 1. Hedge-buying ahead of this increase caused sales during the fourth quarter to be abnormally high, resulting in a poor order book for the first quarter of 1991.

There should, however, be efficiency improvements, and the new pelletising plant, which cost R82m, reaches full production this month. Iron ore pellets will be used in increasing quantities as the year progresses. This should result in lower raw material costs and improved efficiencies in the iron plants.

For the vanadium operations, market conditions were far worse. Western world vanadium consumption fell by about 10% during the year. This, with overcapacity resulting from new plant developments, caused prices to slide to levels last seen during the recessionary period of the early Eighties. To stabilise the markets, production at Highveld's Vantura division was progressively reduced, until by the end of October the total capacity of 18m pounds of vanadium pentoxide was idle. Rand Mines' permanent closure of Vansa

saw some firming of prices, but Boyd warns this could be reversed should there be significant production from Usko during 1991.

Production recommenced at Vantura's new kiln in January. Boyd says this kiln, commissioned late in 1989, has strengthened Highveld's position as a low-cost producer of vanadium pentoxide.

Balance sheet transformed

The ferro-alloy operations have also been under pressure with demand weakening in the ferrosilicon and manganese alloy markets. Sales of the latter product were lower than in 1989, notwithstanding the commissioning of No 7 furnace in February 1990, and the opportunity was taken to carry out major maintenance on several furnaces.

Apart from the dividends paid out, the profit boom has transformed the balance sheet. Redeemable prefs of R252m outstanding in 1987 have been redeemed, and at year-end the group held a net cash balance of R194m. Funding capacity will be needed for future spending requirements, such as the Columbus stainless steel prospect — if it goes ahead. Boyd says that, based on current estimates and market conditions, the project is of marginal economic viability, particularly given government's commitment to eliminating export and other incentive schemes.

Meanwhile, the balance sheet should help to cushion a worsening downturn. Indication of the drop in trading profitability by year-end is given by the slide in cash generated from operations, which plunged from the previous year's R650m to R244m. For the current year, Boyd says increased domestic business for the group's products is unlikely, while world steel consumption is expected to decline further, maintaining downward pressure on international steel and alloy demand. This, he says, will be offset partly by temporary or permanent closure of vanadium and ferro-alloy production capacity.

However, Boyd adds that the full negative effect on primary producers of changes to government's export incentives will be reflected in the income statement, and earnings are expected to fall further. Analyst Kevin Kartun, of Frankel Max Pollak Vinderine, is forecasting EPS of 202c and a pegged dividend for 1991, with a recovery to EPS of 292c and a payout of 100c next year. Simpson McKie's Henne Vermeulen forecasts EPS at 182c this year and 214c next year, with a dividend of 70c this year and 75c in 1992.

Even allowing for the good recovery potential when markets are firmer and sanctions are lifted, the share looks expensive on an historical and prospective dividend yield of 4,8%.

Andrew McNulty

IsCOR applauds EC's move to lift sanctions

By Derek Tommey
and Sven Lünsche

The end to European Community sanctions on imports of South African iron and steel and Krugerrands was welcomed last night by Willem van Wyk, managing director of Iscor.

However, steel producers can expect a stiff battle to regain the markets lost when the EC introduced sanctions four years ago, analysts warn.

Mr Van Wyk said Iscor had no intention of rushing into European markets.

Iscor had been hard hit when the ban was imposed on iron and steel in 1986, although in time it had successfully found other markets for its products but Iscor had no intention of increasing current production, he said.

However, local sales were still declining, which had intensified Iscor's need to increase exports, especially as a number of newly modernised and ungraded plants were coming on stream.

Analysts said yesterday that if producers achieved a return to their 1986 export levels to the EC the industry was set for a R400 million boost and further expansion over the next few years.

SA's total exports, mainly to



Leslie Boyd . . . "Re-opening of markets couldn't have come at a better time"

Anglo American group steel producers expect to resume exports to Europe in the next few months, said Mr Leslie Boyd, chairman of Highveld Steel and Vanadium Corporation and deputy chairman of Anglo American Industrial Corporation.

By 1992 the group expects to be exporting as much steel to Europe as it did before the 1986 ban.

He said the re-opening of the EC's steel markets to South African exporters could not have come at a better time.

Before the 1986 ban South Africa exported between 400 000 and

the Far East, amounted to two million tons last year. Analysts warned, however, of difficulties ahead for exporters Iscor, Highveld Steel and Mid-delburg Steel & Alloys (MSA) in recapturing their former markets in the face of slower world growth.

R2-bn project

SA producers accounted for one percent, or seven million tons, of total world steel production last year, when prices plunged on average by about 20 percent as a result of massive oversupply to the market. However, local exporters have focused on niche markets and this could allow them to take advantage of the EC mar-

A foreign banker with considerable knowledge of South Afri-

Anglo ready to resume exports

500 00 tons of steel worth R350 million a year to EC countries.

Since the ban South Africa built up other export markets but these had proved less profitable.

Mr Boyd said that the EC steel industry should have no fears about the resumption of imports from South Africa as the industry had always had a reputation for responsible export marketing.

He said the only significant steel market still closed to South Africa was the United States. He was hopeful that during the second half of this year the Comprehensive Anti-Apartheid Act will be lifted and South Africa will

again be able to trade freely in North America.

"The South African steel industry is world competitive in terms of cost, quality and reliability of supply".

He said the EC decision was clear encouragement to President de Klerk to continue the process of political reform.

"It is hoped that the ANC and other pro-sanctions movements will accept the development as giving the South African economy the necessary kickstart to enable it to generate more wealth and create more employment. A strong economy is essential for successful political reform".

the lifting of the investment ban. But it had positively ruled that sanctions on iron, steel and Krugerrand imports be lifted.

The lifting of the ban on Krugerrands will have a minimal effect because new gold coins from around the world have over the last four years easily filled the gap.

In 1987, international Krugerrand sales totalled only 135 000 ounces, or three percent of the market.

However, Tom Main, chief executive of the Chamber of Mines, said last night the EC's move would allow the mining industry to recapture a major share of the gold coin market.

ca said he had been pleasantly surprised by the EC's decision to lift the ban.

He had feared that the call by the ANC not to lift sanctions might have a delaying effect.

The move will not have an immediate effect on trade between Europe and South Africa. But it is a clear sign to State President FW de Klerk that the European Community is behind him in his efforts to end apartheid.

The banker said that the EC move was more significant than the apparent lifting of an investment ban last December. The EC Council of Foreign Ministers had only recommended

Lifting of sanctions . . .

Outlook bright for iron and steel industries

CMF-Trusts 17/4/91
189 B

By **AUDREY D'ANGELO**
Business Editor

THE lifting of sanctions against SA iron, steel and gold coins by the European Economic Community will give "a tremendous psychological boost," Glenn Moore, investment director of Personal Trust, said yesterday

And it will enable this country to benefit from the next rise in demand for these commodities

Moore was speaking at a seminar organised by Personal Trust at the Newlands Sun yesterday, to discuss the economic outlook for the coming year

In an interview earlier he said that lifting these sanctions would benefit SA in the medium and long term

But it would have only a psychological effect in the short term — although it might encourage the US to lift its far more comprehensive sanctions

Moore pointed out that recessionary conditions in the main industrialised countries meant demand for iron and steel was low at present.

There was also little investment demand for gold. And the Krugerrand would compete with other gold coins from the US, Canada and Australia which had come on the market since sanctions were imposed.

He said that SA had in any case been able to export its gold in the form of bullion, with Krugerrands at present commanding little premium over this

But, he continued "In the medium and long term it will be an excellent thing for this country's exports of iron and steel to have access to the European market.

"These basic materials will be in demand for the reconstruction of Eastern Europe, which will dominate the European economy for some time to come"

Suggesting that the lifting of these sanctions might encourage the US to follow suit, he said "The Eastern countries have never imposed formal sanctions, so that would completely normalise SA trade with the rest of the world"

However, Moore said, it was economic sanctions rather than trade sanctions which had really harmed the SA economy

Economic sanctions had come about when overseas banks took fright, seeing SA as a country with its back to the wall

Now that they saw SA had been able to repay much of its debt they might look again at this country, if they saw stable conditions where they could get a good return for their money and if they were not frightened away by violence

Discussing the need for foreign investment to stimulate growth, he said it would be an excellent thing if an overseas brewing company opened a brewery here. Beer was a growing market, and opening a brewery would provide more jobs

Rapid rise in CMI share price puzzles analysts

BRENT VON MELVILLE

189B

THE rapid rise in the share price of Consolidated Metallurgical Industries (CMI) since the lifting of EC sanctions has confounded market analysts and industry observers

On Monday CMI moved up 115c (14,3%) to 915c, and 27% up on the 720c it was trading at prior to the announcement that the EC would lift sanctions on iron ore, steel and gold coins

Industry observers point out, however, that the lifting of EC sanctions is a moot point CMI produces only ferrochrome, an essential ingredient in the production of stainless steel

While CMI's recent acquisition of unlisted Purity Chrome improved capacity to about 330 000 tons (from 210 000 tons) and helped sales volumes slightly, it had the effect of increasing interest-bearing debt to R176,8m from R1,1m

Blom 24/4/91

The stainless steel industry has also been adversely affected by deteriorating international economies with the result that ferrochrome prices have fallen to levels last seen in 1988, all but eliminating profit margins

Investment analyst Hennie Vermeulen, from stockbroker Simpson McKie, expects prices to remain relatively weak over the next year, increasing from an expected 1991 financial year average of \$0,49/lb to \$0,56/lb in 1993

He estimates that production at CMI is at about 230 000 tons per annum, or about 70% of capacity. However, sales are estimated at only 65% of production, which means that ferrochrome stocks are increasing by about 6 700 tons per month

On the upside, CMI is one of the most efficient producers of ferrochrome in the world

US to slap duty on ferrochrome from SA

MATTHEW CURTIN

(189) B

THE US Commerce Department intends to slap a 3.33% ad valorem duty on all 1989 imports of ferrochrome from SA, adding millions of rands to SA export costs for the year

810am 26/4/91

The move is in response to protests by a local competitor, Macalloy and Elkem, that SA producers received unfair export incentives and rebates

Analysts said yesterday that if the duty was imposed it would squeeze margins further in a sector where prices of 49c/lb for ferrochrome were too low even for SA producers — the lowest on cost in the world — to make a profit.

A marketing source at Middelburg Steel and Alloys (MS&A) chrome division, the third largest producer of ferrochrome behind Samancor and Consolidated Metallurgical Industries, said the duty would add "an extra layer of cost" to exports to the US. But MS&A was hopeful submissions to the Commerce Department would overturn the preliminary ruling.

The US accounted for 25% to 30% of total demand for MS&A high carbon ferrochrome exports, he said.

Macalloy and Elkem was the US's sole ferrochrome producer, but only produced a negligible amount for the local market, and was only "making it awkward for SA companies", he said.

Metals Week, a US-based journal, reported the Commerce Department would hold a hearing on the issue on May 6.

The journal said the case dated back to complaints made in the mid-1970s about subsidy programmes in SA for exports to the US.

A 4% duty was proposed but shelved in 1981 when the US agency decided the SA government was no longer subsidising exports. However, when the Commerce Department announced its intention to do away with the provision altogether earlier this year, Macalloy objected.

The matter

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industry and a prolonging of the recession" He argues that a Taiwanese manufacturer can land his wire products in Durban cheaper than the Durban processor can buy its steel from Iscor which charges its domestic customers 75% more than its foreign customers

"Iscor has no right to an increase in formula duty protection, nor should the formula have to be adjusted for inflation," he says The crux of Bosomworth's argument is that Iscor's customers will not be competitive exporters as long as their raw material costs are so much higher than the prevailing international price

But Iscor does have its defenders: One supporter, Haggie Rand, exported more than 50 000 t of wire products manufactured from Iscor steel last year, accounting for 20% of its steel conversion Says retiring MD John Feek "Iscor has helped us to produce products of an exportable grade At our request it spent more than R20m on ladle-refining technology and a similar amount on electromagnetic stirring to improve the quality of SA steel rod

"It would be misleading to say we have not had our frustrations with Iscor, but we have built up a relationship and will show loyalty to our supplier where distress parcels (the Brazilian steel) are involved"

Feek adds it is hardly surprising that Iscor has such great lobbying ability, because it is a proven exporter

Seifsa chief economist Michael McDonald says raw material costs are by no means the most significant competitive disadvantage suffered by local industry "In some cases, local manufacturers could not compete in the export market even if steel was free The cost of capital and the generally dismal level of productivity count against them"

The SA Rolled Steel Producers' Co-ordinating Council won't respond to the points in Bosomworth's application, says secretary Johan van Zyl "All his arguments are old However, if he is serious about his allegation of there being a cartel (an allegation made in the first sentence of the application) he should approach the Competition Board"

Van Zyl says the tariff on steel imports consists of either a 5% ad valorem duty or a formula duty He says the formula duty is intended to avoid what the industry regards as "disruptive competition such as dumping or very low prices," in other words, any imported steel that would force local producers to lower their high prices

Explaining how the formula works, he says "When the imported steel is above the reference price (the price that triggers a formula duty) it is normal competition and the normal 5% ad valorem duty is applied But when steel is landed at less than the reference price, the formula duty is applied, which is the stated price less 95%"

He admits that doubling the reference prices will have the effect of increasing steel prices, but says the present tariff was determined seven years ago Since then inflation has taken its toll and the rand's value has

STEEL TARIFFS Fm 26/4/91 TAKING ON A GIANT

Government is supposed to be encouraging the manufacture of added-value products Yet primary producers are still the most powerful lobby with government

Their margins have come under pressure as world markets softened but, instead of taking this downturn on the chin, producers such as Iscor and Mondi have applied to the Board of Trade & Industry for a tariff increase to hold down imports

Iscor plays particularly tough. Without any discussion, it convinced the Minister of Trade & Industry this year to ban "temporarily" the import of a shipment of Brazilian steel that had been on its way to Iraq With sanctions in place against Iraq, the Brazilians diverted the steel to SA The steel landed at R745/t, which at the time roughly equalled the international price of \$275/t, according to Sue Bennett of Fairtrade, who bought the shipment

But the price was below Iscor's domestic price, which averages R1 035/t Bennett found that no local steel merchant would buy the steel for fear of upsetting Iscor When she went to Pretoria to contest the import ban, the Trade & Industry official whom she met was wearing Iscor cuff links She got nowhere and the shipment was auctioned this month for re-export

However, it is the rolled steel producers' proposed revision of formula duties that has met the most opposition The Independent Wire Converters' Association has filed the most vociferous objection with the board Chairman Robin Bosomworth says "If the board accepts the proposals then the price of wire rod will land at double Iscor's export price It would lead to massive domestic price hikes, further disadvantaging of local

BUSINESS & TECHNOLOGY

Fm 26/4/91

plunged, he argues

"We haven't asked for a change in the ad valorem duty but we want the reference price of the formula duty increased — on hot-rolled sheet from R596/t to R1 340/t, cold-rolled sheet from R706/t to R1 670/t, galvanised sheet from R894/t to R1 945/t, and wire rod from R691/t to R1 240/t"

Speculation on 'sale' of RIH

THERE is strong speculation in the market that steel merchandiser Robor Industrial Holdings (RIH) is to be sold, but opinions differ as to who the potential suitor may be

RIH's cautionary announcement yesterday spurred some speculative buying and pushed the stock up 10c (1,7%) to 590c

It also prompted speculation by analysts that Barlow Rand, which holds 85% in RIH, will sell the remaining assets of the struggling group

RIH MD Mike Gahagan refused to comment on the cautionary and said only that a further announcement would be made next Tuesday

In July last year Dorbyl subsidiary Baldwins Steel purchased the business and assets of Isando-based Robor Steel Services (RSS) for an undisclosed amount

Problems at RSS slashed R12,2m from RIH's attributable profits of R53,7m last year and left earnings a share down 14,3%

The remaining interests of RIH include its two tubing producing companies, its

BRENT VON MELVILLE

merchandising operations and its export operations

Baldwins holds the merchant interests of Dorbyl and analysts feel that RIH's tubing interests would dovetail well with Dorbyl's steel and pipe industry interests in Vanderbijlpark

However, Baldwins MD Andrew Embleton said yesterday that his company was not involved with negotiations with RIH

The acquisition of the Robor Steel Services equipment has apparently helped ease production backlogs at Baldwins

Market analysts have also speculated that steel group Macsteel might be interested in RIH. But Macsteel financial director Stephen Levitt yesterday denied the speculation

"We are really not even sure if RIH's remaining assets are complementary to our own Macsteel (unlisted) is not seeking further acquisitions and is in a period of consolidation"

1895
26/4/91
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Industry brushes off ferrochrome duty

THE addition of a 3.3% ad valorem duty on all 1989 imports of ferrochrome into the US from SA would have a "negligible" effect on costs to SA producers, according to the industry

An industry spokesman said on Friday that the duty, prompted by complaints by US producer Macalloy and Elkem that SA producers received unfair export incentives and rebates, would add about \$3.7m to total SA costs. This is based on the latest US Bureau of Mining (USBM) figures which show that the US imported 140 000 tons of ferrochrome in 1989 worth \$113m.

If the duty were extended to 1990, the added cost would be just over \$2.3m, based on USBM figures from January 1990 to November 1990 of imports of 147 000 tons of SA ferrochrome worth \$70m.

Appeal

"It is a relatively insignificant amount, but it does add an extra layer of costs which, at current depressed levels, the industry can ill afford to absorb," said one market analyst.

It is understood that representatives of the SA ferrochrome industry, led by Middleburg Steel and Alloys (MS & A), are to appeal the decision by the US Commerce Department on the duty at a hearing on May 6.

However, MS & A regional marketing director Arnold Vermaak said the US market for ferrochrome, which is used mainly for stainless

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Brent Von Melville

BRENT VON MELVILLE

steel production, was relatively unimportant when compared with Japan or Europe.

Industry sources estimate that the Japanese and European markets accounted for over 80% of ferrochrome exports compared to the US markets' 15% last year. In comparison to Japan, which produced about 3-million tons of stainless steel, and Europe (with about 3.5-million tons), the US produced 2-million tons last year.

US imports of SA ferrochrome currently account for about 40% of total US imports of the alloy. Zimbabwe, with about 15%, Yugoslavia (about 13%), Turkey (about 12%), and Finland/Norway (about 10%), make up the rest.

Total exports of ferrochrome by SA, the world's biggest producer, amounted to about 1-million tons last year, of total production of 1.1-million tons. However, this represents only about 65% of total capacity of about 1.69 million tons annually.

Samancor is SA's biggest producer, at 420 000 tons, followed by MS & A (280 000 tons), CMI (230 000 tons), Chromecorp (100 000 tons) and Ferroalloys (60 000 tons).

Vermaak said the depressed market had resulted in a lot of casualties and producers had been closing down to the extent that spot prices had been higher than contract prices, at about US\$51c/lb compared with US\$49c/lb.

COMPANIES

Highveld waits for better days

1896
Boyd 2/15/71

HIGHVELD Steel and Vanadium, producer of about 47% of the world's vanadium pentoxide, was living "from hand to mouth" as it lay in wait for revived world steel consumption to boost demand for vanadium and lift the commodity's price off rock-bottom levels, chairman Leslie Boyd said on Tuesday.

Highveld took many market observers by surprise and pushed the price of vanadium pentoxide up to \$3,10/lb in the March quarter. Boyd said that as far as the world's largest producer of the alloying metal and with the

company unable to meet all demands for early delivery in the quarter there was no reason why it should let traders dictate the price. The company worked on a take it or leave it, or "walkaway", principle if customers complained about the price.

Highveld's inventory of vanadium pentoxide was empty, and the price rise sent a message to the market that at \$2,50 Highveld's vanadium operation was "not a business".

The company closed its Vantra division in October last year as the vanadium pentoxide market collapsed, and production only restarted under capacity in January.

The vanadium pentoxide price reached \$11,00 in 1989, although Boyd said Highveld was aware the commodity was overpriced and received only \$7,50 for its vanadium.

The price tumbled along with other commodities — chrome and nickel — as customers, who had bought forward in fear of commodity shortages, began to use up their stocks. At the same time, demand remained static and then fell as world steel production dipped in 1990.

Boyd said world steel production would be down again in 1991. Even though Highveld was operating under capacity — Usko was still dogged by teething problems in bringing its vanadium production on-line, and Vansa Vanadium was mothballed in December — he said the perception of oversupply in the market held sway.

Highveld would have to wait for the recovery in world economies, perhaps at year-end, and with it increased steel production for a sustained increase in the vanadium price.

Boyd said Highveld's decision to investigate the treatment of vanadium slag in SA, currently exported for conversion to vanadium pentoxide to the US and Europe, had been triggered by the closure of Luxembourg-based Continental Alloys SA's converter plant in 1989.

Boyd stood by his prediction that Highveld's earnings, down last year and knocking it from its position as the main contributor to Anglo American Industrial Corporation's earnings, would again be lower this year.

However, the erosion of sanctions on steel exports would not only benefit Highveld's bottom line but also would eliminate one of the two major obstacles standing in the way of the "Colombus" stainless steel joint venture with Samancor.

Enhancing

The project, slow to get off the ground after a deal with Taiwanese partner Yieng Loong fell through last year, would establish SA as world leader in stainless steel production.

Boyd said he expected sanctions, already lifted in Europe, would have fallen away in the US, Japan and the Commonwealth by 1992, enhancing Colombus's future.

But, the stainless steel project, whose start-up cost is estimated at R4bn, still depended on the creation of an attractive investment environment in SA.

Highveld and Samancor were talking to government on improving the tax incentives.

Such a move would put SA on a par with other countries which among other incentives provided extended tax holidays to facilitate capital projects like Colombus.

Rhovan's Brits mine on stream

MATTHEW CURTIN

RHOMBUS Vanadium (Rhovan) has fully commissioned its vanadium mine near Brits from March 31, although work remains to be done on the company's magnetite beneficiation plant.

In the six months to end-March, Rhovan capitalised all operating costs, revenue and interest. Capital expenditure fell marginally to R33,4m (R39,7m).

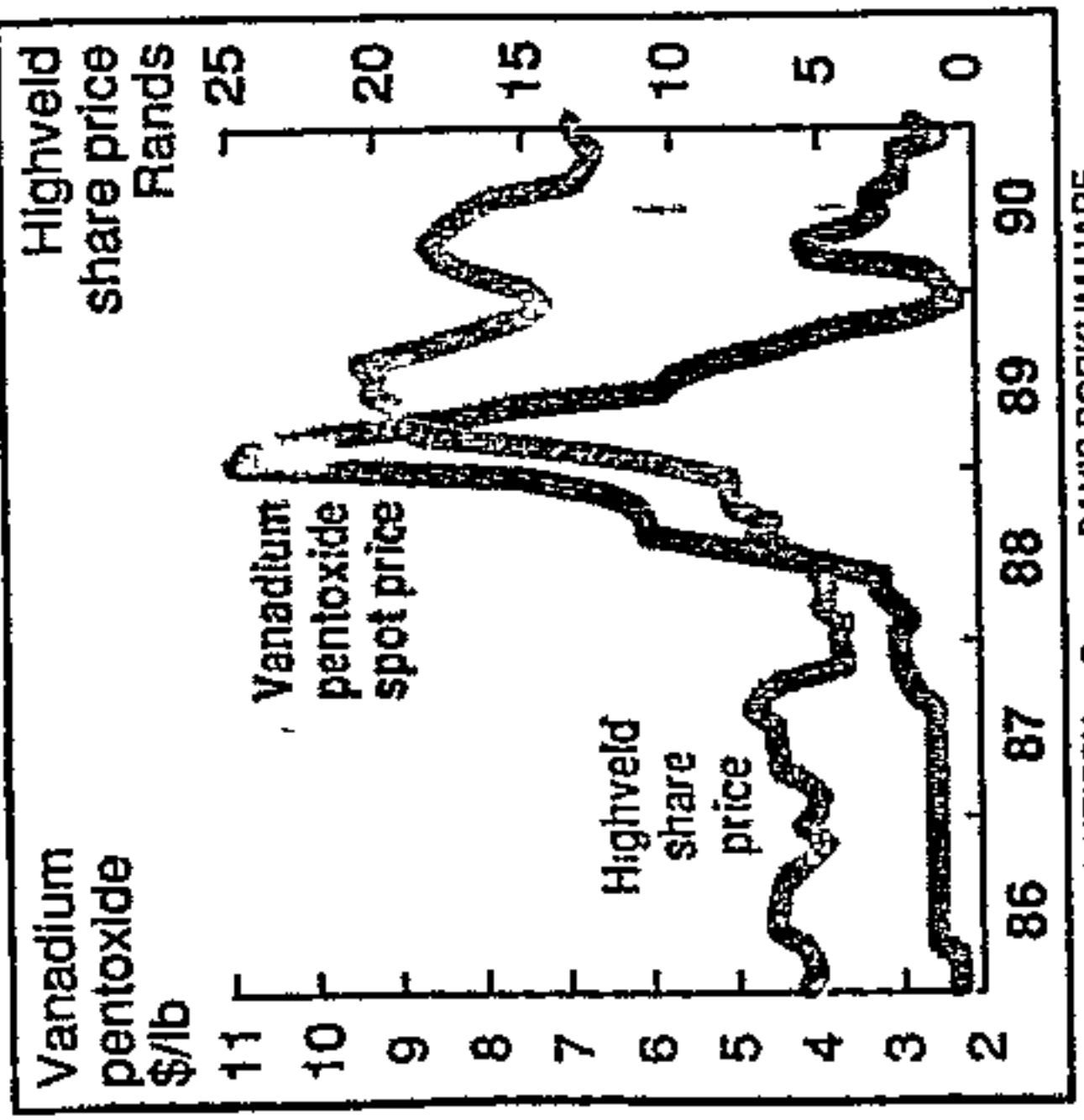
The directors said Rhovan was operating within its borrowing facilities.

Magnetite had been supplied to Usko in the quarter, but Usko was yet to "reach the planned phase 1 volume offtake".

Usko's project to produce vanadium pentoxide has been dogged by problems, and it has been taking less ore than it contracted for, incurring penalties payable to Rhovan.

Both Rhovan's and Usko's future depend on the market for vanadium pentoxide, used in stainless steel production, which is depressed as world steel production falls.

Highveld share price and vanadium pentoxide price



Graphic: FIONA KRISCH Source: DAVIS BORKUM HARE

Boon for RIH minorities

18916
BARLOW RAND is to take its steel merchant subsidiary Robor Industrial Holdings (RIH) off the JSE in a R43m deal involving the buyout of minorities

BRENT VON MELVILLE

Analysts said yesterday the move may have come as a surprise to the market. RIH was not suspended from trading and little interest was shown in the share, which moved up a scant 10c to 590c after last week's cautionary announcement.

In view of the current share price, the buyout should come as a boon to minority shareholders. 81094 715111

In terms of the deal, Barlow Rand — which holds 83,4% of RIH — has effectively offered minorities a premium of 203,25c a share (based on a Barlows share price of 4175c) by offering 19 Barlows ordinary shares for every 100 RIH ordinary shares held.

Barlows shares are now at R41,50 after shedding 100c (2,3%) yesterday in heavy trade.

A cash alternative has been offered by SA Mutual to RIH shareholders in respect

of their entitlement to Barlow Rand ordinary shares, equivalent to 750c per RIH ordinary share, representing a premium of 27% over the ruling market price.

However, if the proposals were implemented for the 12 months ended September 1990, the attributable value of the 19 Barlows ordinary shares would represent a 43,6% discount to NAV of 697c and a 31,2% discount to earnings of 88,10c.

The effect of the proposals on earnings, dividends and NAV for each Barlows ordinary share will not be material.

Shareholders registered as RIH shareholders on May 30 will also be entitled to an interim dividend for the six months to March 31.

The first Barlows dividend to which scheme members electing the share alternative will become entitled, will be the Barlows final dividend for the financial year ended September 30.

Barlows and RIH directors were not available for comment yesterday.

RIH performance reflects market

Brent von Melville

A 20% decline in earnings for Robor Industrial Holdings (RIH) to 55,1c (69c) a share underlines the rationale behind Barlow Rand's R43m bid to take out minorities in the steel merchanting subsidiary

The performance vindicates Barlow's assertion, in its recent offer to minorities, that there was limited scope for profitable investment opportunities in the market in which RIH operated

As such it has already been actively involved in disposing of RIH's underperforming assets

The interim results disclose that last year's disposals had a marked effect on RIH's borrowings, which dropped from R36m to R21m and helped level gearing to 9% (21%). Interest paid was accordingly cut by 70% to R1,5m (R5,0m).

This had little positive effect on operating efficiencies as operating profits were slashed by 33% to R19,9m (R29,6m) on an 11% decline in turnover to R360,2m (R402,7m)

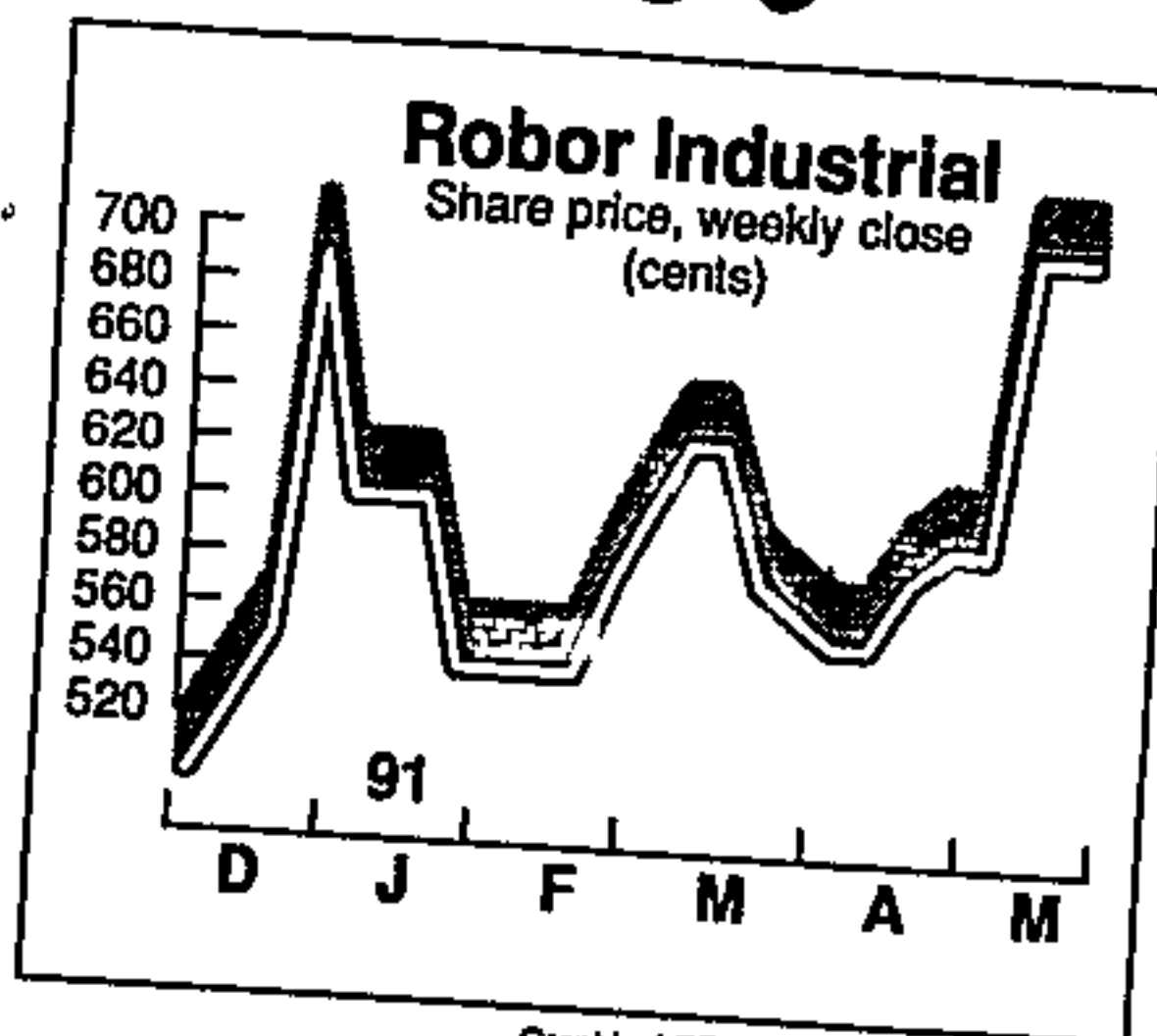
RIH MD Michael Gahagan said the decline in turnover was not strictly comparable because of the sale in the second half of last year of the Isando-based steel merchanting and processing operations of the group

He admitted that management had expected the decline

"The economic recession has had a marked effect on domestic demand for the steel industry, and specifically sales into the mining and building construction industries"

Gahagan added it was gratifying that RIH had been able to maintain market shares under existing circumstances

He said internationally most markets have been in recession at the same time but despite this RIH had been able to in-



Graphic: LEE EMERTON Source: INET

crease exports during the six month period, "albeit at lower margins"

He did not anticipate that there would be any meaningful recovery in the SA economy before the middle of next year

Market conditions would remain depressed over the remainder of the financial year. He optimistically forecast earnings for the full year to be in line with last year's 128c a share

Incorporating RIH as a wholly owned subsidiary will provide Barlows (which currently holds 83,4% of RIH), with more flexibility in aligning the businesses of RIH with its wholly owned subsidiaries

In terms of the scheme to buy out minorities and delist RIH Barlows is offering 19 Barlows shares for every 100 RIH's. At the time of the offer Barlows was trading at R41,75, putting a value on RIH shares of 793c.

Although the Barlows price has slid 140c since, the market's feeling is that it is still fair. There is also cash offer of 750c per RIH share by SA Mutual

At Barlow's current price of R40,35, RIH shareholders are accepting a deal worth 767c for each RIH share

There is also a 19c interim dividend for those shareholders registered at the end of May. RIH is trading at 700c

GIC maintains dividend payout

Monday 16/5/91 LIZ ROUSE (1892)

STEEL supplier Goldfields Industrial Corporation (GIC) posted a little changed profit for the year to March, offsetting recessionary conditions through improved efficiencies

16/5/91
Although GIC achieved a slightly higher pretax profit of R6,7m (R6,44m) on a lower turnover of R74,1m (R76,2m), a higher tax rate of R3,1m (R2,7m) resulted in a slight decline in attributable profits to R3,65m (R3,68m)

The final dividend has been maintained at 30c, making an unchanged 50c distribution for the year. Earnings a share were down a shade to 90c (92c)

GIC directors say the increase in pretax profit was largely due to improved manufacturing efficiencies, the effects of which were felt mainly in the second year-half

GIC's earnings were down 29% at the interim stage, so the company did well to pull up in the second half of the year. Strict control of operating costs was maintained and working capital has been held at a lower level

Export programmes

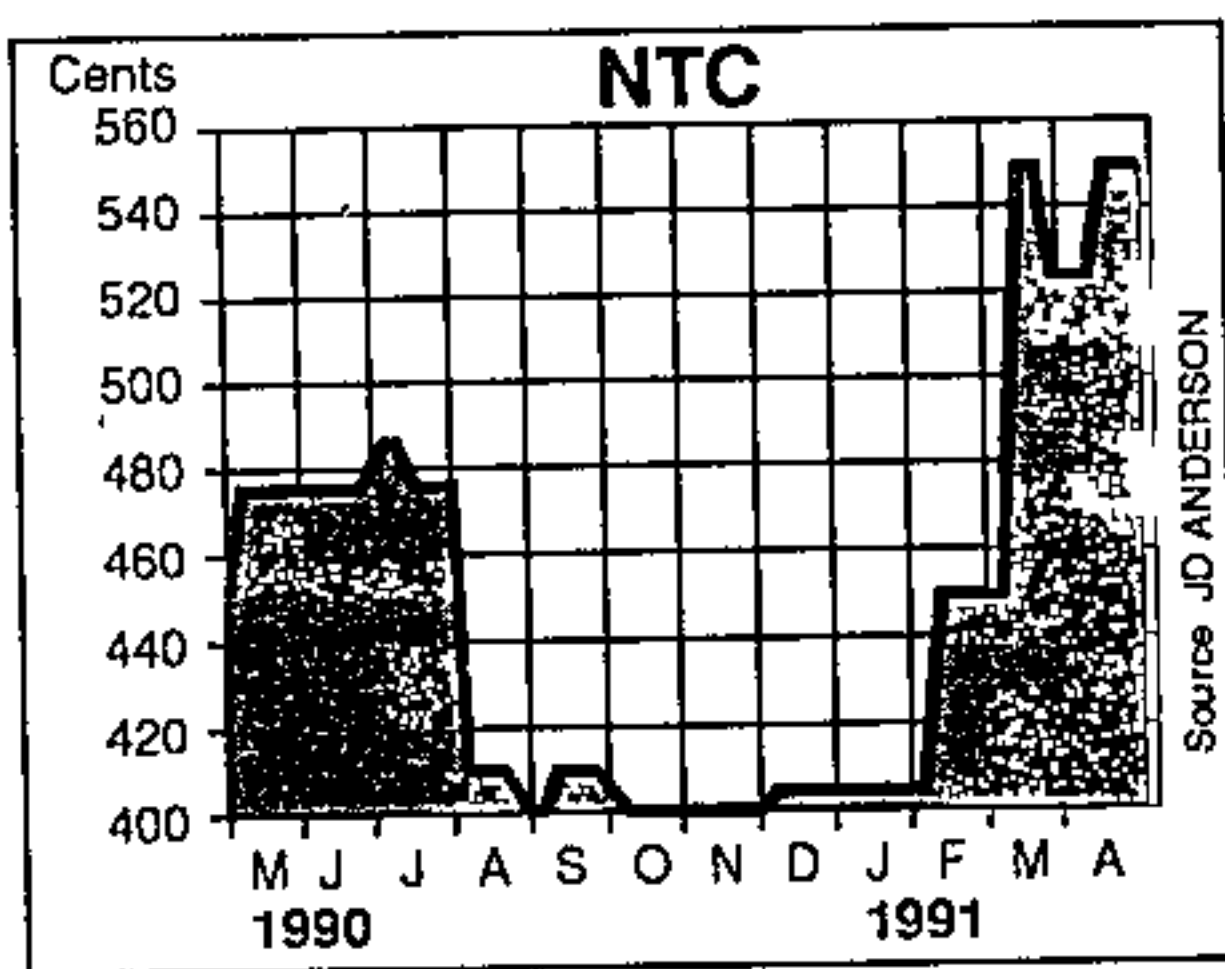
Directors say the steel-supply situation has improved and GIC is well-placed to take advantage of any increase in demand at home or abroad.

Many of its customers are involved in export programmes and GIC expects that this will continue partially to offset the likely fall in local demand

GIC shares are languishing at 350c, near the low of 300c at the beginning of 1991, and are trading on a historic earnings yield of 25,7% and dividend yield of 14,3%.

This low rating partly reflects GIC's unexciting track record and general disillusion about prospects for steel products in the past year

But given the company's performance in difficult conditions during the past year, its greater operating efficiency and sound balance sheet, this might well spell a good opportunity to buy in at the current low price level, considering that the sectors to which it supplies steel — building, automotive and packaging — are expected to start turning up later this year.



Activities: Trades in steel and allied products, manufactures electrical equipment, steel frames and plastic piping

Control: A Oppenheimer (UK) 65,7%

Chairman: D J Adler, MD M J Davis

Capital structure: 6,6m ords Market capitalisation R36m

Share market: Price 550c Yields 9,1% on dividend, 27,3% on earnings, p e ratio, 3,7, cover, 3,0 12-month high, 550c, low, 400c

Trading volume last quarter, nil

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	25,6	2,5	19,9	16,2
LT debt (Rm)	5,4	21,8	26,5	22,6
Debt equity ratio	0,62	0,29	0,57	0,30
Shareholders interest	0,43	0,46	0,39	0,38
Int & leasing cover	2,7	2,3	3,5	3,1
Return on cap (%)	11,8	12,8	16,3	18,2
Turnover (Rm)	250	320	410	503
Pre-int profit (Rm)	12,8	17,4	30,2	38,7
Pre-int margin (%)	5,1	5,5	7,4	7,7
Earnings (c)	92	75	131	150
Dividends (c)	35	25	44	50
Net worth (c)	689	664	727	832

yields of 27,2% and 9,1% Both are little changed from year-ago levels

Whatever the market's opinion, the company has reason to be satisfied with its performance Two of the more noteworthy achievements in 1990 were a sharp reduction in borrowings and the fact that profitability, as measured by the pre-interest return on total assets, continued to improve and, at 18%, was the best in several years

The improvement in profitability, and hence profit, reflected continuous benefits of the restructuring of the trading division (which has operated in partnership with Macsteel) and PVC pipe manufacturer Main Industries (merged with the corresponding division of Rocla a year earlier) This is clear from the fact that the minority interest in group profits grew by 22%, or almost one-third more than taxed profits

But in terms of return on equity (ROE), the higher gross return was negated by, firstly, higher interest charges, and, secondly, a higher tax charge Nevertheless, the fact that ROE was maintained at 18% is, in the circumstances, satisfactory

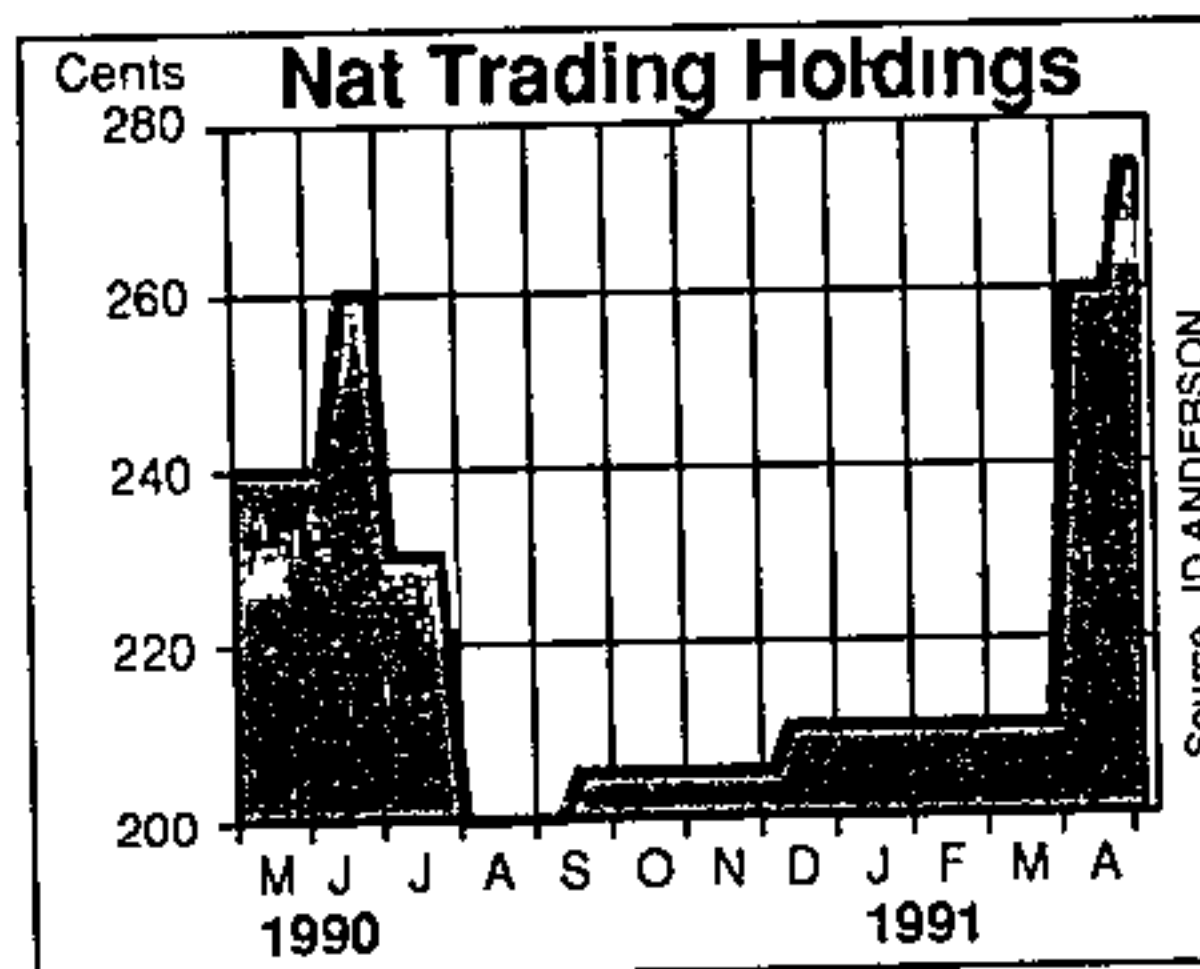
About half the R4m increase in interest charges was attributable to a R16m outside shareholder's loan becoming interest-bearing This loan is convertible into equity at the option of the group It is, consequently, permanent capital and, in terms of FM definitions, not included in debt in calculating the borrowings ratio — which largely explains

the otherwise anomalous situation of a sharp rise in interest charges in the face of an even sharper fall in the debt equity ratio

This fell by almost half, from 0,57 in 1989 to 0,30, reflecting a drop of R16,7m in net outside borrowings from R41,3m to R24,6m

The pleasing aspect is that about half the fall in borrowings was attributable to a decline in net working capital, a cause of some concern a year ago, after stocks rose 37% That the overall working capital situation has been brought under control is reflected in the fact that year-end net working capital was under 20% of sales, down from 26,4% in 1989 This, again, was the best ratio for a number of years and, if maintained, will confirm substantially improved internal controls in terms of asset management

It is probably fair to say that the group has, since its 1985 setback, developed a more solid look and is better placed to cope with current trading conditions But the directors are not optimistic about prospects this year and comment that the group will do well to maintain earnings, even though last year's improvement all came in the second half



If National Trading has indeed got its act together, the high yields could make the share a good defensive investment But limited marketability, both in National Trading and pyramid National Trading Holdings, remains a problem

Brian Thompson

NATIONAL TRADING FM 17/5/91
MORE SOLID LOOK (1898)

One might have expected the market to give at least some recognition to the real earnings growth National Trading achieved in last year's difficult environment But continuing wariness — a hangover from 1985's loss and subsequent erratic earnings pattern — is reflected in high earnings and dividend

continue

Stake for investors in Middelburg Steel

81024 29/5/91
189 B
BARLOW Rand would give investors a minority stake in wholly owned subsidiary Middelburg Steel & Alloys (MS & A) by the end of the year, MS & A Chromium MD Paddy Probert said last week.

The move would return the company to the position of the early 1980s when a minority holding in MS & A was listed on the JSE. Probert said it was likely there would be a number of shareholders and not a single minority stakeholder.

Barlows chairman Warren Clewlow said last year that because MS & A was wholly owned, the fall in its 1990 earnings had had a major impact on the group's overall results.

Until last year, MS & A had four years of buoyant profits, contributing 22% of Barlows' earnings in 1989. In 1990, its profits plummeted by R160m to R52m. The group's earnings fell 15%.

The company's profits have been knocked by the worldwide slump in ferrochrome and stainless steel demand, and problems with its refining plant. MS & A Chromium shut down four ferrochrome furnaces for repairs and remodelling last year, and experienced problems with its chrome-direct-reduction (CDR) furnace

MATTHEW CURTIN

and rotary kiln. MS & A is pioneering the use of CDR technology for ferrochrome production, which is expected to lower production costs significantly. Barlows have invested more than R260m in this.

In an interview last month with Japanese metals journal the Tex Report, Probert said even SA ferrochrome producers, the lowest on cost in the world, were "running at a deficit and the industry is becoming financially unhealthy". In MS & A's favour was its access to chrome ore from the UG2 reef. UG2 is mined primarily for platinum group metals and analysts have said it contains relatively poor grade chromite.

Chrome from UG2 was of only insignificantly lower grade, was a third of the cost of alternative supplies and chrome produced through platinum refining could be used in MS & A's plasma furnace and for the CDR process. MS & A would become the lowest cost high quality ferrochrome producer in the world, he said.

Probert said MS & A took UG2 chrome from Rand Mines Barplats platinum operation. Current negotiations over Barplats' future between Rand Mines and Gemmin would be of "strategic importance" for MS & A.

Minority stake in MS & A to be floated

BARLOW Rand has confirmed it will be floating off a minority stake in struggling subsidiary Middelburg Steel & Alloys (MS & A) as early as the first month of the 1992 Barlows financial year.

In an interview yesterday Barlows vice-chairman Derek Cooper said a minority stake in MS & A would be allocated to the market as early as October 1, but it was unlikely to be made as a public issue.

Cooper said it would likely be made in order to provide Barlows shareholders with the opportunity of some direct participation in MS & A, and therefore it was intended that MS & A be listed by distributing shares to Barlows shareholders.

He did not disclose on what basis the allocation would be made or what percentage of the wholly owned subsidiary would be listed, but added that it would be enough to be "meaningful".

BIDEN 21/5/91
BRENT VON MELVILLE

Barlows has in recent years brought MS & A through a major capital development phase and spent more than R260m in chrome direct reduction (CDR) technology which is intended to lower production costs dramatically.

However, operating problems with the CDR furnace over the past six months and the effects of a worldwide oversupply of ferrochrome and the relative strength of the rand, had served to drive MS & A Chromium into a major loss position.

Cooper said an "excellent turnaround" at Middelburg Steel's stainless steel operation had been nowhere near good enough to staunch the losses by the ferrochromium division MS & A moved into a loss position this year after showing a R50m profit last year and R92m profit at the halfway point in 1989.

Barlow Rand puts focus on minerals

Star 2115/91

By Ann Crotty

1896

Reorganisation at both Rand Mines and Middleburg Steel & Alloys should put Barlow Rand's mining and mineral beneficiation arm on a firmer long-term earnings course

If plans that are currently in the pipeline come to fruition, this division will comprise a 61 percent stake in Pretoria Portland Cement; a prosperous coal house through Rand Mines, a more promising platinum investment through some sort of merger arrangement with Gencor's Impala and, a holding of around 60 percent in MS&A.

Performance

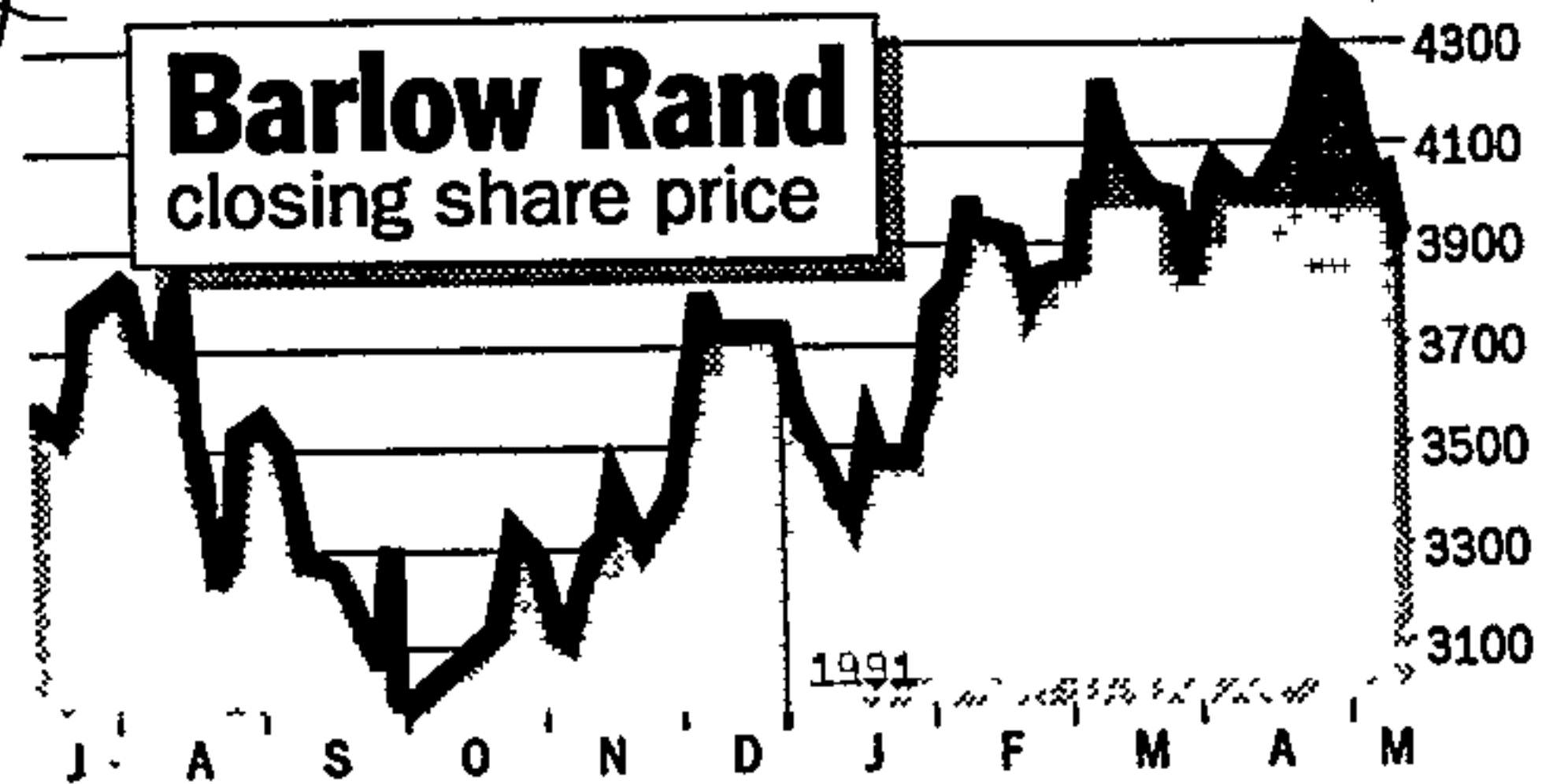
Latest interim figures again show the extent to which Barlow's overall performance is impacted by the cyclical nature of MS&A's earnings performance.

Of the R713 million (R734 million) taxed profit, the mining and mineral beneficiation interests contributed R159 million or 22 percent of the total. This represents a sharp drop on the R219 million or 30 percent contributed in the first half of financial '90.

Going further back (to what was an excellent year for MS&A), in financial '89 the mining and mineral beneficiation interests accounted for 34,8 percent of Barlow's total taxed profit.

Initial plans will see Barlow reduce its MS&A holding and get a listing by distributing some MS&A shares to Barlow shareholders during the next financial year.

Once MS&A settles in the market and a value can be established for it, Barlow will sell off a block of shares to reduce its holding to a level yet to be deter-



	6 mths to 31/3/91	6 mths to 31/3/90	% Change
Turnover (Rbn)	15.52	13.83	12
Operating profit (Rbn)	1.22	1.23	-1
Operating margin %	7.9	8.9	-
EPS (c)	187	217.7	-14
Dividend (c)	51	51	0
Share price	3950	4000	-
PE ratio	-	-	-

approximately R430 million would be required of which R320 million would be attributable to Barlow shareholders.

But as Mr Clewlow notes, by the time that this write-down has to be effected on the end-September balance sheet, the market value of whatever emerges following the negotiations could be much stronger than the current level.

Debt-yoke

Given that the plan is for Barlow mines to be rid of its debt-yoke as well as the fact that there is scope for rationalisation and improved production efficiencies in the combined operations, a stronger market valuation does seem likely.

Other contributions to Barlow's taxed profit of R713 million were industry with R151 million (R154 million); packaging and textiles with R117 million (R116 million); food and pharmaceuticals with R244 million (R211 million) and, international with R64 million (R57 million).

Looking ahead the directors note that while the major parts of the group will continue to show growth, it is not likely to be sufficient to offset the reduction in profits expected from Rand Mines and MSA. "Accordingly the results for the full year are likely to show a decline similar to that of the first six months"

mined — approximately 60 percent.

According to Barlow CE Warren Clewlow the proceeds will be put into another capital development project.

He explains that having developed MS&A into a major player in the steel and chrome markets it is now too large and too cyclical for Barlow to hold 100 percent of it.

During the review period, the R159 million taxed profit contribution from mining and mineral beneficiation was achieved despite a R17 million loss at MS&A. This represents a sharp turnaround from its R50 million contribution in the first half of '90 (In the second half of that year MS&A made no contribution.)

The reorganisation of Barlow's capital structure is expected to have a material effect on Rand Mines' net asset value. Following the reorganisation, Rand Mines intends writing down its platinum investments.

Assuming that share prices of the platinum companies remain at current levels a write-down of

Govt responds positively to Columbus submissions

GOVERNMENT has responded positively to submissions from Samancor and Highveld Steel and Vanadium that action be taken to improve the investment climate to help projects like the companies' Columbus stainless steel joint venture

Joint venture CE and Samancor director Fred Boshoff said yesterday there was "a realisation on the government's side that they will have to do something very definite to improve investment opportunities in SA"

Samancor and Highveld have been talking to government since negotiations between them and Taiwanese partner Yieng Loong aimed at starting up Columbus were suspended in September last year

Both Samancor MD Hans Smith and Highveld chairman Leshe Boyd have argued that government tax and export incentives are essential if the start-up cost of the scheme is not to prove prohibitively expensive. Boyd said this month such a move from government would put SA on a par with other countries which provided incentives such as extended tax holidays.

In their submissions to government, the companies compared the SA investment environment to that in Pacific Rim coun-

tries and Europe. He said the last budget with its cut in the corporate tax rate, reduction in the surcharge on capital imports and VAT credits for capital goods were signals of government's serious approach

He said the companies were in constant contact with government and he did not rule out the chance of a three-party meeting on Columbus in the near future

Estimate

Spokesmen for the Department of Trade and Industry would not comment yesterday on government evaluation of the Samancor/Highveld proposals

Analysts estimate the capital cost of the Columbus project at between R2,8bn and R4bn. Gencor chairman Derek Keys said this month his group's commitment via Samancor to the project was about R200m if and when it was given the go-ahead

The demise of European sanctions and the likelihood those imposed by the US and Japan will fall away soon have improved Columbus's prospects and eased the need for an overseas partner to make the project viable

189 B
B12 am 23/5/91
MATTHEW CURTIN

SA producers in legal battle over US penalty

B1 Day 24/5/91
189 3
MATTHEW GURTIN

GOVERNMENT and local ferrochrome producers are embroiled in an expensive legal battle in the US to prevent the imposition of a 3,33% retroactive penalty tariff on their exports to the US in 1989 and 1990.

Two US producers, Macalloy and Elkem, have petitioned the US Commerce Department for the tariff, claiming that SA producers had received unfair export incentives and rebates.

Consolidated Metallurgical Industries (CMI) chairman David Kovarsky said yesterday that if the duty was imposed it would not cripple the industry but the cost would be "sizeable" — up to R8,4m.

Not only were the Trade and Industry Department and the Ferro-alloys Producers' Association (Fapa) lobbying the US Commerce Department and Macalloy and Elkem, but CMI had employed attorneys to represent its own interests.

Hans Smith, MD of SA's leading ferrochrome producer Samancor, said yesterday the affair was "a storm in teacup". He estimated that if the US Commerce Department accepted the petition from US producers to slap the ad valorem duty on imports of SA ferrochrome, it would cost the industry only an extra R5,6m, a fraction of Samancor's current turnover.

However, legal costs were mounting as attorneys continued to lobby for the SA

parties in Washington. He said SA producers might be tempted simply to pay the extra costs to end the dispute.

Macalloy and Elkem renewed protests this year, claiming SA producers received unfair export incentives and rebates, after the Commerce Department announced it intended to suspend its review of penalty duties.

Metals Week, a US-based journal, reported the wrangle was becoming increasingly complicated as the SA government submitted that penalty duties should be imposed on a company rather than a country industry basis. Countervailing benefits or subsidies from the SA government ranged from 2,74% for CMI to 0,2% for Middelburg Steel & Alloys, less than the minimum assessment level of 0,5%.

The journal said Minerals, a US importer of SA ferrochrome, claimed Macalloy and Elkem had no case because neither was in commercial ferrochrome production. Minerals said the US companies were trying to bolster imports to the US of ferrochrome produced in Norway from a company now owned by Elkem.

Macalloy and Elkem had insisted they were bona fide producers and called for a country-wide penalty tariff.

BARLOW RAND

PLAN TO REDUCE VOLATILITY

FM 24/5/91

189B
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Barlow Rand has softened the bad news accompanying its 1991 interim results with its announcement of a plan to list Middelburg Steel & Alloys (MS&A). It remains to be seen whether the flotation will add value for Barlow shareholders in the short term. But the intention is to distribute MS&A shares for free, so investors could be better off once the stainless steel and ferro-alloys producer's profit has recovered.

The highly cyclical MS&A was the main bugbear for Barlow in the six months to end-March. In the full 1989 year MS&A made an after-tax profit of R216m (contributing 22% of group attributable profit), but in 1990 this dropped to R52m, with virtually all coming in the first half. In the latest six months, MS&A lost R17m, that was the main reason Barlow's earnings were down by 14%. Had MS&A been excluded, Barlow's EPS would have been up 3% — a creditable enough result at present.

When the stainless steel and chrome markets were booming, MS&A was a major driving force for the group. It benefited from hefty capital projects, including the chrome division's R260m CDR (chrome direct reduction) plant, though some of these investments have yet to achieve the hoped-for returns. However, chairman Warren Clewlow says the company now has too big an impact on Barlow's profit — in upswings and in downturns.

As a first step towards lightening the group's holding, shares are expected to be distributed in specie to Barlow's shareholders, probably around October this year. A flotation of about 20% of the issued shares would be needed to give the share a reasonable marketability. One reason for taking this route rather than listing MS&A through a Barlow rights offer, is that the profit volatility and the current loss have made the company extremely difficult to value. Another consideration is that MS&A's markets remain difficult to forecast, Barlow's management has no wish to be involved in earnings forecasts that could go awry.

Once the shares have been given to the Barlow shareholders (who of course already own 100% of MS&A), it will be up to the

stock market to place a value on the company. Later, when the performance has improved, Barlow could lighten its holding further, probably through a rights offer by MS&A. It would, however, continue to manage, and be responsible for, the company.

This plan may help to bolster Barlow's share price in the short term, though the extent will depend on whether the market feels the MS&A holding is undervalued by the present share price, and whether a separate listing will result in a markedly better valuation. Based on Barlow's current share price, Steve Rubenstein of Fergusson Bros, Hall Stewart estimates that the stock market is now valuing MS&A at around R570m, or about R3 per Barlow share.

It is probably fair to assume this is a conservative valuation. Profitability can be very good and management estimates replacement value of the assets at R1,5bn. Assuming the market capitalises a separately listed MS&A at, say, R750m, then that could add around 100c to the Barlow price ahead of the listing. As the *FM* went to press, the price had gained 150c to trade at R41 — so the market appeared to be taking a similar view. More important for investors, though, is the longer-term potential.

It seems the listing will take place when the company is at or close to the bottom of its business cycle, and the major capital programmes have been completed. Profits will remain linked to demand for stainless steel, a long-term growth market. The stainless steel operation has already seen an "excellent profit turnaround," but the ferrochromium division is in the red because of effects on exports of a worldwide oversupply and a stronger rand. There have also been operating problems with the new furnace, which presumably will be resolved.

As far as Barlow's 1991 earnings are concerned, much will depend on the second-half contribution from Rand Mines, which is forecasting lower earnings and dividends (see this page). The group is taking firm action to resolve problems in the mining division, but it is unclear how long it will be before a turnaround is achieved. Rand Mines will, if the deal with Impala is concluded, assume about R200m of Barmines' debt.

Aside from the capital requirements, Rand Mines hopes that by forming a joint venture with Impala, it will have a stake in a better quality platinum operation that could benefit from production and other synergies. Rand Mines' other non-core assets will be disposed of, leaving the group essentially a coal house. Restructuring will be expensive. Conclusion of the Impala deal will result in a R430m write-down for Rand Mines, with Barlow absorbing R320m of it.

Most of Barlow's other divisions did fairly well in the first half. Offsetting the 27% slide in the contribution to after-tax profit from the mining and mineral beneficiation division was a dip of only 3% in the industrial operations, a 1% improvement in packaging and textiles, a 16% increase in food and pharmaceuticals and a 14% advance from the international interests (helped by the exchange rate).

Management is looking for a broadly similar trend in the second half. If MS&A's second-half loss is assumed to be around R20m, that would be a considerable improvement on the steep slide to a profit of only R2m in last year's second half, and could compensate for deterioration on the mining side.

Capital spending is being curbed where possible. Even so, the interest bill is rising sharply, with the interest cover down to 3,4 times, and will probably rise further.

Clewlow forecasts that the full-year results will show a decline "similar to that of the first six months." Assuming EPS are down by, say, 16% at 390c, the current R41 share price offers an earnings multiple of 10,5. The annual dividend will almost certainly be maintained at 170c, giving a yield of 4,2%. Investors should be encouraged by the steps being taken to deal with problems. The share is now looking fully priced, but could be worth buying at lower levels, such as below R40.

Andrew McNulty

BARLOW SLIDES

Six months to	Mar 31 '90	Sep 30 '90	Mar 31 '91
Turnover (Rbn)	13,83	15,29	15,52
Operating prof (Rbn)	1,23	1,24	1,23
Investment inc (Rm)	156	298	151
Attributable (Rm)	403	453	348
Earnings (c)	217,7	244,8	187
Dividends (c)	51	119	51

Middelburg's wonder chrome plant hits snag

STimes (Bus Times) 1898
26/5/91

Business Times Reporter

Efforts to boost blacks fall down

Business Times Reporter

THE HEADS of some prominent businesses say black economic empowerment is vital, but they are not succeeding in some of their own most important affirmative action programmes

The finding emerges from a survey by Deloitte Pim Goldby Management Consultants

Executives of Murray & Roberts, McCarthy, African Bank, Premier, Malbak, Pick 'n Pay, Eskom, Nampak, Rusfurn, Dorbyl, Everite, Consol, Truworths, OK Bazaars, Sasol, Toyota and Sage Holdings were interviewed

Only two of 17 say economic empowerment is not important in their organisation

Deloitte reports that promoting blacks, helping entrepreneurs and establishing links with black power groups are among the most common empowerment initiatives taken by the organisations

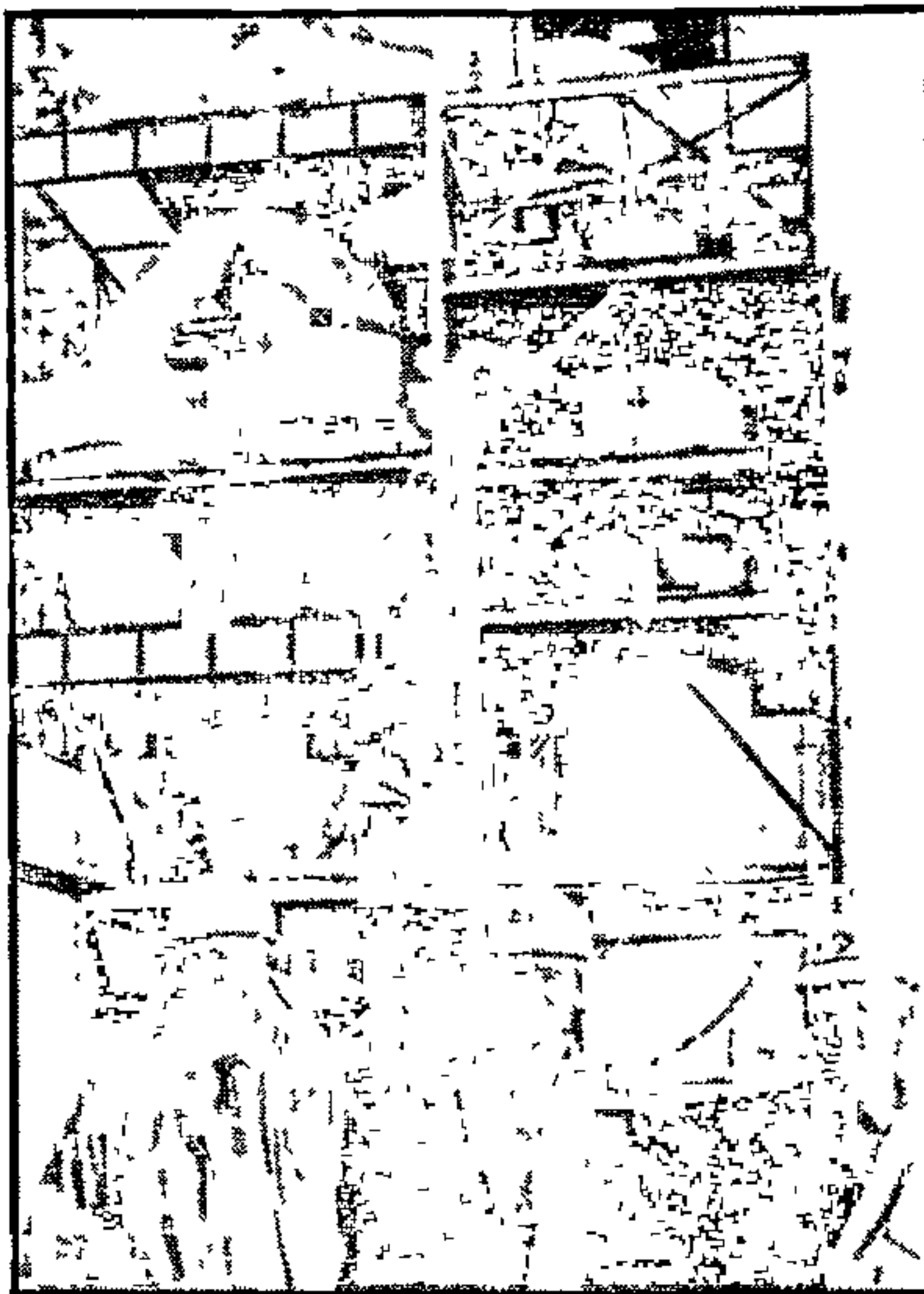
But when asked to rate their performance, most executives say they are not succeeding

Among the reasons given are lack of talent and education of the candidates, huge costs, the political climate, and the cultural gap

One respondent commented "It's being done on faith because we have to start somewhere"

With few exceptions the organisations report only moderate success with other empowerment initiatives — staff training and development, social responsibility and education of employees' children

The survey finds that the two most popular reasons for having empowerment programmes are the promotion of peace and harmony and improving relationships between different groups in and out of the workplace



TROUBLE AT THE PLANT MSA executives Paddy Probert, Keith Luyt and managing director John Gomersall

Banks under new strain

STimes (Bus Times) 26/5/91

By DIRK TIEMANN

BANKS face new cost pressures because the Reserve Bank wants them to hold more funds in reserve against loans they grant

The Deposit-Taking Institutions (DTI) Act lays down that their capital reserves must amount to at least 4.5% of bank loans and that this figure will rise to 8% by January 1995

But Registrar of Banks Hennie van Greuning has a 15% capital requirement in mind. He says 8% should be regarded as a minimum rather than a ceiling. New banks may be asked to aim for 15%. His requirement is not out of line with those in many other countries. For British banks the ratio is about 15%. Only the really big banks are allowed to hold lower reserves of about 10%, but not below 8%

Dr Van Greuning says banks have two extra years to adjust to the international standard of 8% because "they have been isolated from the rest of the world and operate in an inflationary environment, which makes capital accumulation difficult"

The DTI Act specifies capital requirements for different types of loan. No reserves need be held against loans to the Government, home loans must be backed by reserves equal to 50% of the stipulated capital requirement, and overdrafts by reserves equal to 100% of the capital requirement

This means that by 1995, a bank with a home-loan book of R100-million will have to keep only 8% capital against R50-million and not the full amount

Fear

Dr Van Greuning says adequate capital requirements are needed to protect savers because SA does not have deposit insurance

"People fear that deposit insurance will place controls on the well-managed banks, but let those with poor risk management get away with murder. I am not in favour of a public-sector deposit-insurance scheme"

MIDDELBURG Steel & Alloys is in trouble

Its new R260-million, 140 000-ton-a-year chrome direct reduction (CDR) plant that promised cost savings is idle and ferrochrome prices have slumped

Future earnings could be seriously hurt

The company suffered a R17-million loss in the six months to March 31

MS&A is unable — or unwilling — to say when production will begin at the plant. Nor is it prepared to disclose information that would allow analysts to assess the gravity of the problem and what the delay is costing

CDR is a quantum leap in ferroalloy-steel technology. The concept of CDR was attractive to MS&A because it sharply reduces production costs of ferrochrome — mainly in power use, the major cost element — relative to the conventional submerged-arc process

If CDR succeeds MS&A will become the world's lowest-cost ferrochrome producer

Slag

MSA has said that the major problem is in the second of the two-stage CDR process. In the first stage chrome ore is reduced to a metallised intermediate product in a kiln

In the second stage the intermediate product is melted in a smelter to separate the metal (ferrochrome) from the slag

The kiln stage is working well and the intermediate product can be mixed with chrome ore and used as feedstock in the conventional submerged-arc furnaces in the old plant. However, technical problems — mainly affecting the refractory lining the furnace — have forced the indefinite closure of the smelter

What is unclear is who is to blame for the smelter breakdown. Is it a design problem or is it an operational one?

There is some evidence — MS&A declines to confirm it — of a dispute between MS&A and its contractors. If true, this converts the issue from a technical problem into a wider issue with possible legal implications

Whatever the cause, earnings prospects hang heavily on the duration of the smelter closure. MS&A has a san-

guine view about the CDR process and says a four-year learning curve is normal for new technology

However, in the meantime the high overheads of the new plant and high production costs based on the old one will exact a toll

Ferrochrome is a cyclical industry. High prices, rising to nearly 80 US cents a pound in early 1989, triggered by a sustained world stainless-steel boom, resulted in overproduction of ferrochrome and accumulation of excessive stocks

Prices slumped to 50c/lb in 1990

The slump could bring long-term benefits for the SA industry through high-cost foreign producers being forced out of business

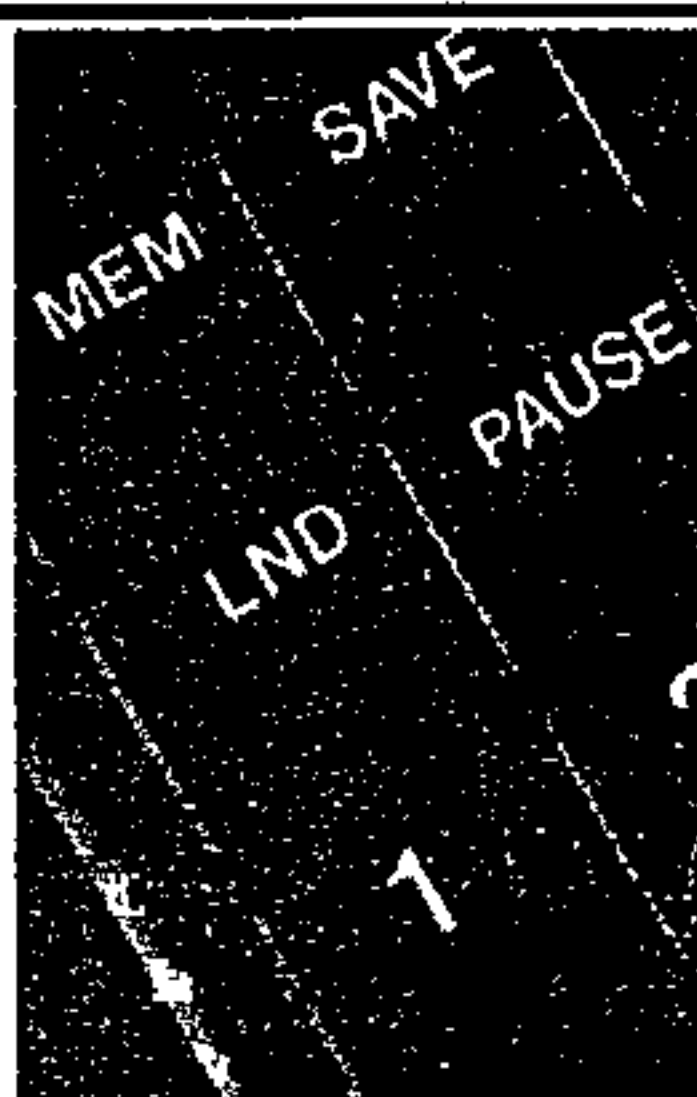
Proud

But SA producers — particularly MS&A — are having to pay dearly until recovery in demand and prices gets under way

Although world stainless-steel production continues at a high level and producers' ferrochrome stocks are falling, prices in 1991 have made only a marginal recovery to 49c/lb

MS&A has been particularly hard hit because the price fall coincided with the introduction of the CDR project. MS&A has a proud record of innovative technology. It includes the first — and still the only — stainless-steel plant in SA in the early 1960s, the introduction of a revolutionary low-cost grade of stainless steel, 3CR12, in the early 1980s and construction of the first plasma ferrochrome furnace here in the mid-1980s

MS&A is the second company in the Barlow fold — after Rand Mines — to send out distress signals. Barlows intends to float off a minority stake in MS&A towards the beginning of its 1992 year



650 jobs go as Usko plummets into red

31/04/27/5/91

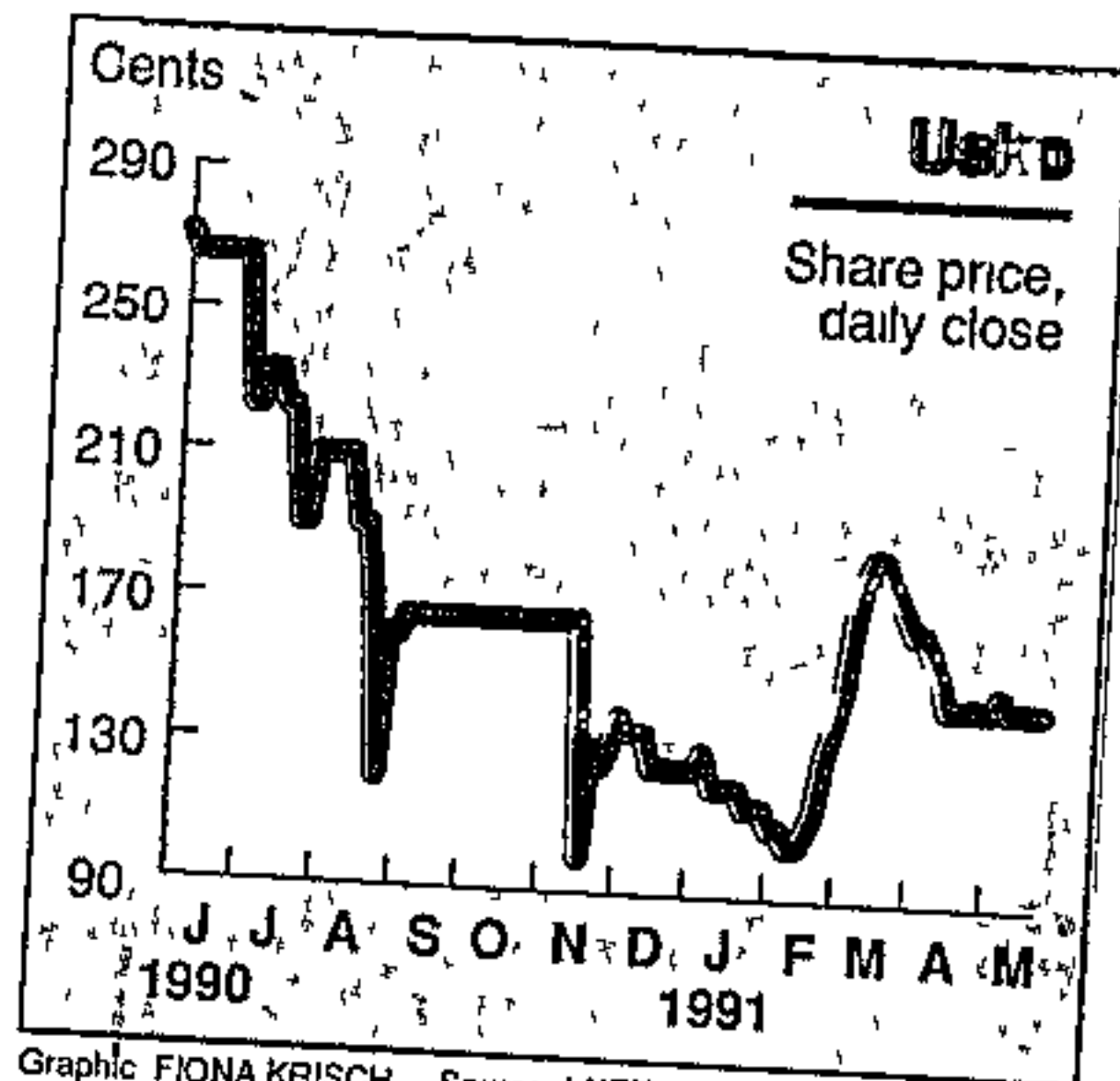
MARC HASENFUSS

STEEL manufacturer Usko was forced to cut its 3 800-strong workforce by 17% or 650 employees after reporting an attributable loss of R11,4m in the six months to the end of March

This compares with an attributable profit of R4,09m in the previous half year, and represents a R16m swing from black to red. No interim dividend was declared

The poor performance was ascribed to an R11,3m operating loss in the group's steel division, which was knocked by stock reductions, problems in the gold mining sector and curtailed arms production

Usko directors said their rationalisation programme, undertaken in April this year, would result in future annual savings of R17m. Retrenchment packages amounted to R9m. The effect of these savings would only be felt in the 1992 financial results. Although turnover remained static at



Graphic: FIONA KRISCH Source: I NET

R294m, severely eroded margins produced an operating loss of R3,4m (operating profit of R18m) for the period under review.

A R36m rise in interest-bearing debt

□ To Page 2

Usko

31/04/27/5/91
pushed the debt-equity ratio to 1,5:1.

Steel exports were increased, but directors said production costs could not be fully recovered

The profit of the non-ferrous division was well below that of the corresponding period last year

Commissioning problems at the Vereeniging vanadium plant resulted in a R20m (R4,9m) extraordinary loss. Losses after the extraordinary item totalled R31m.

The start-up problems at the vanadium plant did not allow sufficient production of vanadium pentoxide flakes, and with low world market prices, prevented the division from contributing to group income, directors said

Directors expected demand for steel products to remain under pressure during the next six months

The expected improved availability of the vanadium plant should affect group results favourably, and a rise in vanadium's current world price could further enhance results

189B □ From Page 1

However, the group will remain in a loss position for the remainder of the financial year. Directors are considering alternative measures to improve the group's financial situation, especially with its interest-bearing debt of R183m

Metkor, which holds a 28% stake in Usko, reported a healthy 43% increase in earnings to R15,7m (R10,9m) or 14c (10c), attributed to reductions in finance charges and taxation

Directors said a reduction in losses by wholly owned subsidiaries Metkor Industries and Wispeco and a satisfactory performance from major contributor Dorbyl was unfortunately offset by Usko's poor results

Earlier this year market speculation was that Usko might be delisted and sold. This was denied by Usko chairman Flores Kotzee

Usko closed unchanged on the JSE on Friday at 145c, midway between its 185c high and 105c low

in the year, well above the average nominal 1990 price

18 to 24 months' time

WB Holdings' sale 'timeous'

WB HOLDINGS' sale of its Namibian fishing interests in October 1990 proved to be timeous, says chairman Robert Silverman in his annual review

The group is now thriving on Cape fruit

Silverman says the uncertainty of an annual allocation of a viable pelagic fishing quota by Namibian authorities had long been a concern to the company. It therefore sold its entire in-

LIZ ROUSE

vestment in National Fisheries of Namibia (Natfish), a wholly owned subsidiary

In selling its interest in Natfish the group disposed of its pelagic fishing interests, including its investment in Namibian Fishing Industries (formerly SWA Fishing Industries) and all its assets in Namibia

The fruit farms thrived during the past year. De-

mand for Cape fruit was strong — thanks to frost damage to European crops — and particularly high prices were realised in export markets

The easing of sanctions and efficient participation in world markets by the industry's selling organisation also contributed positively towards the handsome returns received for WB's product, says Silverman

High export prices offset increasing costs for all machinery, materials and labour, resulting in WB's earnings increasing to 45,26c a share in the year to December 1990 from 1989's 36,38c. The dividend total is 21c

The group has acquired Boskloof Farms with its apple crop for the current season. Boskloof will increase production by 40% and help offset a marginal drop in crops of the other farms

Silverman says it is too early to assess final export prices for 1991, but doubts that the record realisations achieved in 1990 will be maintained. However, he expects WB will again enjoy good financial results this year

Changes in scrap process

BRENT VON MELVILLE

MIDDELBURG Steel & Alloys (MS & A) Stainless has appointed Tillmor as its receiving depot, quality auditor and melting batch preparer for stainless steel scrap

In tandem with its overseas counterparts, MS & A Stainless is making use of a specialist stainless scrap processor, to process the scrap into usable raw material for melting in its electric arc furnace.

Tillmor MD Paul King said in a statement yesterday that in order to provide the service required by MS & A, Tillmor had invested in additional plant and equipment and was now able to process in excess of 1 000 tons per month, representing 75% of Tillmor's total production

With the use of modern Spectrographic equipment, Tillmor is able to produce "blends" of otherwise non-usable scrap in the production of stainless steel, enabling MS & A Stainless to use almost all grades of nickel bearing alloys as a raw material.

Germany's door ajar for Eskom

ESKOM is on the verge of signing a formal management agreement

BRENT VON MELVILLE

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Own Correspondent

JOHANNESBURG — The SA steel industry has been forced to push marginally profitable exports up dramatically to compensate for lagging domestic demand in the past year, with the result that profits have been slashed to the point at which the industry is facing one of its worst crises.

Reflecting the current problems in the domestic market are the recent results of Usko, which plunged into a loss in the six months to March and, was compelled to cut 650 employees from the 3 800-strong payroll.

More germane to the larger steel producers such as Iscor and Highveld is the fact that the international-

al price of flat steel products has been on a steady downward trend since the 1988/1989 price boom.

Free-on-board (f o b) prices of flat product have dropped from boom levels of \$380 a ton to about \$300 at present.

Industry spokesmen say the fact that the major steel producers have been pushing up exports should ring warning bells for other reasons.

“The primary function of the industry is to supply the domestic

market, but because it has to try to underpin costs on the local market, the industry is selling steel on overseas markets for practically no mark-up.

Added to the equation has been the relative strength of the rand against the dollar.

Secretary of the SA Rolled Steel Producers Co-ordinating Council Johann van Zyl pointed out that EC sanctions on steel were still in place in spite of the general belief that they had been lifted.

Steel industry faces crisis

189 BCT 29/5/91

Iscor, which accounts for about 80% of SA's total production, has increased its exports to 45% of total sales at present against about 32% in the last financial year ended June 1990.

A company executive estimated unofficially that because of the marginal profitability of exports this financial year's earnings were expected to be “significantly” lower than last year's.

Highveld Steel & Vanadium GM (marketing) Jeff Chegwidde said domestic demand had been affect-

ed by an inventory build-up in November and December in anticipation of the 14.5% January price increase. He said a rundown of those inventories should help lift demand in the second half of the year.

Iscor spokesman Piet du Plessis warned, however, that because of the prevailing market conditions, Iscor could not rule out a further price increase by the end of the current year.

Highveld was not expected to be as affected by the declining fortunes of the steel industry as Iscor, as it is buffered by its specialist metals, which include vanadium materials, ferro-silicon, ferro-manganese and silico-manganese.

Steel industry crisis looms

Bloom 29/5/91
SA's steel industry has been forced to dramatically push up marginally profitable exports to compensate for lagging domestic demand during the past year, slashing profits to the point at which the industry faces one of its worst crises

Usko's recent results reflect domestic market problems. The company plunged into a loss in the six months to March and was compelled to cut 650 employees from its 3 800-strong workforce. Usko said problems in the gold mining sector, and curtailed arms production, lay behind its profit collapse.

More germane to larger steel producers such as Iscor and Highveld is the fact that the international price of flat steel products has been on a steady downward trend since the 1988/1989 price boom. Free-on-board prices of flat products have dropped from boom levels of \$380 a ton to

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BRENT VON MELVILLE

about \$300.

Industry spokesmen say the fact that major steel producers have been pushing up exports should ring warning bells for other reasons.

"The primary function of the industry is to supply the domestic market, but because it has to try to underpin costs on the local market, the industry is selling steel on overseas markets for practically no mark-up. Added to the equation has been the relative strength of the rand against the dollar," said one.

A market analyst warned that even if sanctions were lifted in the short term, it was unlikely that SA steelmakers could recapture their more lucrative markets as most were in recession.

□ To Page 2

Crisis looms

Bloom 29/5/91
Reflecting the downturn, the EC produced 136,5-million tons of steel last year, about 6% down on 1989's production.

The SA Rolled Steel Producers' Co-ordinating Council said SA produced 8,7-million tons, or 1,1% of the world's total production of 769,6-million tons of crude steel, in 1990. The domestic market absorbed 4,3-million tons of final primary steel.

Iskor, responsible for about 80% of SA's total production, has increased its exports to 45% of total sales against about 32% in the financial year ended June 1990. A com-

(189)B □ From Page 1
pany executive said because of the marginal profitability of exports, this financial year's earnings were expected to be "significantly" lower than last year's, and a further price increase this year could not be ruled out.

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USKO

DEEPER AND DOWN

Poor results from steel producer Usko for the six months to March are pretty much as expected by analysts, except for the costs of continuing problems at the vanadium pentoxide plant

But the outlook is bleak. All Usko has going for it is its nonferrous division. Steel markets in SA and abroad will stay under pressure in the second half and chairman Floors Kotzee does not expect the vanadium plant to move into the black. That means Usko will show an overall loss this year.

An operating loss of R3,4m (six months to March 1990 — R17,7m profit) reflects a meltdown in markets for steel in SA, where demand from the gold mining and armaments industries plummeted and most customers opted to run down stocks. That forced Usko to shift more product to the export market, where it was sold at a loss. Kotzee says it was preferable to sell steel at prices that made some contribution towards fixed costs rather than cut back on production.

Commissioning losses on the vanadium plant were R20m, making a cumulative total of R30,8m. There is more to come in the second half, though Kotzee says losses will be reduced.

The reason is mechanical and electrical problems on the pelletising plant, which was converted to a vanadium ore roaster. Kotzee says the process to produce vanadium pentoxide flake works fine, but teething problems hit availability.

These have been resolved but the plant is still on a running-in curve. Kotzee rules out any suggestion of closing the plant.

Shareholders may well feel R30,8m losses are more than just teething problems. Cracking the vanadium business has turned out a lot tougher than management expected when it decided to go for it about two years ago.

The group has had to lay off about 600 workers, which should save about R17m annually, though retrenchment costs this year will total R9m. Benefit of the savings will

only come through in the next financial year. That leaves Usko with a serious gearing problem. Debt hit R182m at end-March, from R154m at end-September. Kotzee says the group has a plan to deal with this but details will only be divulged by end-June. Market conditions and the poor results

MELTDOWN

Six months to	Mar '90	Sep '90	Mar '91
Turnover (Rm)	294	319	294
Pre-tax profit (Rm)	17,8	8,6	(3,4)
Attributable (Rm)	5,5	(1,5)	(11,4)
Earnings (c)	14	(10)	(41)
Dividends (c)	—	—	—

appear to rule out a rights issue, and the major shareholders may not be keen to pump in more funds through another pref issue. That leaves a sale of assets as an option, perhaps Usko may dispose of some marketing operations or stakes in joint ventures like Transvaal Copper Rod or Alustang.

Given the certainty of another passed dividend for the year, the share could well dip from current levels around 145c. Investors should wait until details of how Usko intends dealing with debt are announced before even thinking about buying the share as a recovery stock.

Brendan Ryan

KLIPTON

FM 31/5/91

MORE SECURITY

189 B

Industrial group Kipton is to issue a further 700 000 shares, in order to raise R2,5m to fund its acquisition of an 80% stake in security firm Sandton Sentry.

Kipton joint chairman Nigel Matthews says the shares will be placed with several undisclosed investors. The price of the shares has yet to be agreed upon and the Sandton Sentry purchase will include some cash, says Matthews. The share is currently trading at 335c.

The purchase price of the 80% stake in Sandton Sentry could reach as high as R3,9m if management, which holds the remaining 20%, exceeds first-year profit targets. The acquisition is to take effect from March 1.

Matthews says management opted to pay for the acquisition by a share placement rather than by borrowings in order to avoid further extending the balance sheet. Gearing at the December interim was 58% and is expected to be at similar levels at the June year-end, he says.

Kipton's security subsidiary, Austen Safes, last year contributed about a third of the group's R88,9m turnover and R8,7m pre-tax profit. Sandton Sentry, which provides armed response and electronic surveillance services to domestic and commercial properties in Johannesburg's northern suburbs, generated after-tax earnings of R512 000 in the year to end-February.

More important, the acquisition will propel Kipton into the fast-growing electronic security market. Matthews says Kipton will be able to provide a much broader range of security services.

The effect of the increase in issued shares on EPS will be negligible, says Matthews, though NAV (173c at December 31) will drop by 8c a share.

Simon Cashmore

Price battle looms for ferro-alloy producers

Blouay 6/6/91

189B

SUMMER holidays in Europe which create traditionally dull international markets in the June quarter will work against SA's ferro-alloy producers winning better metal prices in price-setting negotiations later this month

However, the prospects for ferrochrome are rosier than those for vanadium, analysts said yesterday

Simpson McKie analyst Hennie Vermeulen said there was considerable downward pressure on the ferrochrome price, which at US 49c/lb had moved 2c in nine months

"Increased ferrochrome demand was not all there yet" as international demand for stainless steel had proved static

Desirable

However, with the exception of Consolidated Metallurgical Industries (CMI), which had six months or 40 000 tons worth of production in reserve, stocks at Samancor, Middelburg Steel and Alloys and at Chromecorp Technology were below 50% of "desirable capacity"

He said Samancor was pressing its SA competitors to set a more competitive price in the June quarter. These factors "may push the ferrochrome price to 51c/lb". He said SA producers were keen for the price to reach the 56c/lb mark, a price at which they would be making comfortable profits — at the moment most are at best breaking even — without triggering increased overseas supply

Samancor is the world's largest ferrochrome producer and as such has been hit hardest by the weak ferrochrome price which stood at about 80c/lb two years ago. Samancor's interim earnings dropped 44% as turnover fell by almost R250m to R871m, and analysts say there is unlikely to be an improvement by year-end June

Edey Rogers analyst Peter Hibberd said yesterday the differential between the spot

MATTHEW CURTIN

and contract price for ferrochrome had all but disappeared in the March quarter. Any upward pressure on the price was likely to be offset by the sluggish market conditions in the next three months

He said prices would benefit from the rand's recent depreciation against the dollar — metal prices are set in dollar terms — and the ferrochrome price and sales volumes combined to determine the sector's profitability

CMI's new furnaces brought on stream through the acquisition of Purity Metals in September last year were working well. In contrast, Middelburg Steel and Alloys, faced with continued problems with its advanced chrome-direct-reduction technology, was buying ferrochrome on the open market to meet demand.

Analysts said the vanadium market was in "disarray". Highveld Steel and Vanadium, responsible for 48% of world vanadium production, had only one furnace operational which had reduced international supply already hit by the closure of Rand Mines' Vansa Vanadium and despite the entry of Usko in the market

Vermeulen said Highveld had cut back production as prices remained low and was likely to cut its June quarter price to \$2.95, back at the December quarter level, upped against market trends for the current quarter

Other analysts said the huge difference between the vanadium pentoxide spot price of about \$2.25/lb and Highveld's current price of \$3.10/lb was important because spot prices tend to be a leading indicator

Highveld followed the same policy as the ferrochrome producers in equalising the difference between the spot and contract price by offering discounts on high volume contracts

Share issue to pay part of CMI debt

189B
B/ pay 10/6/91

FERROCHROME producer Consolidated Metallurgical Industries (CMI) is to repay part of its \$43,5m foreign debt with a R100m issue of preference shares

The move is seen by analysts as representing a pessimistic view of ferrochrome's immediate market prospects

CMI's authorised capital is to be increased by 30-million preference shares with a nominal value of 105c each. A portion will be offered to ordinary shareholders. Offer terms have still to be decided.

At present CMI's authorised capital is 52-million ordinary shares, of which 42,5-million are in issue.

The company inherited the foreign debt when it bought Purity Chrome for R181,3m last September. The acquisition added 120 000t to CMI's 210 000t annual ferrochrome capacity. After the purchase, CMI's installed capacity represented 10% of the world's total.

An analyst said the rights offer was not

ANDREW GILL

surprising because of the generally poor outlook for the ferrochrome market.

Trading conditions were tight and the company was suffering the effects of reverse gearing.

Chairman David Kovarsky cited the combination of the cost of servicing the acquisition and the depressed ferrochrome market for the interim bottom-line loss of 35c in the six months to December. Earnings totalled 167c a share in fiscal 1990.

Interest payments increased substantially after the acquisition, jumping to R12,6m (R160 000 the previous year).

Shareholders will vote on the capital increase at a general meeting on June 26. The notice convening the meeting said the proposed increase in authorised capital left room for further preference share issues if needed at a later stage.

'Steel protectionism necessary to save jobs'

8/0 am 13/6/91
 THE SA Rolled Steel Producers Council has fired the latest salvo in its row with the Independent Wire Converters Association by claiming that easing import protection will cause thousands in the steel industry to lose their jobs

The Steel Producers Council's recent appeal to the Board of Trade and Industry (BTI) for extra tariff protection against dumping came under harsh criticism by the association and other local merchants, who filed an objection with the BTI stating that heightened import duties would only disadvantage the industry further

Council chairman and Iscor MD Willem van Wyk yesterday responded by saying protection was particularly important because of the present high rate of unemployment "Every ton of steel indiscriminately imported places the job security of SA employees in jeopardy"

He said protectionism was necessary to protect the roughly 600 000 jobs which were directly or indirectly dependent on the primary steel industry

Wire Converters Association chairman Robin Bosomworth has said that if the BTI accepted the council proposals, the price of

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 BRENT VON MELVILLE

wire rod would land at double Iscor's export price, leading to domestic price hikes and the elimination of competition

Bosomworth said Taiwanese manufacturers could land steel products in SA, manufactured from Iscor steel, cheaper than a local manufacturer could buy his steel from Iscor. He believed the existing formula duty system, instituted when quantitative protection against steel imports was abolished in 1985, was flawed and should be phased out, rather than adjusted for inflation and exchange rates, as the council proposed

Van Wyk said the duty was by no means a local phenomenon. It was common practice worldwide to protect primary industries against "unfair" trade practices

Van Wyk said that at present world demand for steel was about 15% lower than available capacity, and steel producers were attempting to sell their steel in other countries at a marginal price level lower than normal price levels

All steel-producing countries had imposed protection for their local industry against unfair trade practices, he said

COMPANIES

Green future is good for ferrochrome

FERROCHROME producer Consolidated Metallurgical Industries (CMI) should benefit from the increasing focus on environmental issues, according to a Davis Borkum Hare brokers' report.

Most ferrochrome is used in the making of stainless steel, demand for which is expected to increase because of its resistance to corrosion and a perception that steel enhances appearance.

6/10/91
13/6/91. Welcomed

The demand for stainless steel is projected to grow at between 3.5% and 4% a year in line with historic growth

Analysts have welcomed CMI's moves to reduce its gearing after the Purity Metals acquisition

CMI this week announced it was to hold a preference share rights offer.

Through the rights offer, CMI is proposing to raise approximately R100m which is to be used to repay a major portion of the company's debt.

Further details of the offer are still to be published and at this stage the market is uncertain as to whether the shares are to be redeemable or irredeemable.

WILLIAM GILFILLAN

The group's fortunes are largely dependent on the ferrochrome price and the report considers that any price below 55c a pound will not sufficiently "compensate the industry"

Analysts cannot quantify to what extent the heightened demand for steel spurred by the environmental lobby will push up the ferrochrome price. The price now stands at about 49c per pound

Following the 35c a share loss at the interim stage (1990 107c earnings), results for the 12 months ending June are expected to be in the red

As a result of this expected loss and further tax allowances on plant, CMI is "unlikely to pay tax until 1995/1996 at the earliest"

CMI's Lydenburg plant is one of the world's lowest-cost producers, but the acquisition of Purity Chrome and Purity Metals offset this advantage as production costs at the acquired operations are higher. The acquisition of Purity has increased CMI's production capacity to about 10% of the world's supply

CMI

RAISING FUNDS

Consolidated Metallurgical Industries (CMI)'s plans to raise about R100m through a rights issue of preference shares has so far done little to improve investor sentiment towards the share. Last week it stood at 875c, down from the 12-month high of 1 325c set last July, but it shed a further 75c after the rights issue plan was announced.

While the capital injection should substantially relieve CMI's debt burden, there is little indication yet that the ferro-chrome market is ready to turn upwards. Product prices have improved slightly from the low levels seen last year, but the market remains depressed and analysts are generally cautious on the outlook.

When CMI issued its interim results for the six months to end-December, it became clear that financing costs had become a considerable drain on cash. The December 31 balance sheet showed a total borrowing of R176,8m, of which R116,3m was long-term loans — the rand equivalent of the US\$43,5m loan that CMI took on to its balance sheet when it acquired Purity Metals last year — and a short-term facility of R60,5m.

Interest of R12,6m was paid in the six months to December, and the group swung from an attributable profit of R45,3m in the 1990 year's interim, to a loss of R14,7m. At bottom line, there was a loss of 35c per share, and the interim dividend was passed after the distribution of 35c per share a year ago.

Aside from the tough market conditions and the interest charge, the group also had to cope with the commissioning of Purity's new Rustenburg plant. The interim report noted that inefficiencies in the plant caused higher than normal unit costs. It was expected that this would be rectified within the next few months.

Director Vaughan Bray says that while the intention is to use the proceeds of the rights issue to repay debt, the dollar loan will be retained. However, it is expected that CMI's debt equity ratio will drop to around 50% after the issue.

The decision to go to the market for additional equity capital now presumably indicates that management believes the ferro-chrome market has bottomed, and that the technical problems are being resolved.

However, most of the additional equity capital will be contributed by the major shareholders. JCI, which owns 49,9% of CMI's equity, and Anglo American Corp, which has a further 26,4%.

After capital investments and the Purity acquisition, CMI now has an annual ferro-chrome capacity of 300 000 t, representing about a tenth of the Western world's supply, and it is reputed to be the world's lowest cost producer. When the market does recover, the group should enjoy a sharp upswing in profitability, but when that will happen is anybody's guess.

Andrew McNulty

Ferroalloys lose State assistance

189/B

S/Times (Bus/Times) 16/6/91

FROM the end of next year the ferroalloy industry will stand alone without government subsidies — except for decentralisation benefits for some producers

Tax allowances on marketing expenses available under the Income Tax Act will fall away at the end of March 1992. The power rebate scheme, initiated in 1977, will lapse at the end of 1992.

Furthermore the ferroalloy industry is excluded from the general export incentive scheme (GEIS), which is aimed at encouraging the export of beneficiated manufactured products with a high local content.

South African Ferroalloys Producers' Association (FAPA) secretary Michael McDonald believes the power rebate scheme has been spectacularly successful. SA's exports of ferroalloys tripled between 1974 and 1990, from 600 000 to 1.8 million tons.

It is doubtful whether the huge investments in production capacity would have been made without the incentive of the scheme.

The scheme involves the payment of rebates on power consumption — the major cost element in ferroalloy production — on the basis of

By IAN ROBINSON

the tonnage exported. Initially the rebate was set at 30% of the cost of the power used in the production of alloys for export.

The percentage was raised in stages to 45% in 1982. After 1982 it was reduced in stages to 30% in 1985.

The Government's commitment to this scheme has wavered in the past three years. Payments are made from the budget allocation of the Department of Trade and Industry for "refinement of base minerals".

Reduced

The allocation has varied from year to year, but has usually been sufficient to cover claims by the industry.

However, in the past three years the allocation has not fully met claims. In the 1989-90 budget the allocation was nearly R160-million. It was reduced to R140-million in 1990-91.

The Government has justified its reduced commitment to this scheme on the grounds that the ferroalloy industry no longer needs assistance and there are more important priorities elsewhere.

FAPA counters that the industry was built up on the

basis of State support and, irrespective of arguments, the Government made a commitment and should honour it.

Opinion is divided over whether the industry will need some form of protection. Two senior executives of ferroalloy producers believe that the industry is sufficiently mature to stand on its own.

They claim some producers abused the scheme and used State funds to fight among themselves. This competition forced export prices down to unnecessarily low levels, costing the industry millions in lost revenue.

Mr McDonald concedes these points, but is concerned that the industry should have a "safety net" to carry it through bad times. The industry is vulnerable to forces beyond its control because cyclical swings in demand in the northern hemisphere determine export demand.

Share

SA producers compete with producers in other countries which receive generous state assistance. It is essential that SA producers receive sufficient assistance to maintain market share in bad times. Once lost, market share is difficult to regain.

FAPA is looking at possible schemes for protection and has had preliminary discussions with Eskom about the possibility of linking power costs with alloy export prices.

In view of its excess capacity Eskom may be amenable to such a proposal.

Stainless-steel boost on the way for CMI

S/Times 16/6/91 *189 B (Burs Times)*

STAINLESS-STEEL production should pick up in the fourth quarter of 1991, says the new chairman of Consolidated Metallurgical Industries, David Kovarsky

This is good news for South Africa, the world's largest supplier of ferrochrome

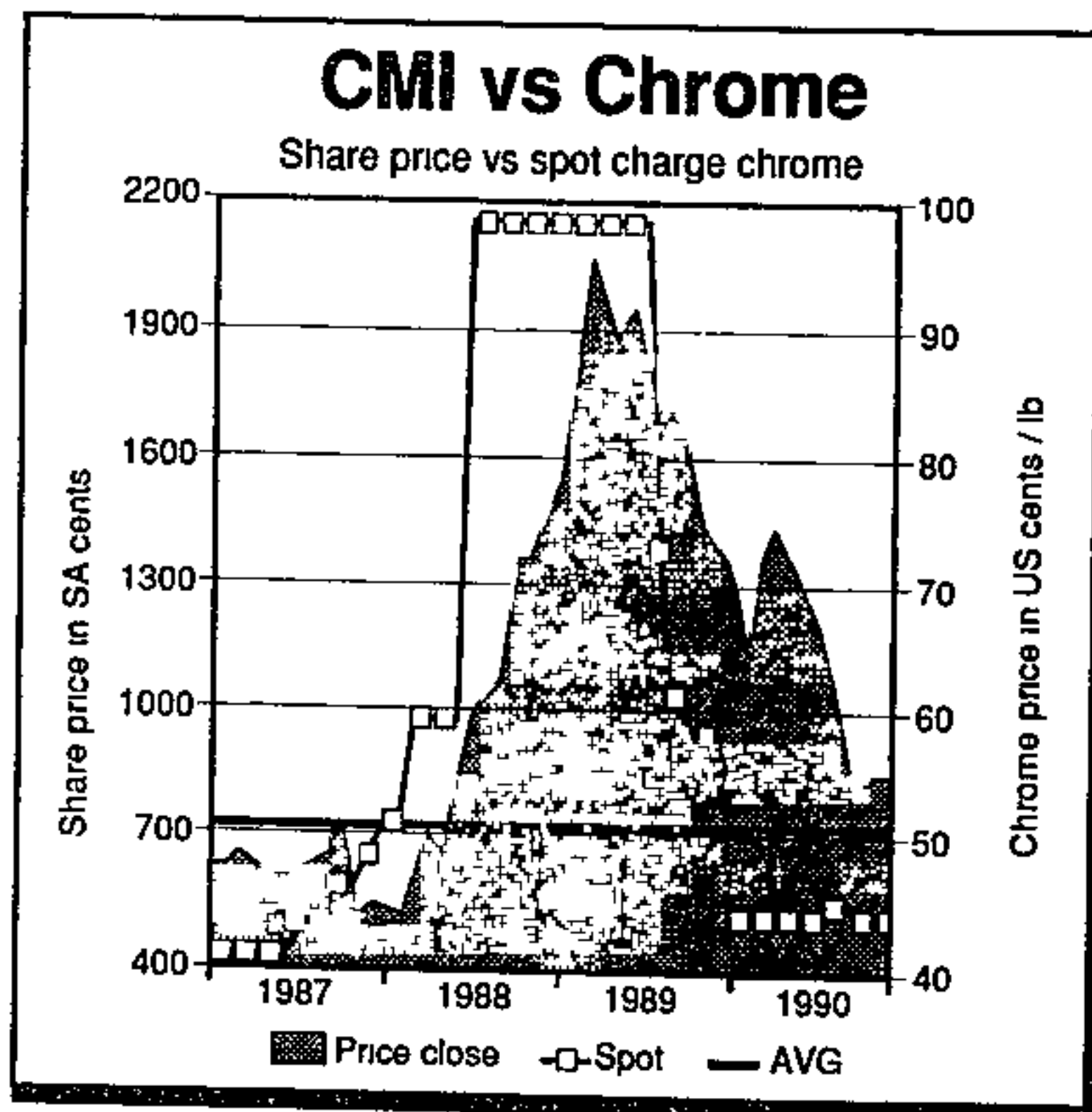
No doubt CMI is particularly pleased. Last year it added 120 000 tons to its then capacity of 210 000 tons through the purchase of Purity Chrome and Purity Ferrochrome near Rustenburg. It can now supply a tenth of the Western world's requirements.

The cost was R181,3-million, which CMI now seeks to fund in part through an issue of convertible preference shares to ordinary shareholders.

The Purity decision was taken when ferrochrome prices were declining. In retrospect it turns out that the price had almost bottomed.

Mr Kovarsky, who has just returned from abroad, believes prices will firm slightly in the second six months of 1991.

CMI will use the breathing space to take down one of the



three furnaces at Lydenburg for maintenance in July and August.

It is believed that other SA producers have not been operating at full tilt because of technical problems and market conditions.

This means that they will not have built up significant stocks which might otherwise have kept prices down. Stocks were low in 1990.

The posted price of ferrochrome is 49 US cents a

pound. Mr Kovarsky says the spot price is about the same.

Paying R181-million for a fully operational mine and commissioned capacity of 120 000 tons could turn out to be a bargain.

CMI undertook internal expansion of 40 000 tons through the installation of a third furnace, commissioned 18 months ago. That came at a cost of about R55-million. In other words, virtually no

premium was paid for the finished goods.

Investors should not expect too much for the year to June 1991. Outgoing chairman Barry Davison, who is now devoting his energies to platinum, said in the 1990 report that recovery in ferrochrome prices tended to lag behind that of stainless steel.

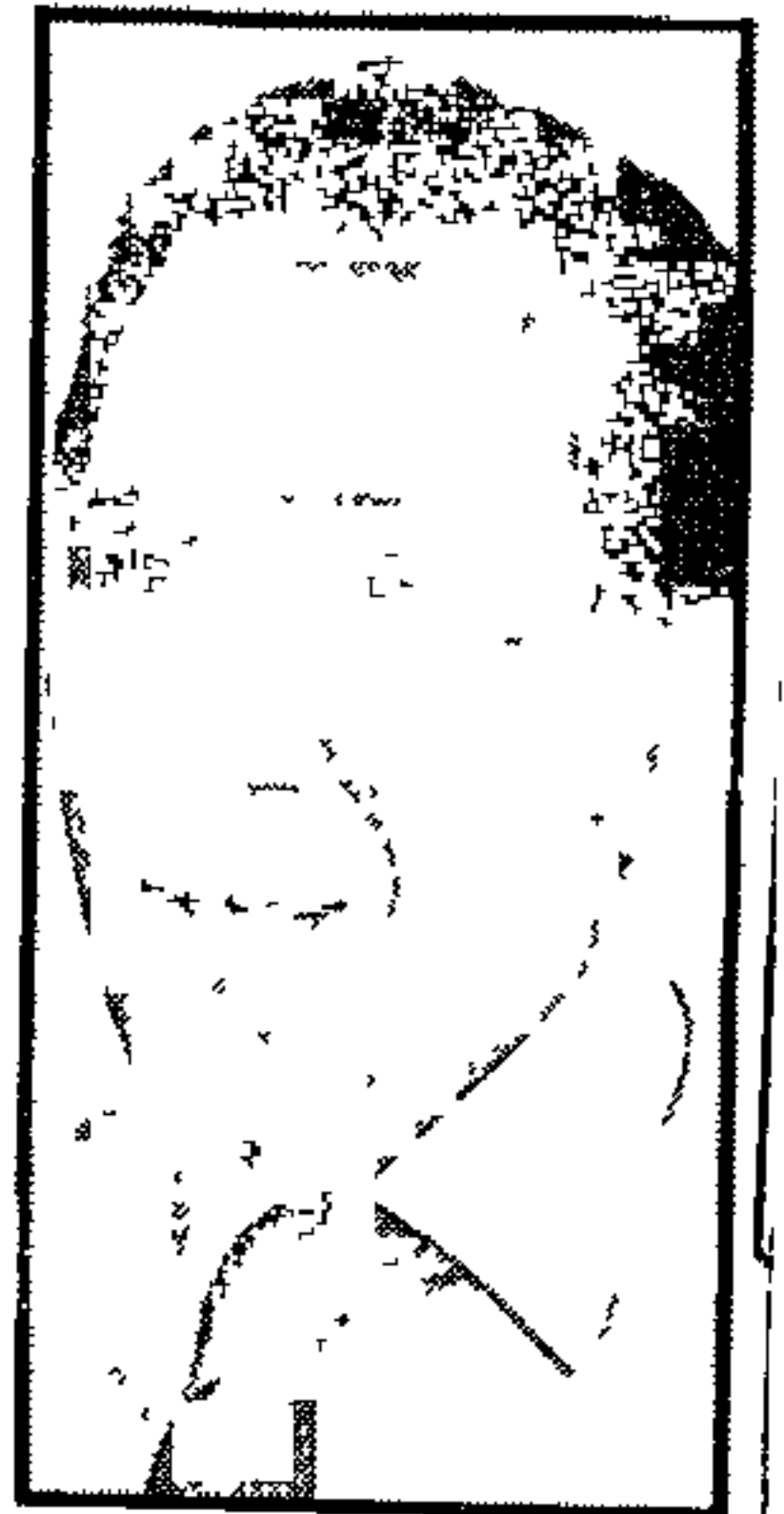
The report, dated September 17, 1990, said prices had dropped to 47c a pound, at which 750 000 tons of capacity outside Southern Africa became unprofitable.

Mr Kovarsky confirms that foreign producers have shut down some capacity.

SA producers are the world's cheapest, and CMI's Showa Denko process at Lydenburg makes it one of the most cost efficient.

Analysts expect a loss from CMI in the year to June 1991 because of depressed prices and a high interest bill. But next year will be better.

CMI will raise R100-million of permanent capital to replace much of the debt incurred at the time of the Purity acquisition. The purchase was funded from internal resources and by CMI's assuming Purity's liability.



DAVID KOVARSKY Bargain buy

of CMI, is to renounce its entitlement to the offer in favour of its members.

The last day to register for CMI's offer is June 28.

Analysts' opinions differ about the merits of CMI shares.

One says they are cheap at R8, but believes Samancor offers a lower risk because of its wider product range.

Another counters that CMI's prospects are better than Samancor's. He says that buying CMI today will yield rewards.

The share price dived from R13,25 last July to 610c in March, and has been to R9 recently.

Both analysts agree that ferrochrome prices will rise and have a significant effect on CMI's earnings, as will depreciation of the rand against the dollar. Stainless-steel production is expected to resume growth at more than 3,5% a year.

I believe that in this kind of buoyant market, nothing remotely of good quality or potential will be left behind for too long. It's a chance, but one to be taken by the gutsy.

● CMI has spoken to Rand Mines about buying Vansa's Winterveld chrome mine, which supplies the Lydenburg plant. Mr Kovarsky has been told it is not for sale.

Steel tariff protection dispute intensifies ¹⁸⁹⁸

THE dispute between steel producers and wire converters about tariff protection for the producers intensified last week ahead of an imminent ruling on the issue by the Board of Trade and Industry (BTI)

Last week's claim by steel producers that thousands of jobs would be lost if import tariffs were not increased prompted a response by the Independent Wire Converters Association.

It said in a statement increasing protection was inflationary and would fly in the face of government-stated objectives of greater international competitiveness, stimulating manufacturing, competition, job creation and beneficiation for export

Wire converters believe a BTI decision against granting a request by the SA Rolled Steel Producer's Council to update the formula duty system would be of considerable significance to the industry and would indicate the extent of government's commitment to economic liberalism and reform.

But the council believes the formula has to be updated to prevent foreign dumping of steel in SA.

Council chairman and Iscor MD Willem van Wyk said it was "unthinkable" that the SA government could allow countries that impose sanctions against SA to dump steel. If the appeal to update the formula failed, it meant government was effectively sanctioning dumping.

Van Wyk warned it would mean disaster for the industry and the loss of thousands of jobs if the legislation were dropped altogether

He was not aware of the actual amount

BRENT VON MELVILLE

of steel dumped in SA, but said it was happening more and more as world over-capacity loomed

Independent Wire Converters' Association chairman Robin Bosomworth said the formula duty was already excessive and the protection levels applied for on wire rod indicated a strategy to gain higher steel prices and to eliminate discounting and smaller competitors

The association has now formally applied to the BTI for the formula duty and import permit controls to be scrapped. The formula duty was abandoned in 1985 but was resurrected recently after representations by Iscor to the BTI to ban a Brazilian shipment of steel which was originally intended for Iraq but was diverted to SA

Justification

Bosomworth said Iscor's argument that thousands of jobs would be lost in the steel industry if the tariffs were lowered was absurd, and that "what is really cutting jobs is the uncompetitive situation created by protectionism"

"They are desperately trying to get justification for what are ridiculous and blatantly high domestic prices," he said

He added that if government accepted the R1 240/ton free-on-board reference price applied for on wire rod, then the domestic price due to import price parity would rise to more than double the export price of R725/ton, further putting local industry at a disadvantage

Iscor's foreign earnings 'set to soar'

ET 18/6/91

1898

Own Correspondent

PRETORIA — Iscor's policy of upgrading and adding value to a whole range of products — now being implemented — will help boost the corporation's foreign earnings significantly, Iscor's planning manager Hans van Vuuren said yesterday.

He said current development projects involving value added products would mean additional marginal income of about R122m a year.

Currently being commissioned was a new R132m electro-deposited chrome line for tin-free steel with a capacity of 120 000 tons a year.

The new plant would eliminate the need to import the 9 000t of tinplate each quarter.

There would also be scope for exporting tinplate and tin-free steel.

On the effect of low cost housing on demand for Iscor products Van Vuuren said

the shortage of housing alone was currently estimated at 800 000 units. This translated into a potential of 350 000t of galvanised steel roofing, steel window sections and door frames.

He added that the R154m electro galvanising line with a 120 000t capacity would be commissioned in the first half of next year. This would replace the estimated 70 000t year imported mainly for the motor industry.

"The facility will enable us

initially to export about 50 000t of this value added product."

Referring to other new developments, Van Vuuren said Iscor steel sheeting would be used in the manufacturing of coins — from 1c to 50c denominations — by the SA Mint Company from July.

The mint was reportedly studying the possibility of supplying neighbouring countries with their coin needs.

COMPANIES

Minorco gives IRC time to shop around

INSPIRATION Resources Corporation (IRC) is looking for a higher bid for its wholly owned Hudson Bay Mining and Smelting (HBMS) subsidiary despite accepting Minorco's C\$100m (R250m) cash offer *8/09 18/6/91*

IRC said in a statement yesterday it had accepted the Minorco and Minorco (USA) offer to buy Canadian-based HBMS in principle and had entered into a Stock Purchase Agreement for the sale

However, IRC is allowed to solicit further offers for HBMS as long as they exceed Minorco's by C\$5m, and has until July 31 to do so — a one-month extension of the previous deadline. The statement said IRC was actively seeking such offers

Minorco said it had agreed to the extension after a request from IRC

If no further offers are received before July 31 the HBMS sale is expected to be concluded in August. Completion of the sale is subject to IRC securing financing for HBMS's modernisation programme at

ANDREW GILL

its Flin Flon plant in Manitoba

HBMS operates an integrated mining and metallurgical complex extracting zinc, copper, gold, silver and other metals in Manitoba and Saskatchewan

The programme, undertaken to conform with environmental regulations, is expected to cost C\$187m. Negotiations are still under way with the Canadian federal government and the Province of Manitoba for C\$80m in financing

Minorco will provide C\$20m security if the sale is concluded and negotiations for further financing are under way with unidentified banks *(189B 001)*

"We are very pleased to have reached this agreement with Inspiration. We believe that Minorco's acquisition of Hudson Bay has significant benefits for all concerned," Minorco (USA) CEO and president Gerard Munera said.

GIC Fm 21/6/91 (1898)

READY FOR AN UPTURN

Activities: Supplies flat-rolled steel strip

Control: B Elliott Plc 62%

Chairman: M J E Frye, MD A P Crawley

Capital structure: 4,081m ords Market capitalisation R16m

Share market: Price 400c Yields 12,5% on dividend, 22,5% on earnings, p e ratio, 4,4, cover, 1,8 12-month high, 500c, low, 200c

Trading volume last quarter, 11 000 shares

Year to Mar	'88	'89	'90	'91
ST debt (Rm)	1,9	3,0	4,4	5,5
LT debt (Rm)	—	1,0	2,7	2,1
Debt equity ratio	0,12	0,20	n/a	n/a
Shareholders' interest	0,45	0,54	0,44	0,44
Int & leasing cover	16,7	4,9	6,2	6,3
Return on cap (%)	12,9	19,4	16,7	15,9
Turnover (Rm)	50,2	68,0	76,2	74,1
Pre-int profit (Rm)	4,5	6,4	7,7	8,0
Pre-int margin (%)	8,9	9,4	10,1	10,8
Earnings (c)	105	70	92	90
Dividends (c)	40	40	50	50
Net worth (c)	396	457	496	535

Manufacturing efficiencies helped Goldfields Industrial Corp (GIC) to maintain profit in the face of declining sales volumes in financial 1991. A depressed steel market will continue to limit the group's growth this year, but it is financially and operationally well placed to boost profit when the market turns.

The first half of the year saw GIC's performance hampered by disrupted supplies, particularly of the higher margin speciality steels, from sole supplier Iscor. These problems were overcome in the latter half but tight market conditions caused turnover to fall.

Largest single market for the group is the automotive component manufacturing industry. Though the local new equipment market was depressed, MD Andrew Crawley says the after-market and export sales remained fairly buoyant.

Despite the lower sales, GIC maintained the steady rise in its operating margin seen over the last few years. Crawley ascribes this to manufacturing efficiencies, improved la-

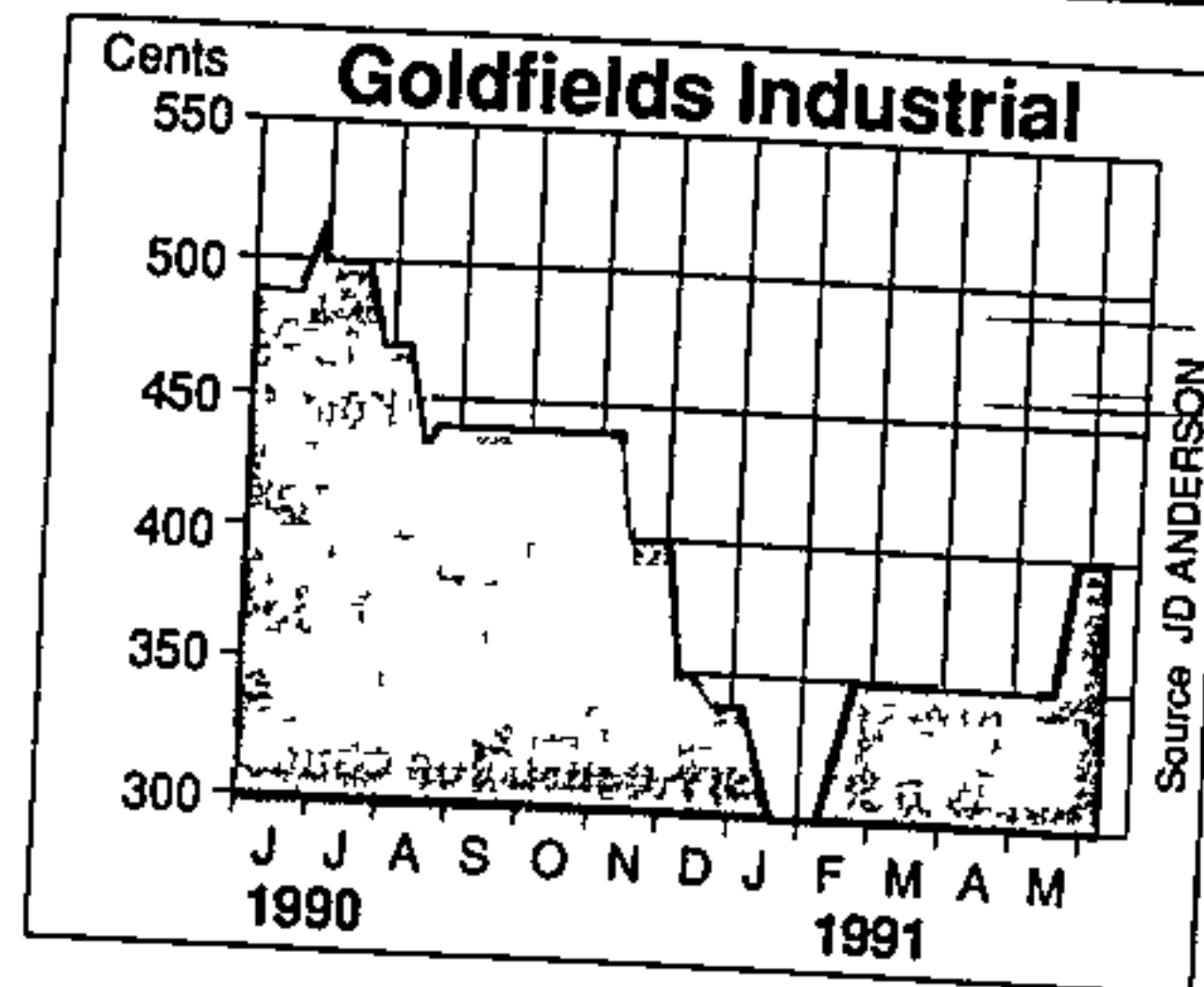
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COMPANIES

Fm 21/6/91

(1898)



price does not reflect this, and its historical earnings and dividend yields are high relative to other companies in the engineering sector. Though tradeability is limited, this share may be of interest to the smaller investor.

Pam Baskind

bour productivity and a slight shift in the product mix, towards higher margin re-rolled steels.

The boost provided to pre-tax profit by the better operating margin was negated by a higher effective tax rate (45,5%) and there is little hope of it falling below this level.

The group has almost R9m cash available, but Crawley says no diversification is on the cards. More attention is being given to the previously neglected export market — a number of orders have recently been received from Europe and the prospects for more look encouraging.

When the domestic market improves — and Crawley does not expect it to be this year — greater volumes can be fed through the existing system, lifting operating margins yet again and thus boosting profit.

GIC is financially in a good position to weather another year of lacklustre demand and to show strong earnings growth once economic conditions improve. But the share

CMI rights offer 'attractive'

Blomay 24/6/91

189B

ROBERT LAING

FERROCHROME producer Consolidated Metallurgical Industries (CMI) is pitching its rights issue of preference shares at R6, compared with the R8,50 its ordinary shares were trading at on Friday

Chairman Dave Kovarsky told a weekend media conference the offer was "very attractive" and the shareholders' vote should be a formality

The offered preference shares have a 10% coupon interest rate, which virtually guarantees their holders an annual dividend of 60c

Holders have the option of converting them into ordinary shares on a one-for-one basis before they are automatically converted after 10 years, CMI said in a statement today

The group is using the rights issue to raise R102m needed to reduce short-term debt incurred by last year's acquisition of

Rustenburg ferrochrome producer Purity Chrome for R181,3m

If CMI shareholders ratify the deal on Wednesday, they will be offered 40 preference shares for every 100 ordinary shares held

The rights issue would open on July 1, the preference shares would be listed on the JSE on July 25 and the offer would close on July 26, Kovarsky said

The offer of 17-million preference shares is being underwritten by major CMI shareholders JCI and Anglo American

Kovarsky said the group had underestimated the time ferrochrome prices would take to recover, resulting in the need to refinance the Purity acquisition

Ferrochrome producers had been un-

To Page 2

CMI offer

Blomay 24/6/91

189B

From Page 1

able to raise the price from 49c/oz in the third quarter, but they might achieve slightly higher prices in the fourth quarter, he said

Purity has been running at rated production since May. The Rustenburg ferrochrome producer is expected to increase CMI's capacity by 50% to 330 000 tons an-

nually

CMI's low-cost production would enable it to weather low prices caused by worldwide oversupply for the next two years

"When market equilibrium is restored, CMI can be expected to enjoy attractive returns on its enlarged operations," Kovarsky said

Major aluminium venture under study

By Derek Tommey 26/6/91

Eskom and Genmin are investigating a project to make SA the world's seventh-largest aluminium producer

Analysts describe the project as an imaginative and brilliant concept

The basic idea is to use Eskom's surplus electric power to produce aluminium cheaply enough to find a ready market overseas

The key will be the construction of an aluminium smelter expected to cost more than R3 billion

If a decision is taken to go ahead with the smelter, several developments will follow

●An increase in coal production of more than 3 million tons a year. Workers will need to be

rehired and a market will open up for low-grade coal, making more high-grade coal available for export

●Eskom will be able to reopen power stations now mothballed, or in line for mothballing

It is estimated that the amount of electric power required for the smelter is about equal to 20 percent of total mothballed capacity. Eskom would have to take on 1 000 people

Cash flow

It would be earning money from capital equipment now lying idle. Cash flow would improve significantly, debt repayments would become easier and the new load factors should make for much more efficient operation and possibly even

lower electricity charges of 430 000 tons of aluminium a year, would provide work for 6 000 people during construction and for about 2 000 thereafter

It would produce net export earnings of \$400 million (R1,12 billion) a year at the current aluminium price and generate about R700 million a year in local manufacturing opportunities

Dr Fred Roux, the Genmin official responsible for the project, said last night Eskom had reached agreement with Alusaf to supply it with electric power for a new smelter at a cost below the average cost to smelters worldwide for the next 25 years

The cost of power and the cost of alumina normally make

up the major share of the cost of aluminium

Provided the price of alumina can be controlled, the arrangement with Eskom should enable Alusaf to sell its aluminium in competition with the cheapest 25 percent of world production

Alumina would have to be imported. But there is an oversupply, which presents Alusaf with an opportunity to secure favourable long-term contracts

Dr Roux said that suppliers of alumina and potential aluminium customers had shown interest in investing in the smelter to get a stake in potential markets and suppliers

Gemin and Eskom had embarked on a R7 million study into the feasibility of the project and this should be completed by next February

Alusaf plans R3bn smelter

Own Correspondent

JOHANNESBURG — Alusaf yesterday announced plans for a R3bn capital investment in a new aluminium smelter that could earn SA \$400m in foreign exchange a year

The plans hinge on the granting of government incentives

At a news conference in Johannesburg, Genmin executive director Fred Roux unveiled plans for the 430 000 ton-a-year smelter which is subject to completion of a final feasibility study

Alusaf, whose main shareholders are Genmin (30,7%), the Industrial Development Corporation (41,2%) and Swiss Aluminium (22%), is conducting a full-scale feasibility study into the project

Roux said "This project should and must benefit from government incentives to do justice to the operating cost competitiveness"

There was no question about profitability at the operating level, he said, but high finance costs, high inflation, and high corporate tax rates were disadvantages and thus government incentives were required to make the smelter "truly competitive on an international basis"

If the incentives were forthcoming there was "a high probability" the project would go ahead, he said. A final decision would be made by the end of February next year

At full capacity, the smelter

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would produce 430 000 tons of aluminium a year, complementing Alusaf's current capacity at its Richards Bay plant of 170 000 tons a year

Initial production would start in 1994 and full production capacity would be reached by end-1995

The combined capacity of the two smelters would make Alusaf the world's seventh largest aluminium producer

Three possible sites have been earmarked for the plant, with Richards Bay, Saldanha Bay and Witbank in the running

Eskom has agreed to supply Alusaf with power at a cost below the average paid by smelters worldwide in a 25-year supply contract

The tariff would be linked directly to aluminium price changes

Alusaf's existing smelter would be given the same rates if the new smelter was commissioned

In addition to the R3bn capital investment for the smelter, R350m would be spent by Eskom on setting up power supply for the operation

The project would provide additional demand for a constant 680MW of electricity, which is equivalent to Eskom's power supply to Cape Town and Port Elizabeth

About 6 000 jobs would be created during the construction phase and 1 900 jobs after completion. About 500 more jobs

(189) B
would be created by the project at Eskom, GM finance Mick Davis said

It was likely to create local manufacturing opportunities valued at R700m a year for import replacement of raw materials and spares, Roux said

It would consume 3,5-million tons of coal a year and provide local industry with opportunities to become involved in added-value projects by expanding downstream fabrication facilities

Financing for the project had not been finalised but various options were under investigation. A possible listing before the project began was one option, with equity investments from interested parties

The feasibility study will cost R7m and will include a more accurate estimate on the cost of the smelter, confirmation of the initial findings regarding financial viability and securing raw material supply

The raw material, alumina, is used on a two-for-one basis in producing aluminium and accounts for about 25% of aluminium revenue

Roux said that with a currently depressed alumina price and the market in an oversupply position, favourable long-term contracts could be secured

Electricity costs would be measured at 16,3% of the price per ton of aluminium. This translated into a combined cost of 41% per ton of aluminium

Project could earn \$400m a year

Alusaf unveils plans for new R3bn smelter

B10am 26/6/91

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ANDREW GILL

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□ To Page 2

Alusaf

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From Page 1

Alusaf plans new aluminium smelter

ALUSAF, South Africa's only producer of primary aluminium, wants to commission a new smelter which will increase production from 167 000 tons of aluminium per annum to 600 000 tons per annum. The proposed new smelter will be the biggest single aluminium smelter in the world

Alusaf and Eskom have already agreed that power would be supplied to the new smelter at a favourable rate, linked to the price of aluminium. Next to alumina, electricity is the single biggest cost component in aluminium manufacturing

The agreed lower electricity tariff and given that suitable alumina supply contracts can be negotiated, will enable Alusaf to produce aluminium at lower cost than the average aluminium producer

Given the favourable electricity agreement, Alusaf may also upgrade the existing smelter in Richards Bay. This would increase production to 640 000 tons per annum, making Alusaf the seventh biggest producer in the world.

The pre-feasibility study has been completed and Alusaf and Eskom are satisfied with the results.

The Genmin and Alusaf boards have now approved R7 million for a more detailed feasibility study which will provide more accurate information on capital costs, input costs and long-term marketing possibilities

The pre-feasibility study showed that the capital costs of this smelter could be in the region of R3 000 million. The more detailed feasibility study should be completed in February 1992

CMI Fm 28/6/91

DEEP DISCOUNT

189 B

CMI minorities may not rush to put more money into the company to improve its debt position after the Purity acquisition, but controlling shareholder JCI has done plenty to make the convertible pref offer attractive.

At 600c, the offer price is a 30% discount to the ruling 850c price when it was announced, holders of the prefs have the option of switching from the guaranteed 10% fixed yield to ordinary dividends, if conditions in the cyclical ferrochrome market should suddenly improve. The prefs may be converted one-for-one for ordinary shares on November 1 of each year between now and 2001, when any outstanding prefs will convert compulsorily to ords.

CMI chairman David Kovarsky says the group should return to profitability during 1992. Whether any dividend will then be paid on the ords remains debatable. The pref offer will clear CMI's short-term debt, but the long-term US\$43m loan will remain on the books.

Brendan Ryan

ALUSAF

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FM 28/6/91

POWER PLAY

Alusaf's milestone agreement with Eskom on lower electricity tariffs holds out the apple of a R3bn expansion, earning more than US\$400m in forex annually, but the go-ahead will depend on persuading government to grant tax incentives

The final feasibility study on the project, which would make Alusaf the world's seventh largest aluminium producer, is to be carried out at a cost of R7m, based on the Eskom agreement and Alusaf's moves to secure a long-term supply of alumina at favourable prices

Alumina and electricity are the two main costs in producing aluminium. Alusaf aims to link both to movements in the aluminium price on the London Metal Exchange. That protects the viability of the plant by reducing costs during periods of weakness in the aluminium price at the expense of some of the profits during boom periods.

Eskom has agreed to supply power for 25 years to the new smelter at a tariff per ton of aluminium produced equivalent to 16,3% of the price of aluminium. Attraction for Eskom is that Alusaf is its biggest industrial customer and the new smelter would take an additional constant 680 MW of power.

Sites under consideration are at Richards Bay, Witbank and Saldanha Bay.

That would reduce Eskom's chronic overcapacity and, on marginal costing, makes plenty of sense over the forecast 25-year life.

Fred Roux, executive director for Genmin's minerals division, foresees little problem in tying up the alumina supply on a similar basis, given the oversupply of the material. Options include a straight long-term supply contract to invest in an overseas alumina smelter in, for example, Brazil, or entering into a toll-refining arrangement.

Alusaf now sits in the upper quartile of the world's producers ranked by power costs. The Eskom deal will put it below the midpoint of the industry cost curve. At the current aluminium price of \$1 300/t the new contract would cut Alusaf's power costs by 45%. The new power tariffs will be applied to the existing smelter once the new one is commissioned.

Alusaf MD Rob Barbour says that with a combined cost of power and alumina at around 40% of the aluminium price, the new smelter will be highly competitive internationally on operating costs but not when high SA finance costs, inflation rates and corporate tax rates are taken into account.

That's why Roux says the project won't fly without the kind of tax incentives proposed last week by government to boost exports of beneficiated metals and minerals. These involve favourable depreciation rates on investment allowances and capital expenditure in



Genmin's Roux value could be added

the year the expenditure is incurred.

Trouble is, Alusaf imports its raw alumina. But Barbour points out this is only one aspect of the operation. The other side of the coin is that manufacturing aluminium locally essentially involves adding value to the coal burnt to provide the power.

Every ton of aluminium produced requires the burning of 8 t of coal. In terms of value added, Roux says the returns on exporting aluminium are proportionately greater than exporting locally made autocatalysts.

The new smelter would produce 430 000 t annually, pushing total Alusaf production to 600 000 t. About 500 000 t of this would be exported. Roux reckons the international markets will take this through forecast growth and the demise of higher-cost and/or obsolete smelters, particularly in Europe.

He says aluminium companies have acknowledged that between 600 000 t and 1 Mt of existing capacity will have to be closed down. He also points out the highly favourable power contracts for a number of European smelters are unlikely to be renewed on similar terms.

The aluminium market was almost in balance last year, with consumption of 14,68 Mt and production of 14,57 Mt. The scales have tipped towards overproduction during 1991, resulting in the current drop in price but market growth over the next 10 years is estimated at between 2,5% and 5% annually. This is equivalent to physical increases in the demand for the metal of between 350 000 t and 700 000 t a year.

According to Roux, that leaves plenty of

scope for setting up new smelters. A number of projects are under way, with capacity expected to grow by 2 Mt between 1990 and 1993.

Barbour points out that availability of more aluminium in SA at international prices might spur further downstream investment in local rolling and fabrication.

Roux says the plant would hit full production within three years of a decision to go ahead. The feasibility study is due to be completed by February. The new smelter would create 6 000 jobs in the construction phase and require a permanent staff of 1 900.

Major shareholders in Alusaf are the IDC (41,4%), Gencor (30,7%) and Alusuisse (22%). Roux says a JSE listing is not required to fund the expansion but Alusaf will be listed in due course. He adds that discussions are under way with foreign companies keen to put equity into the new smelter to ensure future aluminium supplies.

"With the changed political climate here, foreign investors are keen to do business with us once again," says Roux.

Brendan Ryan

Usko 'may soon sell its assets to reduce debt'

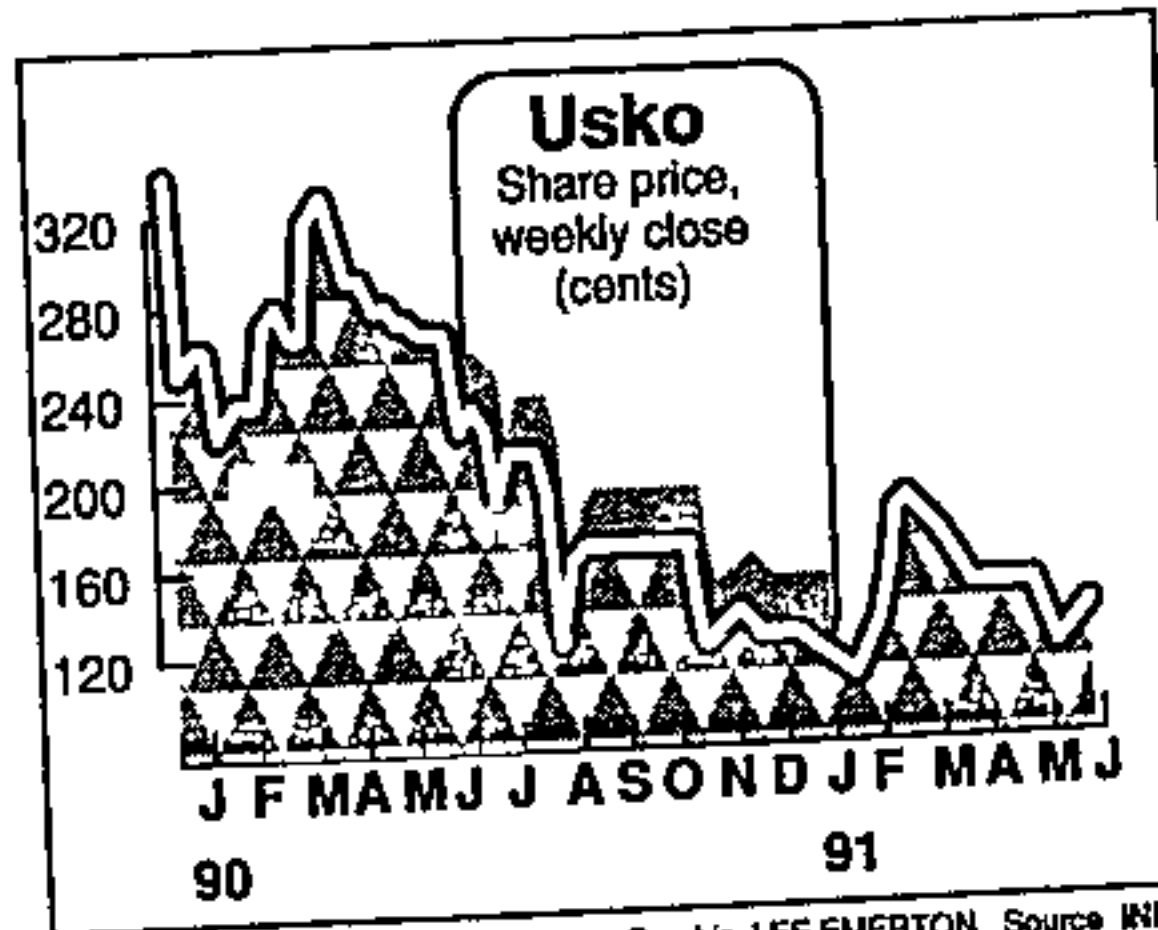
BRENT VON MELVILLE

biomay 2/7/91
 THERE is strong speculation on the market that steel producer Union Steel (Usko) will be hiving off some of its assets in an effort to deal with its debt

While Usko directors and majority shareholders remain mute on the issue, the prevailing feeling on the market is that drastic action is necessary to bring its serious gearing problem under control

With the group obviously poised to take some major remedial steps, there has been some speculative buying of the stock Usko yesterday rose 5c (4%) to 130c

Its major shareholders are Iscor, which holds a direct stake of 29% and another indirect stake of 8% through Metkor Metkor itself holds 28%



Operational problems and the depressed vanadium pentoxide market pushed Usko into a loss situation for the six months to end-March. Debt rose by more than R30m to hit R182m, leaving debt-equity at 1,5:1. As a result Usko was forced to cut its workforce by 650.

Chairman Floors Kotzee said the rationalisation steps would result in annual savings of R17m but retrenchment costs would slow the recovery and steps taken now would only be reflected next year.

The market conditions and the poor results would appear to rule out a rights issue, and analysts say it is unlikely there will be another preferential share issue.

While not offering details Kotzee did not preclude a sale of assets, such as its interest in joint operations such as Alustang or Transvaal Copper Rod. It could also dispose of its marketing operations.

There is also speculation that Iscor may decide to buy-out minorities and delist the company, although one analyst said he did not think Iscor viewed this as an option.

"The whole problem with that area in terms of investment is probably the deal with Rhombus Vanadium (Rhovan), which has really put Usko in a market it knows nothing about."

Protection: 'Iscor uses scare tactics'

B/Dam 4/7/91

189/B

SMALL steel manufacturers claim Iscor is using "scare tactics" to pressure the Board of Trade & Industry (BTI) into ruling in its favour on import protection.

Iscor is working through the Rolled Steel Producers' Council, which is recognised as a powerful lobby. Its chairman, Iscor MD Willem van Wyk, has warned that unless import duties are raised, up to 600 000 jobs could be directly and indirectly lost. Iscor has threatened closures, higher imports and reduced exports.

The BTI would not comment on which way the decision will go, but the Independent Wire Converters' Association (IWCA) says Iscor's claims are a pressure tactic of a protectionist lobby.

Certain manufacturers claim steel tariffs have bred complacency and inefficiency throughout the industry and should therefore be eliminated.

Local tubular steel manufacturers, for instance, are still unable to cope with drilling industry demand, or produce the quality required.

Smith Mining Equipment MD Brian Coetzee says tube suppliers are enjoying protection despite the fact that they are unable to produce. As a result local manufacturers are forced to import steel tubes.

IWCA chairman Robin Bosomworth says internationally competitive domestic prices imply more low cost jobs in manufacturing, less incentive to import and greater sup-

BRENT VON MELVILLE

port for beneficiation, as cartels are replaced by domestic competition.

The IWCA maintains that internationally competitive domestic steel prices should also stimulate exports of raw materials.

SA exports 2,5-million tons and imports are minimal. The IWCA claims SA is itself open to dumping criticism with two-tier pricing structures that serve only to encourage smaller steel manufacturers to move elsewhere.

"In the wire industry, the motives of the rolled steel producers are suspect, applying for particularly high protection levels only on selected wire rods — only those we use

Double

"The products they import are omitted. It is clear abuse of a system intended as an 'anti-dumping' measure," said Bosomworth.

The IWCA says the protection levels requested would lead to domestic wire rod prices at double the export price of R750 a ton, effectively eliminating smaller wire competitors and domestic competition among steel producers themselves.

"In Germany mesh quality wire rod is R850 a ton and can be freely imported. Germany's steel industry was liberalised decades ago. In SA, we have both import control and formula duty protection but only on those products harmful to the rolled steel producers' interests."

Local stocks spark foreign interest

AS SANCTIONS teeter, the dollar strengthens against the rand and the US economy begins to right itself, overseas investors are again beginning to take a strong interest in certain JSE stocks.

A major beneficiary in recent weeks has been steel-producer Iscor, which has seen its share price jump more than 10% Europeans are believed to have picked up over 10-million shares last week alone.

This high-volume daily trade left Iscor's share price at 221c by week-end, a price which market observers believe is an important sup-

BRENT VON MELVILLE

port level. It puts Iscor on a price-to-earnings ratio of 5 times and a dividend yield of 7,7%, compared with the sector ratings of 10,1 and 6,4% respectively.

Investment analyst David Russell of stock-brokers Irish & Menell Rosenberg believes the rise could indicate that the market is already discounting short-term poor results from companies in the steel and manganese sectors.

The market also feels that prospects for the steel and ferro-alloy producers have been boosted somewhat by the strengthening of the US dollar relative to the rand.

In early January the rand was at 2,55 to the dollar, compared to 2,90 at present — a fall of 12,1% in six months. Market observers say this is likely to give margins a little more flexibility as production costs are rationalised.

But in the shorter term Iscor is expected to report sharply lower earnings for the year to June. A lower offtake from the more profitable local market has forced it to resort to increasing lower-priced exports in order to maintain production efficiencies. Exports have jumped from about 32% last year to 45% of total sales this year, and are expected to go higher by year-end.

This has had a significant impact on profita-

bility, with the international price of flat steel products falling steadily over the past several years from about \$380/ton to about \$300/ton at present.

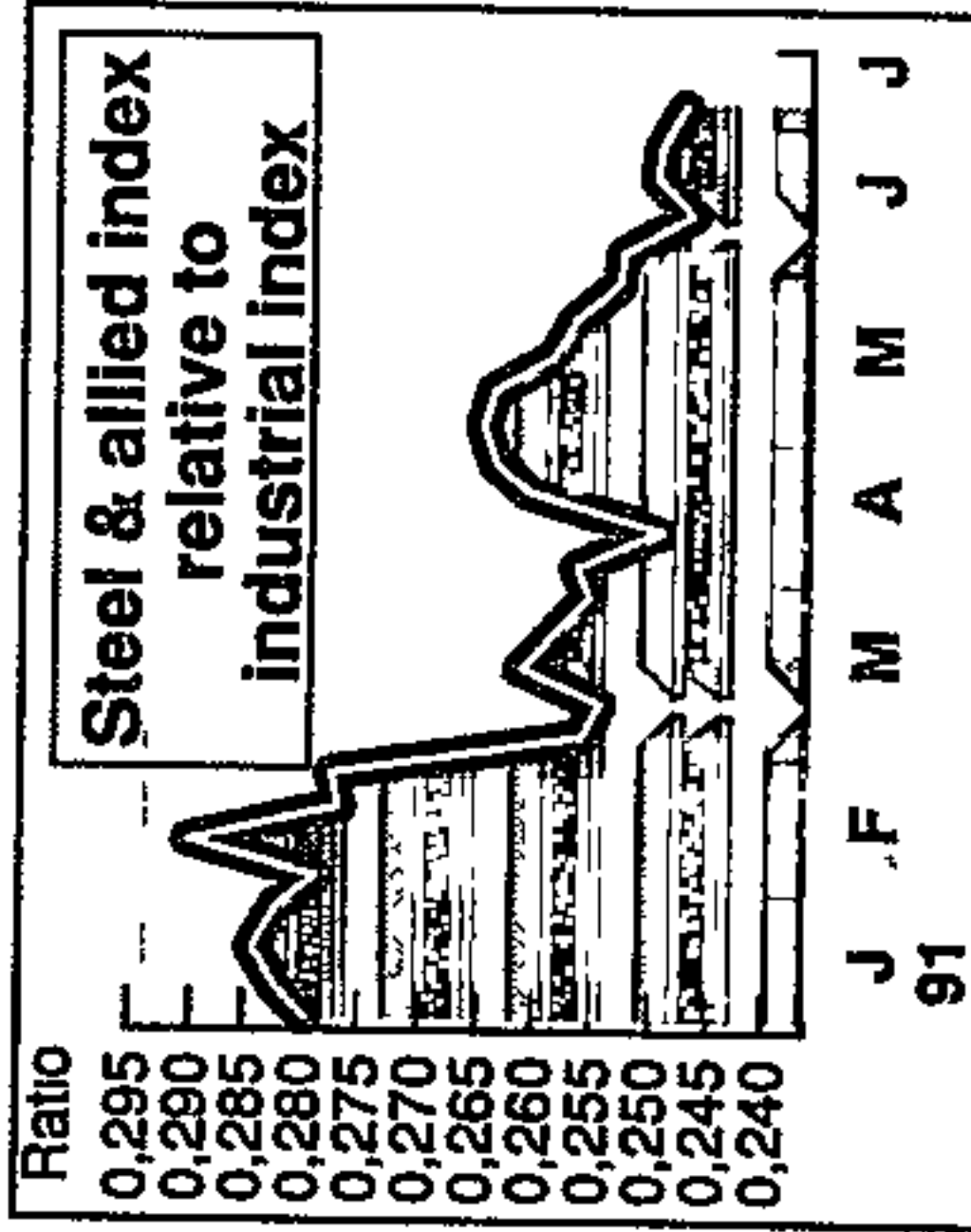
Hightveld Steel & Vanadium is also suffering from similar problems on the steel side with consumers building up inventory ahead of last January's 14,5% price hike.

Despite the short-term bleakness, Russell says the lifting of sanctions by the US could see a resurgence of investor interest in both steel and ferro-alloy shares which historically have attracted American investors.

He said that when sanctions were imposed certain stocks listed after that time were prohibited to American investors — Iscor falls into this category and could be an attractive "new" share for them.

Another stock which could attract American buying is Consolidated Metallurgical Industries (CMI), which in the past three months has moved up 43% from a low of 610c. Its current price of 875c puts it on a historical price of 5 times and a dividend yield of 13,1%.

While CMI has returned to profitability, its results for the year to June are expected to be put under pressure by the R181m acquisition of Purity Ferrochrome. However, that debt burden will be alleviated by the issue of 30-million preference shares to raise about R100m.



Graphic: LEE EMERTON Source: INET

Debt forces Usko to sell steel interests

BRENT VON MELVILLE (18)

STRUGGLING steel manufacturer Usko has been forced to sell its steel interests to Iscor in a bid to deal with its crippling R183m debt load *Byron 9/7/91*

Usko has announced it will dispose of its steel division to Iscor for R50m cash, as well as its interests in National Material Service Corporation and Hall and Pickles to unlisted Macsteel for R5m

The announcement said the sale of the investments to Macsteel was made because they "held no synergy" with Usko's remaining operations. The Usko board was also contemplating further measures to rectify its high debt. The debt to equity ratio stood at 1,5:1 at the interim stage.

Assuming the transactions were effective for the six months to March and the purchase consideration had been used to redeem current debt at the current prime overdraft rate of 20%, earnings per Usko share would have increased by 54,4c from a loss of 41,5c to earnings of 12,9c.

For the same period net tangible asset value would have been slashed 72% from 316,6c to 88,4c a share.

Iskor spokesman Piet du Plessis said yesterday the acquisition would have no significant effect on either the earnings or net tangible asset value per Iscor share. He said Iscor planned to run the Vereeniging-based Usko operation as a separate works.

All Usko steel division personnel will be employed on existing service conditions.

Usko cut its 3 800-strong workforce by 17% or 650 employees after reporting an attributable loss of R11,4m in the six months to March, stemming mainly from heavy losses in the group's steel division.

No further information was provided on discussions about a possible merger of Usko's vanadium division with Rhombus Vanadium (Rhovan) though shareholders are again reminded to continue exercising caution in dealing in their shares.

At its current 130c a share, Usko is capitalised at R38,7m while Rhovan, at 25c, is capitalised at R13,1m.

Uphill task to regain lost steel markets

189B
Steel
12/7/91

South African steel makers aim to recapture lost markets in the United States after the lifting of the ban on imports, but analysts say they could have an uphill task

"We are very excited," said Johan van Zyl, secretary of the Rolled Steel Producers Coordinating Council.

Iscor, the country's largest steel manufacturer, said it had maintained its US marketing network despite the bar on sales under the 1986 Comprehensive Anti-Apartheid Act (CAAA) now revoked by President George Bush.

"Our re-entry into the American market will be orderly and well-planned," said Iscor spokesman Piet Du Plessis

Industry officials said steel companies, experiencing a domestic recession and lower sales volumes, were well geared to supply reopening markets in the United States and Europe

Steel manufacturing accounts for five percent of South Africa's national wealth as measured by gross national product

Earlier this year, the European Community lifted a 1986 ban on South African steel imports which, with the CAAA, cut profits and cost thousands of jobs in the steel industry

Mr van Zyl said that in 1985, the year before the CAAA was introduced, South Africa exported about 585 000 tons of steel rolls, tubes, pipes and wire under a voluntary restraint agreement quota of 0,42 percent of US consumption

The exports were worth about R1,7 billion (\$600 million) and amounted to 15 percent by volume of South Africa's total steel exports

Using the same quota South Africa would have been entitled to exports of about 370 000 tons in 1990

Michael McDonald,

head of economics at the Steel and Engineering Industries Federation, said he estimated it would take three years for South African producers to win back their 1986 position in the American market

Any new steel sales would have to overcome local city, council and county sanctions that were expected to remain in force

"In addition there is a glut of steel worldwide and the competition will be that much more intense"

One bright spot was that Japan, Israel and other countries would follow the American lead

Dave Mohr, chief economist at Old Mutual, said Iscor faced tough competition in recapturing American markets but the lifting of sanctions had come at a favourable time because the United States was pulling out of a downturn — Sapa-Reuter

USKO

FM 12/7/91

MORE NEEDED

(189B)

A glaring question left unanswered by Usko is what else it intends doing to get back on its feet. Asset sales for R55m do nowhere near enough to restore it to health. Usko has sold its steel division to Iscor for R50m, and disposed of its investments in National Material Service Corp and Hall & Pickles to Macsteel for R5m. It intends using the mon-

FM 12/7/91

(189B)

ey to repay debt

Debt had reached R182m at the end of March. Chairman Flores Kotzee had predicted Usko would lose more money in the second half of the year to end-September, because of further losses on the steel division and the vanadium plant.

Usko's accounts do not provide details of where operating profits come from. Analysts estimate that earnings from what remains profitable in Usko — nonferrous products, Alustang and Transvaal Copper Rod — will probably do no more than cover interest charges on the remaining debt.

Finance charges cost Usko R26,2m last year. Debt levels hit R154m by the end of September, while operating income amounted to R26,4m for the year. Conditions in the steel market worsened in the first half of this financial year, resulting in an operating loss of R3,4m for the six months to March.

Usko is left in a kind of financial limbo that the official announcement glosses over, saying "Though the debt situation of Usko remains high, the board is contemplating further steps to rectify the situation."

But what? Selling more assets would call into question the existence of Usko because the group would be disposing of its profit centres. Raising money through a rights offer or debenture issue remains an option, but controlling shareholders Iscor and Rembrandt-controlled Metkor may not be too happy about that.

There is rumour of disagreement between Rembrandt and Iscor about the way Usko has been run and over what should be done about the group. A Rembrandt spokesman declined to comment and Iscor MD Willem van Wyk was away this week. Kotzee is also away and Usko MD Johan Kaltwasser could not be contacted.

Iscor public relations manager Piet du Plessis says Iscor will run Usko's steel division as one of its steelworks. The Usko statement says nothing further on the fate of the vanadium plant, where a merger with ore supplier Rhombus Vanadium is being considered.

Brendan Ryan

Usko sells the family steel, but debt lingers

(Business Times)

1898 S/Times 14/7/91

USKO firmed this week after the R50-million voetstoots sale of its steel division to Iscor and the R5-million on investments sold to Macsteel

After the announcements on Tuesday, the shares and convertible prefs perked up 20c to 150c before cooling. The recent low was 100c, but only two years ago Usko was 500c.

After the disposals Usko will have two operations — non-ferrous and special metals, which holds the vanadium interests.

Usko has warned shareholders that its vanadium division may be merged with Rhovan, the mining partner in the joint venture.

The intention was for Rhovan to become one of the world's cheapest producers of vanadium pentoxide, but the process has been plagued by problems and delays and the collapse of the commodity price.

Money from the two sales will be used to repay debt. At March 31, the Usko balance sheet showed interest-bearing debt of R183-million, with a note that this figure is reduced with funds on deposit.

The operating loss for the six months to March on turnover of R294-million was R34-million, halved by income from investments. But debt servicing cost R9,5-million.

Commissioning of the vanadium plant led to an extraordinary loss of R20-million. The contract with Rhovan provides that Usko pay cash penalties if it cannot deliver the flake.

If the deals had been in

DIAGONAL STREET by Julie Walker

place from October 1 last year, Usko's interim loss of 41,5c a share would have become a profit of 12,9c.

If Usko's 14% prefs had been converted, the earnings a share would have been 10,9c. Usko passed the last pref dividend.

At the interim to March 1991, chairman Floors Kotzee expected the steel division to remain under pressure in the current six months. The vanadium plant was expected to improve and the non-ferrous division continue with a positive contribution.

If the vanadium division is sold, Usko will have little in the way of operating assets, but will still have a pile of debt. The whole of Rhovan is capitalised at only R20-million on the JSE, so Usko's share will not fetch much.

Usko's net tangible asset

value takes a dive after the steel sales. On a fully diluted basis at March 31 this year net asset value a share would have been down by 60% to 93c.

Shareholders are not told what else Usko aims to do to reduce the high debt, or indeed to generate income. Permanent capital could be sought through a rights issue.

If Usko sells all its assets, its technical worth at net asset value is 93c a share. If it makes acquisitions, they will be outside the core and probably need time to yield a return.

Perhaps minorities are hanging in for a deisting at a premium to net asset value — in vogue at the moment on the JSE.

The major shareholders are Iscor with almost 30% and Rembrandt through Metkor's 27%.

800 000 in unit trusts

THE number of investors in unit trusts has jumped to almost 800 000 and the market value of funds is nearly R10-billion.

As normal in bull runs on the JSE, investors buy into unit trusts at high prices. Sales reached R735-million in the three months to June.

Perhaps the smart guys cashed in units worth R285-million as share prices soared. On aggregate, the funds reduced liquidity from 24% to 18%.

The average return from the 16 general equity trusts in the past year is 20,6%, but the range is astonishing — the top was 29,6% and the worst 7,1%.

Steel, coal to benefit most as sanctions go

Own Correspondent

JOHANNESBURG — The JSE's steel and coal sectors stand to reap the greatest benefits from the lifting of US trade sanctions, say market analysts

But they believe these benefits will be felt only after some time, when international steel and coal prices firm

An increase in these prices is forecast in line with the economic recovery in major industrialised countries

One analyst said that as the steel and coal sectors bore the brunt of sanctions "it stands to reason they will benefit most"

Anglo American Corporation stands to benefit through subsidiaries Anglo American Coal and Highveld Steel

Barlows has substantial steel interests through Middelburg Steel & Alloys and it is exposed to the coal sector through Rand Mines' Witbank Colliery

Iscor will be a major beneficiary in time, and this is reflected by the rise in its price

But Fergusson Brothers' William Bowler cautions that benefits will not be immediate as "world steel markets are depressed and at present there is softness in world coal markets"

An indication of the depressed state of steel markets is the 65% slump in British Steel's pre-tax profits in the year to March

Analysts said the benefits in the coal sector would be through higher prices, as export capacity was constrained by the limitations of the Richards Bay terminal and inadequate rail transport

Coal exporters no longer had to take a political discount in price

The Richards Bay terminal is being expanded, and capacity constraints are likely to be alleviated when railway extensions are completed

End of US curbs 'to boost steel, coal'

8/0ay 15/7/91

WILLIAM GILFILLAN

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But Fergusson Brothers' William Bowler cautions that benefits will not be immediate as "world steel markets are currently depressed and at present there is softness in world coal markets".

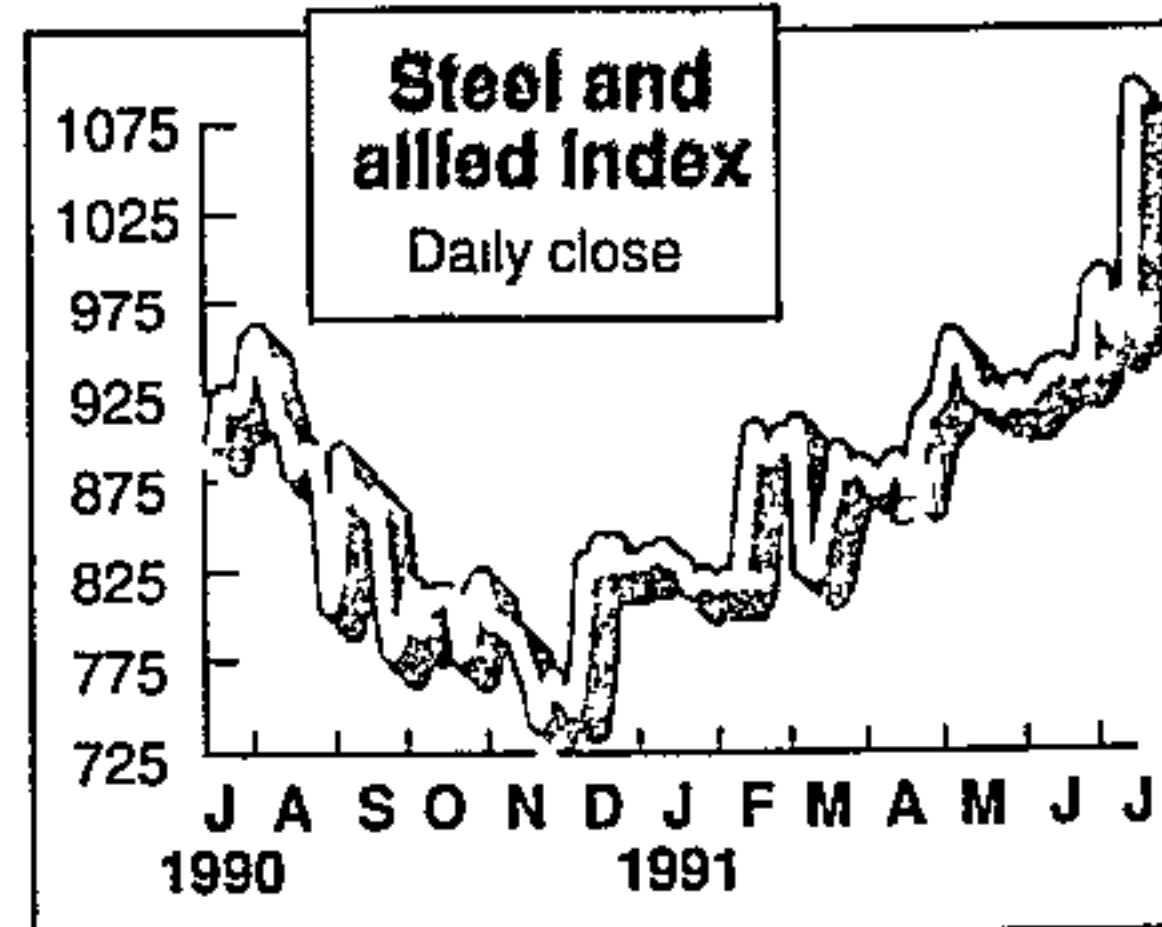
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The Richards Bay terminal is being expanded, and capacity constraints are likely to be alleviated when railway extensions are completed.

Analysts said it was often difficult to know to what extent lower exports were due to slowdowns in international economies or to sanctions.

Sappi and Samancor were cited as



Graphic: FIONA KRISCH Source: I.NET

groups affected largely by depressed international commodity prices.

Benefits will flow to shipping and transport companies through increased trade, said John Rogers of Edey Rogers Companies involved in trade finance, and wine and fruit exporters, should also do well. Tourism would improve — if township violence abated.

The lifting of US sanctions was not expected to have much effect on trade with Africa, as this had continued throughout the sanctions period. Analysts also feel Africa could pose a payments problem for SA suppliers.

The Premier Group is considered best placed to benefit from any increased trade with Africa, as it already has a substantial distribution infrastructure in the continent. Tiger Oats could also do well.

Analysts said groups involved in basic commodities, especially foodstuffs, would prosper if trade with Africa picked up.

Regarding the American market, a senior manager of trade insurer Credit Guarantee, Gernot Kruger, said it would take time for SA companies to regain lost market share.

He gave the example of Namibia, which was struggling to increase exports. One reason for this was that despite the country's independence, local authorities in the US still had sanctions legislation against Namibia on their books.

Anglo expects tax break on Columbus

B/D Day 17/7/91

ANGLO American expects government to make a favourable announcement by the month-end on tax incentives aimed at getting off the ground its R3bn Columbus stainless steel joint venture with Gencor

That could signal the final go-ahead for the project which has been in the pipeline for almost two-and-a-half years

Anglo chairman Julian Ogilvie Thompson said in the corporation's annual review that he had hoped to refer in his statement to a decision to proceed with the project

However, while government was "fully supportive" of the project in principle, it would be too risky to proceed in the current inflationary environment and under current tax rates

Anglo's Highveld Steel and Vanadium and Gencor's Samancor have been negotiating with government for several months over ways to alleviate the huge start-up cost of the project Without tax concessions or export incentives, Highveld and Samancor were dependent on overseas involvement to finance the scheme, but an agreement with Taiwanese partner Yieng Loong

MATTHEW CURTIN

fell through in September last year

Trade and Industry Minister Org Marais said on May 26 government hoped to produce proposals within two months for measures to assist project development in the chemicals, engineering and mineral beneficiation sectors, including possible partial funding and tax concessions

Marais said government would address the need for a longer term incentive package, in line with other countries

The Columbus project is one of several large capital projects which would benefit from the new moves from government Engen, AECI and Sentrachem are considering a R4,5bn chemical plant or naptha cracker to produce chemical feedstocks and downstream chemicals

Alusaf announced three weeks ago that its plans to build a R3bn aluminium smelter were dependent on incentives

Ogilvie Thompson said the Columbus project exemplified one of the desired in-

□ To Page 2

Anglo

B/D Day 17/7/91

vestment strategies for SA SA was already a world competitor in carbon steel production, thanks in part to its access to the materials and relatively cheap power

There was no reason why SA could not become a major player worldwide Columbus would add value by about 50 times in terms of the chrome content of the stainless steel produced, and would earn about

R2bn a year in foreign exchange

Critics of the project have said that the margins are not so healthy While SA has a plentiful supply of cheap chrome, it would have to import the low-grade nickel and scrap steel also needed Stainless steel exports might compromise SA ferrochrome producers' contracts with overseas stainless steel producers, rivals to Columbus

● See Page 6

□ From Page 1

Vanadium mine to challenge SA

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ANDREW GILL

AUSTRALIA is to establish a vanadium mine ready for production in early 1993 and is aiming to snatch 8% of the world's output from depressed South African producers.

A Financial Times report yesterday said the "vast resource" near Mount Magnet at Windimurra in Western Australia contained enough vanadium to keep the total world market supplied for decades.

The new mine's owner, Precious Metals Australia (PMA), intends limiting output to 3 700 tons a year.

Analysts said yesterday if the mine succeeded it was likely to knock most local producers except Highveld, the world's largest producer.

This year the market is about 5% oversupplied.

Highveld was likely to withstand further pressure because of its elasticity in being able to produce steel and vanadium, an analyst said.

Highveld Steel and Vanadium chairman Leshe Boyd yesterday said. "It is a bum decision."

Boyd said the mine was likely to go broke just as Australia's first vanadium mine at Windowie did over a decade ago. That mine lasted about two years.

"It's a tough business," he said and

it would be a high cost operation because of starting up, with high financing and amortisation costs.

He also didn't believe it was a particularly good deposit.

PMA chairman Roderick Smith was quoted as saying PMA's costs would be lower than those of SA producers because Windimurra's soft and oxidised ore would make mining a simple, open-pit operation and milling would also be easy.

In comparison, the report said, SA companies had to drill and blast "very hard ore" which also required extensive crushing and grinding.

It was estimated cash costs would be \$1,70/lb and the project is expected to cost between A\$40m and A\$50m. Smith was in London placing shares in PMA and said financing would be A\$15m of equity and the rest by US dollar loans.

Based on present low prices for vanadium pentoxide and the forecast annual output, the project was expected to yield A\$32m a year, including A\$4m from the sale of by-product sodium sulphate.

The other South African producers are Transvaal Alloys and Rhombus Vanadium.

ANIES

Buyout benefits Hall Investments

18918 Bldg 19/7/91

CHARLOTTE MATHEWS

HALL Investments has exercised its pre-emptive rights to take up the remaining 50% holding in steel-maker, forger and stockholder Hall and Pickles (Coastal), owned by Usko, to give it an effective 100% holding in the company, it said in a statement yesterday

Last week Usko announced that it would be raising R5m from the sale of its interests in Hall and Pickles (Coastal) and National Material Services to MacSteel as well as R50m from the sale of its steel division to Iscor

Hall and Pickles (Coastal) was a joint venture company between Usko and Hall Investments established in 1970.

According to the announce-

ment, the Hall and Pickles (Coastal) transaction was subject to the pre-emptive shareholders not exercising their option, but they had done so.

As a result Usko would realise only the R4m from the sale of National Material Services and not the R1m from the Hall and Pickles (Coastal) transaction, Usko chairman Flores Kotzee said.

Hall Investments said the acquisition would further strengthen and benefit the group's specialist steel operation, which underwent extensive rationalisation last year under new management

Hall Investments is part of UK group Hall Engineering

Alusaf's deal a boost for Hulett

By IAN ROBINSON

ALUSAF's power-price deal with Eskom for the proposed 430 000-ton-a-year smelter will boost Hulett Aluminium's expansion plans

Hulett managing director Des Winship says he is pleased by the news that Alusaf will have lower power costs. The lower tariffs will also apply to Alusaf's Richards Bay smelter once the new plant has been brought on stream.

Power costs are the major cost element in aluminium production. Alusaf's present power costs place it in the upper quarter of world aluminium smelters.

The new deal with Eskom will place it in the lower quarter and will enable Alusaf to supply cheaper aluminium to domestic consumers.

Hulett is South Africa's largest aluminium semi-fabricator and its production of rolled and extruded products is based entirely on Alusaf's primary aluminium.

Bulk buying of alumina feedstock on world markets for the new smelter will lower unit costs.

Hulett is well advanced with feasibility studies of strategies to upgrade its rolling facilities at its Maritzburg plant.

Faster

Capital expenditure will be "substantial" and Hulett hopes to make an announcement by the end of the year.

The upgrading will involve an increase in efficiency, faster throughput and the capacity to make thinner gauge sheet. Upgrading will take place in stages.

Annual capacity could rise from 50 000 tons to 75 000 or 80 000 in three years.

Hulett has spent R80 million in the past two years on new projects.

Much emphasis has been placed on improving technology to enable Hulett to compete on world markets. In March a seam-free extrusion press was commissioned for high-strength alloys.

Per capita consumption of aluminium in SA has doubled to 5,6kg since 1979. Hulett believes that it will continue to grow at a rate above gross domestic product.

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US upholds tariff on SA ferrochrome

MATTHEW CURTIN

FERROCHROME producers in SA have lost a three-month battle to prevent the US Commerce Department slapping a 3,33% ad valorem duty on imports to the US in 1989.

Samancor MD Hans Smith said this week all SA producers who exported to the US in 1989 would have to pay the backdated duty, which would cost his company about R3m against an annual turnover in 1989 of R2,1bn. The US was only a minor buyer of SA ferrochrome exports.

He said that at a time of low ferrochrome prices the backdated duty would squeeze margins further. Samancor and rival producers Consolidated Metallurgical Industries, Middelburg Steel and Alloys and Chromecorp Technology, secured a price of 49c/lb, unchanged for three quarters running, for exports in the June quarter.

Shelved

Smith said ferrochrome producers would escape the duty from 1990 as any benefits received in that year fell below the de minimus level established by the Commerce Department.

The duty was imposed after US ferrochrome producers Macalloy and Elkem took advantage of regulations allowing tariffs to be imposed on overseas competitors who received export subsidies.

In the 1970s a 4% duty was proposed but shelved in 1981 when the Commerce Department decided the SA government was no longer subsidising exports.

When the department announced it planned to do away with the tariffs altogether, Macalloy objected.

Sharp slump in platinum price worries producers

DEREK TOMMEY

JOHANNESBURG — The South African platinum industry — the biggest in the world — could be running into trouble

The slump in the motor industry, the largest user of the metal, has resulted in the platinum price falling to a five-year low of \$363.60 an ounce

A drop in price is nothing new to the industry. It has been facing a steady decline for the past four years

But to find a platinum price comparable with the present one means going back to the first quarter of 1986

The platinum price reached \$610 an ounce in 1987. But by the end of July 1988 it had fallen to \$521 an ounce and a year later it was \$493

It held up quite well in the following months to stand at \$482 at the end of July last year. But since then it has lost almost \$120

While South Africa produces 2.8 million ounces of platinum a year and on the surface stands to lose \$300 million or R840 million in income this year, most producers have long-term contracts with the motor industry. Al-

though the contract prices are linked to some extent to the market price, it usually takes time before changes in the market price work through to the producer

This was one reason platinum producers were able to maintain earnings earlier this year

The major reason was the jump in the rhodium price. Rhodium is a by-product of platinum and also used in auto-catalysts for cleaning car exhaust gases

Although scare stories about substitutes being found for platinum in autocatalysts might have had some effect on the price of platinum, the major reason for its current low price is the slump overseas in the new car market

The US's Big Three — GM, Ford and Chrysler — had a combined loss in the second quarter of this year of \$1.3 billion, the biggest second-quarter loss since 1980

Some holders of platinum are believed to be in serious trouble owing to the drop in the value of their stocks, and it is suspected that in a desperate attempt to give some firmness to the market they started the story that South Africa and the Soviets were hold-

ing talks about establishing a cartel

But Mr Michael McMahon, managing director of the second-biggest producer, Impala Platinum, points out that any cartel would immediately run foul of US anti-trust laws, which could have serious repercussions for the industry

And the US buys almost half the platinum used in autocatalysts

(1898)

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ARQ 29/7/91

Highveld hit by slump in commodities markets

148 B Star 3/17/91

By Derek Tommey

The deepening world recession is dealing hammer blows to the economy

Reduced demand has depressed the prices of commodities. The country's metal and mineral producers, who generate much of the economic activity and provide the bulk of the country's foreign exchange, are suffering

The price of gold, South Africa's major export, slumped \$4 yesterday to reach \$361.35, to return to its depressed May levels

And the price of platinum, another major export, hit a new five-year low last night of \$358.10 an ounce. A year ago it was \$475 an ounce

Further evidence of the dismal impact of the world recession is contained in the poor performance reported today by Highveld Iron and Steel, the world's biggest producer of vanadium and also a major steel producer

However, this will not stop Highveld from going ahead, together with Samancor, with the R3 billion Columbus stainless steel project if the Government helps with tax concessions

Leslie Boyd, Highveld's chairman, says the project is too risky to embark upon, bearing in mind the prevailing rate of inflation

cent drop in world steel production. However, R10 million is to be spent increasing the local beneficiation of Highveld's vanadium

Ferro-alloy prices also remain weak, says Mr Boyd. This has resulted in ferro-alloys producer Transalloys operating its silicon-manganese furnaces at about 70 percent of capacity. But in spite of these and other production cutbacks by Western producers, world prices remain under pressure

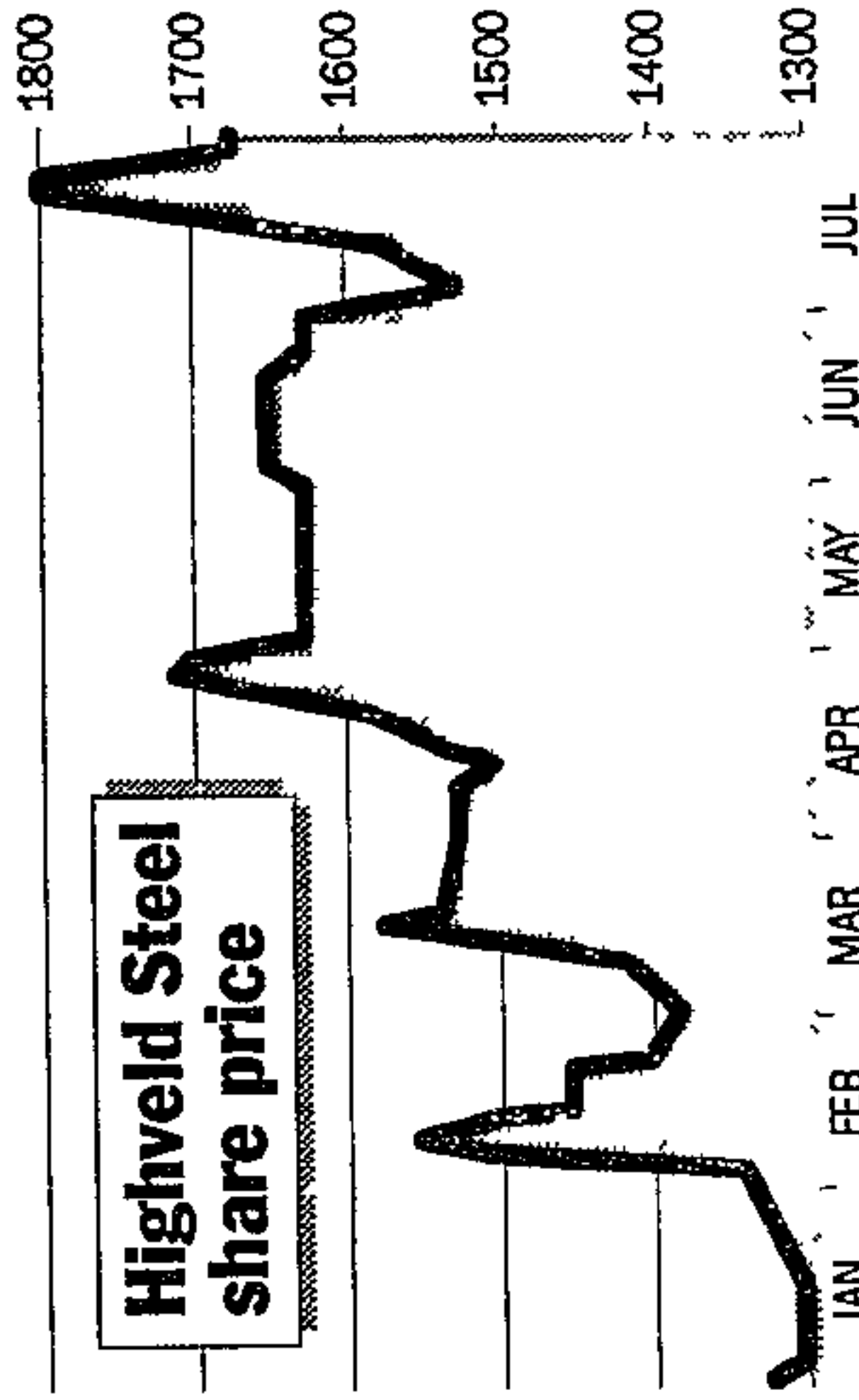
Mr Boyd blames this on excessively low-priced exports from China, Russia and Eastern Europe

Reflecting the difficult times Highveld is encountering, capital expenditure in the six months to June was virtually halved from R14.6 million to R28.4 million

Barry Davison, MD of the world's biggest platinum producer, said last night the drop in the platinum price would have no effect on the group's production or on its long-term plans.

He said the low price reflected the low demand for platinum, although Rustenburg had not experienced any reduction in output

Another factor was heavy Russian platinum sales coming on top of the large swap agreements that country had negotiated with Swiss banks



present depressed prices to continue for too long

Mr Boyd is fairly optimistic about future prospects. He says the lifting of sanctions together with the expected strengthening of the US economy will eventually result in "significant benefits"

In the short term domestic demand is likely to remain low as will prices and volumes of the group's exports. Nonetheless, Mr Boyd expects earnings in the second half to equal the first half figures

But it is not only Highveld's steel that is running into price problems. Several other Highveld's products are suffering. World vanadium consumption has fallen in line with the four per-

cent and tax dispensation. But he believes the Government is close to announcing measures which will bring this risk within acceptable bounds

Mr Boyd says the decline in both domestic and world steel consumption is a major factor in the 43 percent decline in the company's attributable profit to R47.2 million in the six months ended June

Turnover dropped by R34.8 million to R648.2 million, while profit before tax dropped 57 percent from R116.6 million to R50.3 million

Earnings a share dropped from 114.4c to 65.3c. But Highveld has held its dividend at 30c, suggesting that it does not expect the

Highveld suffers 43% profits drop

B/day 31/7/91

BRENT VON MELVILLE

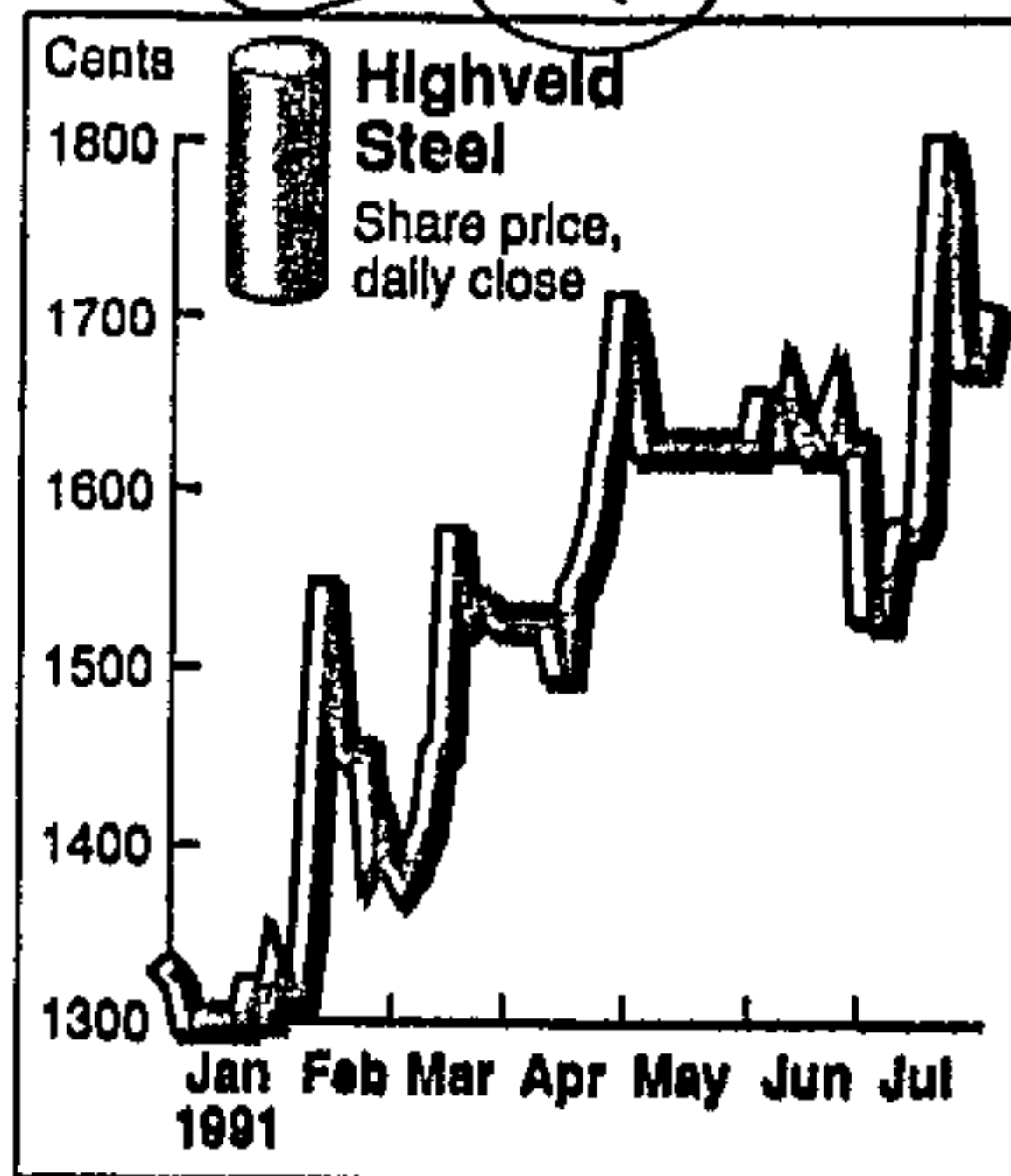
HIGHVELD Steel & Vanadium has borne the brunt of slumping world steel prices and a glut on the ferro-alloy market, to the extent of a 43% drop in profits for the six months to end-June

Highveld, controlled by Anglo American Industrial Corporation, and the world's largest producer of vanadium, saw earnings nearly halved at 65,3c (114,4c) a share off a 43% decline in attributable profit to R47,2m (R82,5m). The interim dividend was maintained at 30c, reducing cover to 2,2 (3,8) times.

Poor steel sales on the domestic market, coupled with weak prices on the export side and declining world vanadium consumption, eroded margins severely — resulting in a 57% drop in pre-tax profit to R50,3m (R116,6m) off a slight decline in turnover of R648m (R682m).

Chairman Leslie Boyd said he was optimistic about longer-term prospects. He said the lifting of sanctions, together with the strengthening of the US economy and the spin-off on the world economy, would eventually result in "significant benefits".

He said, however, that in the shorter



Graphic: FIONA KRISCH Source: I NET

term domestic demand was likely to continue at depressed levels and prices and volumes for all the group's export products were likely to remain under pressure. The view is a divergence from Boyd's statement at last year-end that Highveld was poised to take "immediate advantage" of US and EC steel markets when they re-

To Page 2

Highveld

opened to SA

Boyd said the proposed Columbus stainless steel project now depended exclusively on government action Columbus, a joint R3bn venture with Samancor and other possible partners, was considered "too risky" under the prevailing inflation rate and tax dispensation

"It is thought, however, that government is close to announcing measures to bring this risk within acceptable bounds"

Boyd said world vanadium consumption had continued to decline in line with reduced world crude steel production, and with too many suppliers in the market, free market prices had dropped to low

levels At the same time Highveld had decided to spend R10m at the Vantra division to convert up to 20% of its vanadium slag output to vanadium pentoxide

Meanwhile, continuing weak prices for manganese alloys saw Transalloys operating at 70% capacity, and despite major cut-backs in ferrosilicon production in the Western world, prices remain under pressure because of excessive low priced exports from the East bloc As a result one of three ferrosilicon furnaces at Rand Carbide was shut down during the period

Capital expenditure for the six months was R14,6m, and total commitment for further capex was about R20m

From Page 1

Samancor manganese production cut by 10%

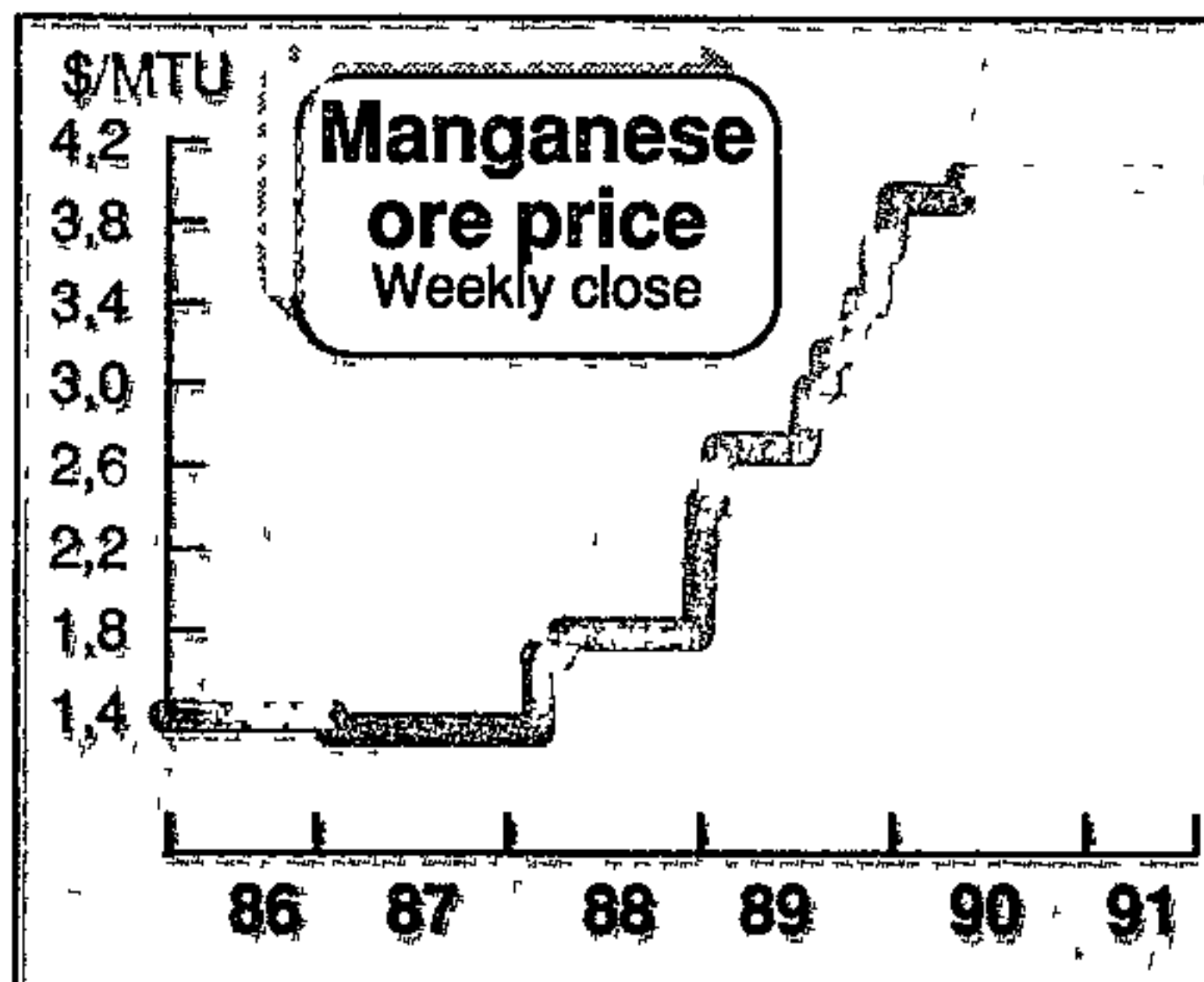
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ANDREW GILL

SAMANCOR's manganese ore production has been cut by 10% and the company could be facing another 20% reduction if worldwide destocking continued, Samancor MD Hans Smith said yesterday

Recent Metal Bulletin statistics forecast worldwide manganese ore purchasing demand to fall by 2-million tonnes this year. In Japan alone, offtake is expected to fall 700 000 tons to 1,1-million tons

However, Smith said actual demand had not dropped that much. The lower offtake was a result of the sharply higher prices charged by producers over the last three years and moves by consumers to utilise existing stocks. Three consecutive 50% increases were implemented

The Metal Bulletin report said production could be cut by as much as 40%



Graphic: LEE EMERTON Source I-NET

because of the falling offtake Smith said the figure was exaggerated

Samancor's annual manganese ore production at its two mines is a combined 3,4-million tonnes. Manganese ore accounts for more than 50% of Samancor's profits, which amounted to R539m in the 12 months to end-June 1990.

Prices are expected to

remain static in the short term with demand lower because of stockpiles.

He defended recent price increases saying if a choice had to be made between price and volume, Samancor would choose the former. The company also believed the destocking process would be a short term one and demand would bounce back

Highveld's move on slag worries dealers

MATTHEW CURTIN

COMMODITY dealers in the US reacted with consternation yesterday to the news that Highveld Steel and Vanadium was planning to convert part of the vanadium slag it produces into vanadium pentoxide in SA

This, the US dealers feared, would remove slag from the international market, which could put some European and US slag processors out of business. Highveld announced yesterday that it planned to spend R10m on plant needed to convert as much as 20% of its slag into pentoxide in the coming year.

However, chairman Leslie Boyd made it clear yesterday that Highveld's decision would not affect overseas conversion contracts "at this stage".

The company did not intend to end contracts with overseas slag processors.

"Highveld will continue shipping slag while boosting vanadium pentoxide output by processing extra slag in SA," he said.

At present slack demand for slag has left Highveld's slag facilities operating at less than full capacity.

Analysts have said that Highveld's decision to start a vanadium slag beneficiation operation would bolster the company's performance and increase SA's export revenue.

Highveld produces steel and by-product vanadium slag from vanadiferous iron ore.

It also produces vanadium pentoxide directly from vanadium ore.

Pentoxide is used to produce the ferro-vanadium alloy.

Precedent-setting wage deals signed

By Shareen Singh

1/8/91

South Africa's biggest industries, mining and metal, yesterday signed precedent-setting agreements on wages and working conditions

In the mining industry, workers at four mining houses — Anglo American, Genmin, JCI and Rand Mines — are to receive profit-linked wage increases which include a basic 5 percent increase and bonuses coupled to the gold price

This means that if the gold price increases to more than R1 050 an ounce, workers on these mines will receive a bonus of up to 7 percent of their basic wage

At Harmony mine, a profit-sharing scheme has been agreed on which will grant a basic increase of R25 for all workers. In addition, 15 percent of profits up to a maximum of R4 million will be set aside for workers

Two other mining houses in the Chamber of Mines offered straight increases ranging from 6,5 percent and 9 percent, with no gold-price bonus

On coal mines, the National Union of Mineworkers (NUM) accepted increases ranging from 6,5 percent to 19,1 percent

A range of non-wage demands were also agreed on, including a statement of principles, rights and obligations underpinning industrial relations in the industry, together with guidelines governing worker participation in hostel affairs

The NUM pointed out that in accepting the agreement it had taken account of the economic climate confronting the gold mining industry. Union president James

Mohlatsi said the agreement was not a favourable one with respect to wages, but it was significant in securing basic civil rights for mine-workers

NUM acting general-secretary Marcel Golding said these rights would ensure more effective union organisation, increase the union's membership and give hostel dwellers democratic participation on issues

Chamber of Mines spokesman Bobby Godsell expressed appreciation to the union for taking the industry's economic situation into account. This would enhance a better relationship between management and the union, he added

In another precedent-setting agreement, the Steel and Engineering Industries Federation (Seifsa) and several unions, including the National Union of Metalworkers (Numsa), secured wage increases of between 12 and 15 percent

Settlement was reached after four months of difficult negotiations and nine days of mediation

A significant aspect of the settlement was an agreement to set up two committees within the next 30 days, involving senior trade unionists and industrialists, to look into training and restructuring with the aim of promoting economic growth

If these committees operate favourably to all the parties involved, it could lead to an industry-wide summit

Numsa spokesman Bernie Fanaroff said the agreement was a breakthrough because Seifsa was originally opposed to granting wage increases which matched the inflation rate

On the bottom (1898)

Key figure in the interim results from Highveld Steel & Vanadium is not the 43% drop in attributable earnings but the maintained dividend, which indicates management's conviction that the group's fortunes are turning around. Chairman Leslie Boyd forecasts maintained earnings in the second half, which breaks the trend of falling earnings for each half-year since the end of 1989.

"We believe we are on the bottom and would not have maintained the interim if we did not feel we could maintain the final dividend as well," he says.

Pre-tax profit plummeted 57% to R50,3m (six months to June 1990 R116,6m) on a 5% drop in turnover to R648m (R682m). That was the result of the poor volume of local steel sales and lower prices on exports because of increased competition.

World vanadium consumption fell in line with the approximate 4% decline in world crude steel production, while continued oversupply held down free market prices.

Highveld closed its entire Vantra vanadium pentoxide division by October but subsequently brought one furnace back on line with annual production capacity of 5m lbs, compared with the division's total capacity of 18m lbs. Boyd says that furnace is likely to be closed again in the second half.

The share price has dipped to R17 from its 12-month high of R18, set in mid-July. A forward yield of 4,1% looks dear but expectation of a maintained dividend, combined with general bullish market sentiment and benefits to come from the lifting of sanctions, may well underpin the share.

Brendan Ryan

Middelburg Steel (189) B to get chrome mine

MATTHEW CURTIN (218)

BARLOW Rand intends to merge Rand Mines' Winterveld chrome mine with the group's unlisted subsidiary Middelburg Steel and Alloys (MS & A), which would "in all probability" be floated off next year.

The proposal has led to concern at JCI's ferrochrome producer Consolidated Metallurgical Industries (CMI), which buys a substantial portion of its chrome ore from Winterveld. *B/day 2/18/91*

Barlow's director and MS & A chairman John Hall said yesterday the group intended to "sling the Winterveld chrome mine into a floated MS & A in 1992", though he added that no decision had been taken yet.

Rand Mines has said Winterveld will not be sold along with the other assets of the group's mothballed Vansa Vanadium.

CMI chairman David Kovarsky said yesterday CMI had approached Rand Mines twice with proposals to buy the chrome mine but had been turned down.

Kovarsky felt "uncomfortable" at the prospect of an important source of CMI's chrome supplies falling into the hands of one of its direct competitors.

CMI's contract with Winterveld had two years to run, but CMI was already investigating the acquisition of its own chrome reserves, possibly from parent JCI.

Barlow Rand announced in May that it was planning to reduce its direct holding in MS & A. Vice-chairman Derek Cooper indicated that a minority stake in MS & A

□ To Page 2

Chrome mine *B/day 2/18/91*

would be sold to outside investors in the 1992 financial year.

The decision to float off the steel and ferrochrome operation including Winterveld comes amid the wide-ranging reorganisation of Barlow Rand's mining interests held through Rand Mines.

(218) (189) B From Page 1

MS & A has turned in poor results as weak ferrochrome prices and problems with its direct reduction process have knocked its ferrochrome division, offsetting better results from its steel division.

Barlow Rand disclosed that MS & A had suffered an interim loss of R17m this financial year.

CMI in the red ^{(189)B} but it could have been worse ^{B/day 2/18/91.}

MATTHEW CURTIN

WEAK ferrochrome prices, high interest payments and teething problems at its new Rustenburg smelter swung SA's third largest ferrochrome producer, Consolidated Metallurgical Industry (CMI), into the red in the year to end-June

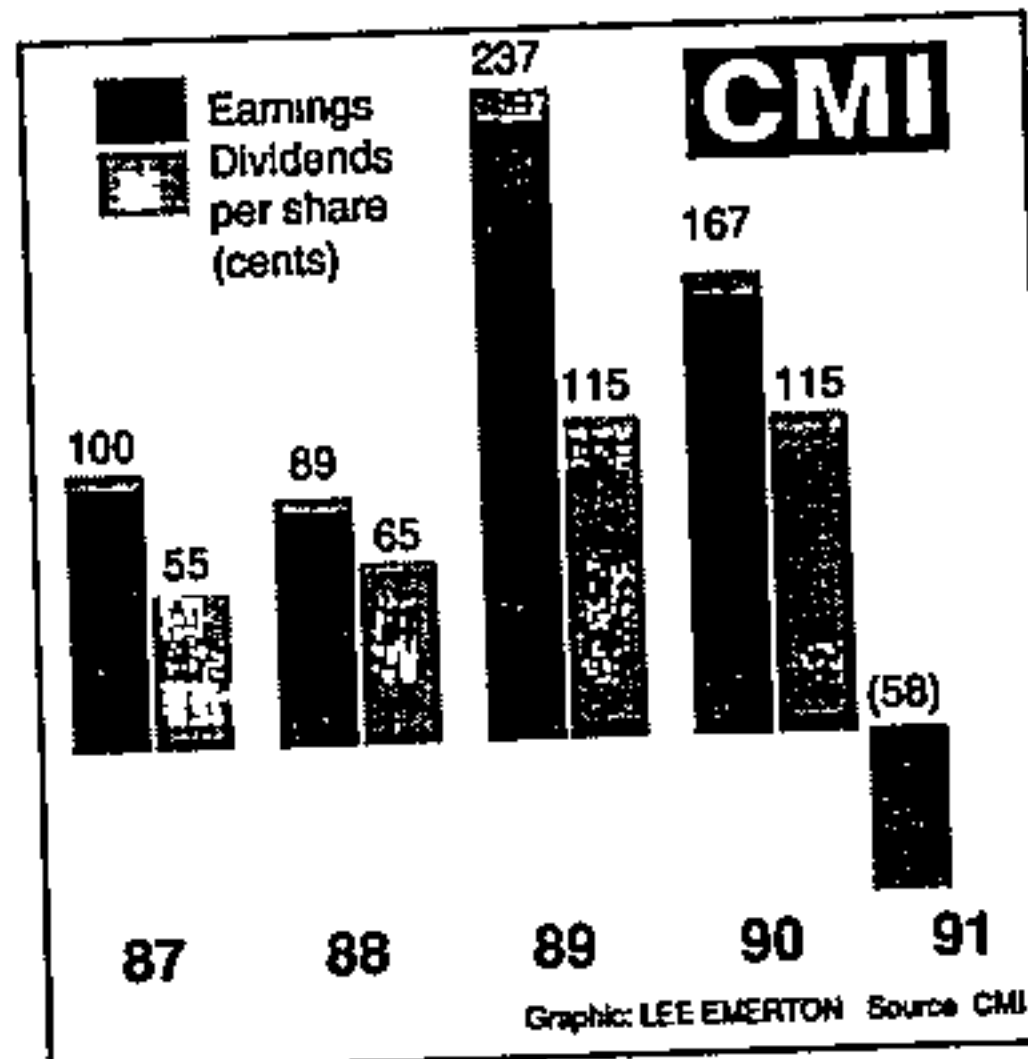
The situation would have been worse had not the depreciation of the rand against the dollar, together with improved efficiency and increased production at the Rustenburg plant, boosted results in the second half

Attributable earnings fell from R71m or 167c a share in 1990 to a loss of R25m or 58c a share in 1991, the first time CMI has reported a loss at year-end as a listed company

No final or interim dividend has been declared

CMI bought Purity Ferrochrome for R181m last September. The acquisition of Purity's chrome mine and smelter in Rustenburg increased CMI's ferrochrome capacity by 50%, from 220 000 tons to 330 000 tons a year. The company now has 21% of SA ferrochrome capacity and 10% of world capacity

Chairman David Kovarsky said yesterday that although the purchase of Purity pushed sales up by more than 50%, turnover grew only 27% to R275m because of the poor prices SA



producers have obtained a ferrochrome price of US49c a pound for three quarters running, after a 2c increase in the December quarter

CMI took on heavy debts to pay for the Purity deal. At year-end the company had R124m in long-term interest-bearing debt and had paid out R19m in interest

CMI's rights issue last month, which raised R102m after being fully subscribed, was designed to cover the company's R92m of short-term debts

Kovarsky said prospects for CMI in 1991/1992 were much healthier. Improving conditions in the stainless steel industry, which consumed 81% of ferrochrome supply, boded well in the long term

CMI was operating at only 70% capacity at its two plants and the

ferrochrome surplus was likely to dampen prices until the first quarter next year. However, the low price was knocking overseas production and prices would improve as supply and demand began to balance

Thanks to the rand's loss in value, SA producers were breaking even at the current price with the prospect of "adequate returns" should the price reach US55c a pound

Kovarsky said CMI was now running at an operating profit, after the year's operating loss of R11m

He said there were still some teething problems at the Purity smelter but the new technology it employed together with low-cost chrome ore supplies from the Purity mine meant it was the lowest cost ferrochrome producer in the country

The slack market conditions had enabled CMI to shut down and overhaul its A furnace at its Lydenburg plant last year and the B furnace was undergoing maintenance which would be completed in September

Kovarsky said the company's rights issue would reduce its debt burden substantially although it would have to pay out R10m in preference share dividends

He said CMI was keen to conserve and build its cash resources. The only capital expenditure on the horizon was the purchase of a second granulator for the Lydenburg plant

CMI posts first loss as ferrochrome price slips

Star 2/8/91

By Sven Lunsche

(189) B

Ferrochrome producer Consolidated Metallurgical Industries (CMI) recorded a loss for the first time since its listing in 1986 as prices fell 22 percent in the year to June

The loss of R24,7 million compares with attributable earnings of R71 million in financial 1990-91

However, chairman David Kovarsky says the group is now in a profit situation and should report more positive results for the current financial year

Mr Kovarsky says CMI's R102 million rights offer to finance the acquisition of the Purity ferrochrome smelter during the year was 99,5 percent subscribed

The Purity acquisition boosted production capacity by 50 percent to 330 000 tons during the year, but the 22 percent slump in ferrochrome prices held turnover increase to 27 percent at R274,6 million (R215,4 million)

As a result of higher borrowings, the interest bill rose to R19,4 million

Earnings per share slumped to a loss of 58c from a profit of 167c previously. The dividend has been passed

Oversupply of ferrochrome led to a marked drop in the contractual prices from 81 US cents per pound in 1989 to 47c in the first half of the 1990-91 financial year

A modest price rise of 2c was achieved in the second half and this, coupled with the weaker rand and greater efficiency at the Purity plant, led to a 37 percent improvement in second-half earnings

Mr Kovarsky says the oversupply of ferrochrome will have a dampening effect on prices over the next two years, but that thereafter the balance between

supply and demand should be restored

However, the demand for stainless steel, where 81 percent of world ferrochrome is absorbed, remains good

The closure of the Italian operation and recent spot-market buying by Middelburg Steel & Alloys (MSA) could see a modest price rise by the first quarter of next year

Earnings in 1991 could be boosted further by the weaker rand, lower per unit production costs and increased demand for stainless steel

Stainless steel demand is forecast by CMI to rise from 10,8 million tons this year to around 11 million tons in 1992

Both group plants are running at about 70 percent capacity, Mr Kovarsky says

Depending on the level of profit achieved in the current year, dividend payments should be resumed, although the group will ensure that it has a healthy cash balance to fall back on

He says that if the Columbus stainless steel venture gets the go-ahead, the expected 60 000-ton demand will be met largely by Samancor, but that some sales will go to CMI

He confirms that the group's offer to buy Rand Mines' Winterveld chrome operation has been turned down

Reacting to speculation that Winterveld will now be absorbed by MSA, he says that should the deal materialise, "we would obviously be unhappy to buy chrome from a competitor"

Mr Kovarsky says JCI, CMI's holding company, is examining the exploitation of some ore reserves at Thorncliff in the Eastern Transvaal, but that there is only a slim chance of the project going ahead

Amic looks set to show poor results

18/09/91 *189B*

BRENT VON MELVILLE

BLUE chip industrial group Anglo American Industrial Corporation (Amic) looks set to produce poor results for the half year to June

Market analysts believe the share is a good example of how overrated industrial counters have become in recent months. The current share price of R90 is below last week's peak of R92, and puts it on a historical price to earnings ratio of 11 times.

Mathison & Hollidge analyst Robert Catich said the market had rated Amic highly because it had discounted growth that was probably about two years out. The exceptional rating of poorly performing industrial stock has been largely attributed to strong institutional demand and the shortage of scrip.

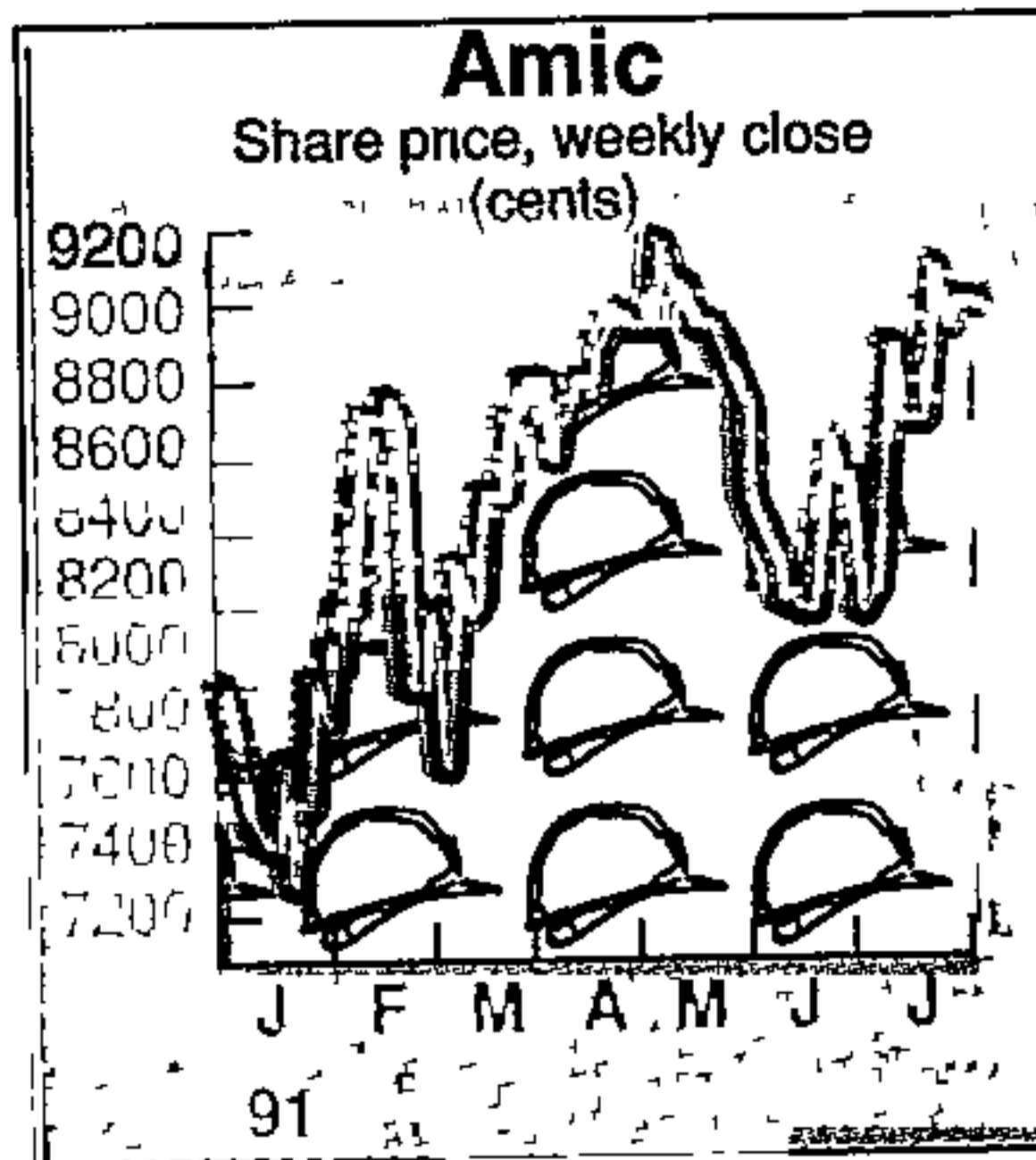
On fundamental grounds the latest results from listed industrial concerns have not supported their share ratings. There have been a few exceptions but Amic is not likely to be one of those, according to analysts.

Last year almost 90% of its profits were derived from six companies — the listed AECL, Highveld Steel & Vanadium (Hiveld), Tongaat-Hulett and the unlisted Scaw Metals, Boart International and Mondri Paper.

AECL, which last year contributed almost 21% to Amic's bottom line of R451m, has seen profits for the six months to June down 56%.

Hiveld last year contributed 17% to attributable profits — and its earnings for the first six months were down 43%, largely as a result of production problems and slumping world markets.

Tongaat-Hulett, responsible for about 8% of attributable earnings last year, did better than expected in its latest perform-



ance to March. Its earnings, however, were still 19% down.

Mondri (worth about 12% of Amic's bottom line) is not likely to do well either, analysts say. One analyst is forecasting a decline in earnings of 30% — in line with Sappi which reported an earnings decline of 35%.

Boart International, which last year contributed 14.6% to Amic's profits, is not expected to be spared the trend of declining profits in the mining industry worldwide.

That excludes the holding in LTA, which should show improved earnings off its work for the Lesotho Highlands Project.

Scaw Metals is expected to show a 20% tumble in earnings for the first half of the year. Last year, Scaw contributed 17.2% of Amic earnings.

Analysts have indicated that at best, Amic shareholders can expect a 20% decline in earnings. That equates to earnings of 361c (451c) a share.

'Environment comes first'

LINDA ENSOR

CAPE TOWN — It was time that SA realised that economic development and the environment were inextricably linked, Medical Research Council's Dr Yasmin von Schurnding said yesterday

Von Schurnding, who has just returned from an international environmental conference in Sweden, said while SA was gaining acceptance internationally there was a danger that the country could soon face environmental sanctions

She said one of the main conclusions of the conference was the necessity to strive for sustainable development rather than short-term economic goals

"The environment needs to be planned for to ensure that development does not take place at the expense of the ability of future generations to enjoy the benefits of the quality of life we are presently enjoying"

Von Schurnding is planning to discuss the findings of the conference, organised by the World Health Organisation (WHO) and the United Nations Environment Program, with Health Minister Rina Venter and organisations such as the ANC and the PAC

Steel stocks up despite exports and SA demand

Brent Von Melville

STEEL stocks are still increasing despite inroads into export markets by SA steel producers and reports by Iscor that domestic demand had been holding up better than expected over the past several months

Latest Central Statistical Service (CSS) figures indicate that stocks of primary steel products for May this year showed a 12% increase from the comparable period last year

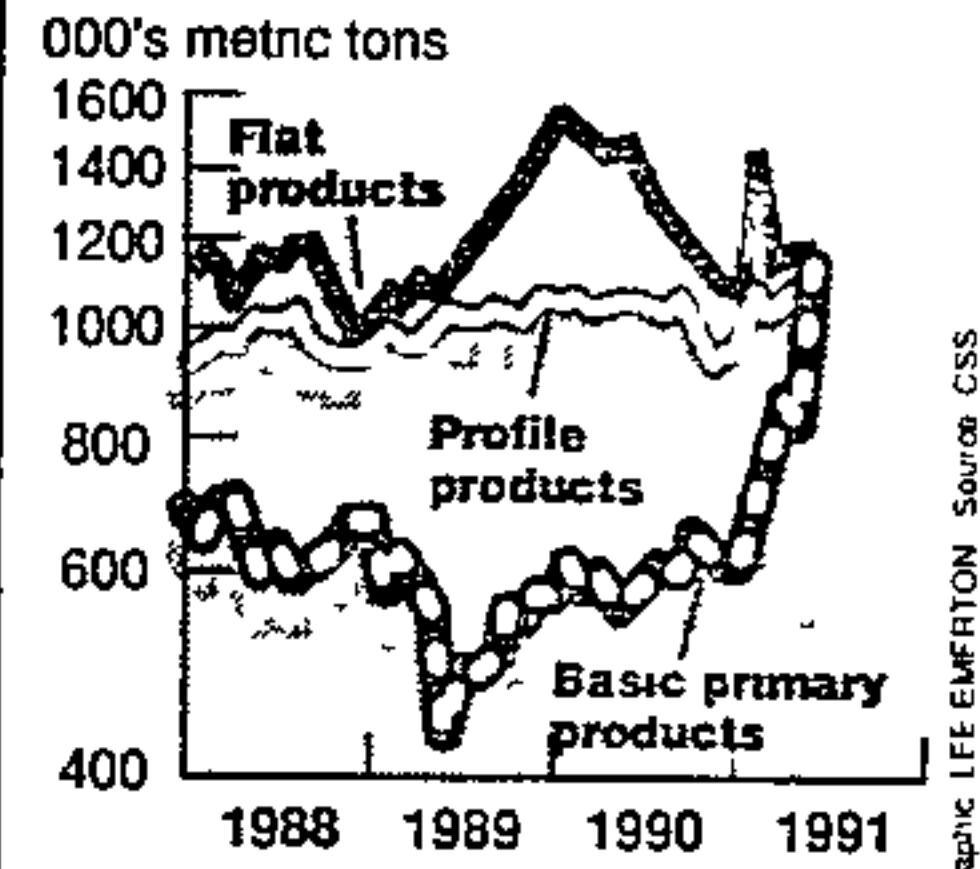
The largest increase in stocks was recorded for basic primary products, which jumped 105% to 1,2-million tons (May 1990 573 670 tons) while profile products increased 5,2% mainly due to an increase of 26% in stocks of wire rod and wire

The only decrease was in stocks of flat products, which showed an 18,7% decline However, the decline came off a high stock level recorded last May of 1,8-million tons

Flat products are produced by Iscor and Highveld Steel & Vanadium (Hiveld), and are used mainly in the motor industry and durable consumer "white" goods (such as large household appliances)

One steel analyst suggested little could be read into the decline in stocks of flat products — which are

Steel products on hand



differentiated into slabs (stocks of which dropped 18%), plates (down 16,5%), sheets (down 19%) and tin plate (down 23%) It was likely stocks would again show increases for June and July "particularly in view of the problems with the motor industry"

"Generally the domestic steel market is still in the doldrums and producers are struggling with excess stocks of steel The durable goods market is depressed and steel merchants are curtailing orders"

There had also been some overbuying ahead of this year's second hike in the basic steel price, following January's 16,5% rise

Slowing economy hits civil engineering

PRETORIA — SA's economy has slowed down so much that the civil engineering industry finds itself in a parlous situation with many companies facing bankruptcy, says CD Roux of Con Roux Construction

Roux told the 11th Annual Transport Convention at the CSIR in Pretoria on Tuesday that the industry's current crisis stemmed from a number of factors

These included completion of the current toll road building programme and the general reduction in road expenditure as well as a reduction in construction by Eskom

Gerald Reilly

Also, regional services councils had switched from providing new services to subsidising existing ones

The gravity of the situation was illustrated by labour figures In 1970 employment was 73 000 By 1975 it had increased to 130 000, and by 1986 had declined to 85 000

"Apart from normal staff turnover, a staggering 164 000 workers have come and gone because of the ravages of gross domestic fixed investment in construction fluctuating between 3,8% and 8,9% of GDP"

Roux said as SA's acceptance by

the rest of Africa increased there would be a growing market for civil engineering in sub-Saharan Africa

Roux said infrastructural development had to at least keep pace with population growth

However, this was not happening in SA, particularly in the field of road construction and maintenance

"And the chickens will come home to roost within five years if warnings are ignored"

"Neglect of an asset of about R53bn would have serious repercussions which would affect socio-economic development and stability he said

CMI
Fm 9/8/91
Expansion costs

(189) B

Consolidated Metallurgical Industries (CMI) has emerged from an eventful 1991 year. It bought the Purity group for R181,3m, then saw an adverse profit swing of R95,7m for the 12 months. It has raised R102m through a rights issue to reduce borrowings but these remain high considering the poor profitability.

This performance and the unexciting market outlook makes the Purity acquisition look questionable — or at least its timing. The ferrochrome price had already declined sharply and the deal brought substantial borrowings on to CMI's previously ungeared balance sheet.

Though sales volumes for financial 1991 rose by more than half, turnover increased by only 27%. The result was a pre-interest loss of R4,6m, against the 1990 year's profit of R75,1m. In addition to a decline of more than a fifth in the average ferrochrome price, there were higher costs related to commissioning the new smelter.

A net interest bill of R19,4m, compared with the 1990 net interest income of R11m, worsened the effects. Fortunately, the tax charge was reduced to R665 000, but there was still an attributable loss of R24,7m or 58c per share. Some relief came in the second half, when results were almost a third better than the first six months. This was mainly because of a 4% improvement in the dollar price, increased sales volume, a weaker rand and greater efficiency at the Rustenburg plant.

For his part, CMI chairman David Kovarsky says management is happy with the purchase. MD Zacharias van der Walt notes that, by buying at the bottom of the market,

Fm 9/8/91
an attractive price could be negotiated

Benefits include a 50% increase in production capacity, to 330 000 t, representing about 10% of Western supply. CMI has gained a smelter on the western belt of the Bushveld Igneous Complex, accessible to UG2 chrome reserves, there is a wider variety of ferrochrome specification, and the assets bought include the Purity mine, a low-cost producer of chromite concentrates.

The mine and smelter were brought on stream and achieved design capacity in May. Remaining teething problems in the furnaces and infrastructure are expected to be eliminated by the end of September.

CMI has approached Rand Mines to discuss buying Winterveld chrome mine. Winterveld, CMI's only external source of ore, supplies the Lydenburg smelter on a contract with a two-year cancellation clause. Rand Mines declined to sell and there are indications that Winterveld will be moved into Middelburg Steel & Alloys (MS&A). CMI would not feel comfortable with this, as MS&A is a direct competitor.

However, with Purity mine, CMI at least has one in-house ore supplier. Van der Walt adds that the group also has access to extensive chrome ore deposits owned by JCI in the Lydenburg area. CMI takes 50%-60% of Winterveld's output, so it may not be easily replaced as a customer, but a new CMI chrome mine is an option.

But the real benefits of the Purity deal will only be seen when the ferrochrome market recovers fully. That could take as long as two years. Management is expecting growth in stainless steel production from 10,8 Mt in 1991 to "at least 12,2 Mt" by 1995. CMI's sales volumes should also improve. Output at about 85% of capacity is being targeted for this year, compared with about 70% during last year.

Some overseas producers of ferrochrome — notably in Italy, Philippines, Greece, India, Turkey and Brazil — have reduced or closed capacity. Kovarsky now reckons a modest increase in the ferrochrome price should be seen by the first quarter of 1992. Even so, he believes the ferrochrome market will remain in oversupply for the next two years.

CMI had a tax loss at June 30 of about R100m, so it's unlikely to pay tax for another year or two. Sales prices have risen to the point where a small profit is being made. The rights issue of preference shares was virtually fully taken up and gearing has been reduced to about 49%. On the other hand, the interest bill will not be completely eliminated and there has been a 40% increase in fully

diluted share capital

EPS are likely to remain unexciting, with only token ordinary dividends, if any, paid at least until 1992. On that outlook, the share is expensive at 900c. However, the eventual recovery could be steep, which makes the share worth accumulating, particularly at lower prices.

Andrew McNulty

PROFITS MELTING

Year to June 30	1990	1991
Turnover (Rm)	215	275
Operating profit/(loss)	69	(11,3)
Attributable (Rm)	71	(24,7)
Earnings (c)	167	(58)
Dividends (c)	115	—

Motor industry: we'll take our business overseas if steel prices rise

8 Dec 13/8/91
THE SA motor industry has warned it will look to foreign producers for its steel requirements, after speculation by steel converters that local producers might be gearing up for a second price rise this year.

National Association of Automobile Manufacturers of SA (Naamsa) CE Nico Vermeulen said yesterday if steel producers put up prices again this year, the industry would be forced to evaluate the costs involved and could be prompted to import more of its steel.

Vermeulen said another price increase would be "unthinkable", and warned any increase would be greeted by a "significant amount of resistance" from the motor in-

dustry, which is a major consumer. He said Phase VI of the local content programme allowed the industry the flexibility to import steel if it was deemed beneficial to do so.

Spokesmen for producers Iscor and Highveld Steel & Vanadium (Hiveld) would not be drawn yesterday on whether another increase could be expected.

Iscor spokesman Piet du Plessis did not specifically rule out another adjustment Iscor generally acts as the price-setter in the industry, and Hiveld follows suit.

Group 5 (Engineering) MD Stan Hughes said there was "no doubt" that the market

was already paying far more for steel than it should.

He said a company like Group 5 was particularly vulnerable to steel price fluctuations because it bought steel only for individual contracts and could not stockpile.

After the initial 16,5% price rise on January 1, Iscor gave downstream users an undertaking that prices would not be raised again this year. However, the rise was then adjusted down to 14,5% and producers withdrew the undertaking.

Independent Wire Converters' Associ-

ation (IWCA) chairman Robin Bosomworth said the market should not have to bear price hikes when the world market was in a slump.

He slammed Iscor's export policy, saying the two-tier pricing system meant that local users were effectively subsidising the export market.

The IWCA claimed that SA users could import steel from the Far East more cheaply than they bought locally — even after paying duty on it.

The IWCA has also lodged a formal application against a Rolled Steel Producers' Council application with the Board of

Trade and Industry for increased protection levels on imports of certain types of steel. The council's aim is to counteract "dumping" from the depressed world steel market.

Because of shrinking local demand, local producers have increased exports to almost 50% of total production from about 36% at the same time last year. But in attempting to underpin costs on the local market, steel is going cheap to overseas buyers.

Market analysts, with that in mind, and with the already poor results turned in by Hiveld, say it will be interesting to see how Iscor performs for the year to June.

Steel doors only ajar

S/Times (Burd T) 18/8/91.

By IAN ROBINSON

(1892)

SCRAPPING of US sanctions law will provide no short-term bonanza to steel exporters.

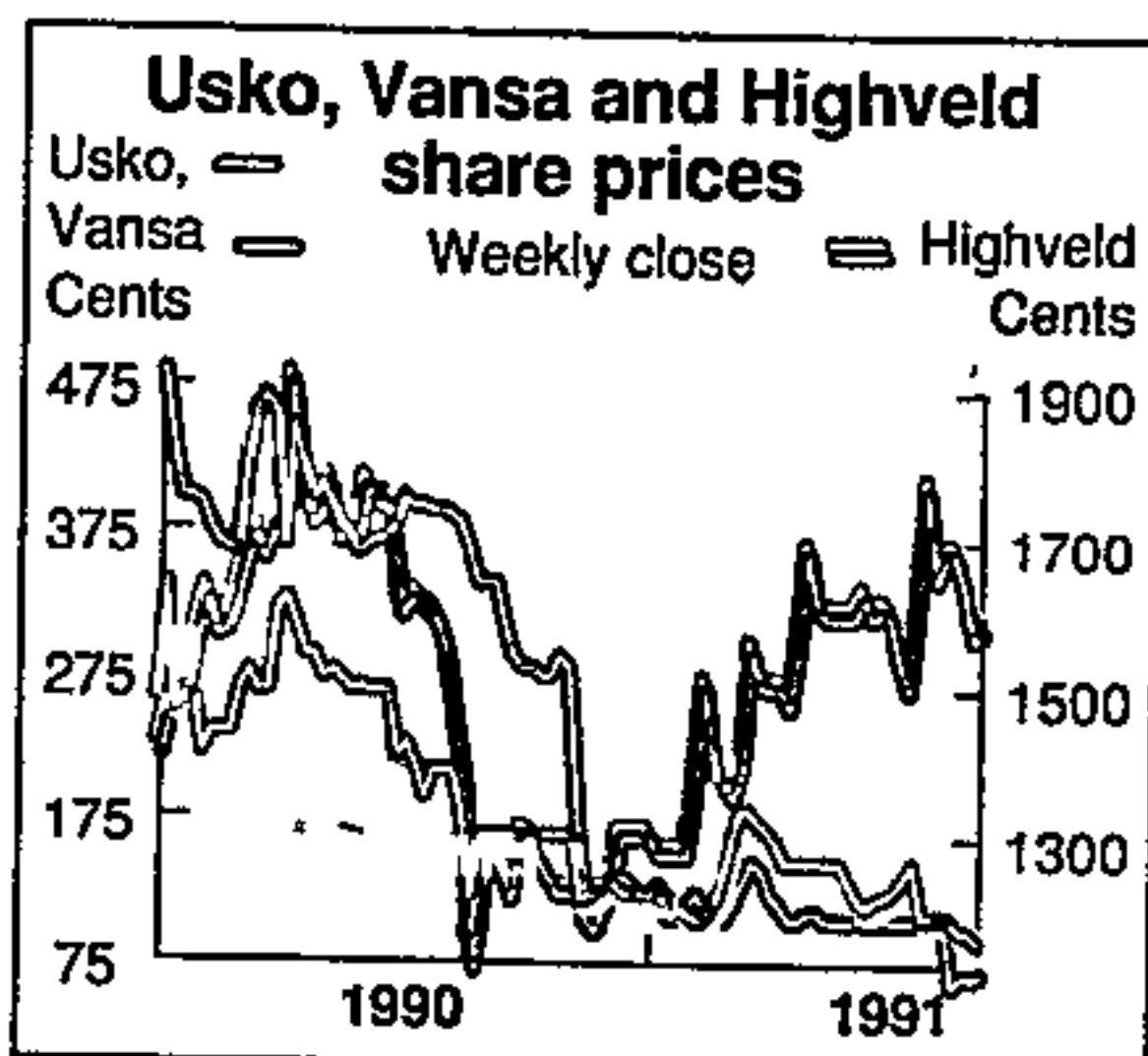
State and municipal sanctions remain and US steel companies have threatened to invoke the subsidy code of the General Agreement on Tariffs and Trade (Gatt) to block imports from SA producers which benefit from the general export incentive scheme (GEIS)

This can be regarded as an export subsidy which constitutes an unfair trading practice under Gatt rules. To regain their markets in the US, SA producers will probably have to forgo the incentive.

Before sanctions in 1986 the US was a lucrative market for SA. Since then there has been a sea change in the US steel market. American Metal Market says that when SA left, the US was the highest price market in the world. But it may now be the lowest.

In spite of a voluntary restraint agreement (VRA) which limited import tonnages, SA exports to the US involved a wide range of products.

Isacor's post-sanctions strategy will be directed to niche markets and it will export only products in strong demand in the US.



Graphic: FIONA KRISCH Source: I-NET

189 B *23/8/91*
Highveld set for huge vanadium deal

189 B *23/8/91* **MATTHEW CURTIN**
 HIGHVELD Steel & Vanadium is on the verge of buying the merged vanadium operations of Usko and Rhombus Vanadium (Rhovan) in a multimillion-rand deal, say market sources.

One analyst said "the deal is almost there", but Usko and Rhovan chairman Floors Kotzee would not confirm or deny yesterday whether the sale was going ahead. He said information of that sort should be released to the companies' shareholders first and not through the Press. The two companies have a combined market value of almost R40m.

A Highveld official said again yesterday that it would be too early to comment on the subject.

□ To Page 2

189 B *23/8/91*
Highveld

□ From Page 1

Usko and Rhovan said at the start of July that they were considering a merger of Usko's vanadium division with Rhovan which supplies it with concentrate from its vanadium mine near Brits.

Usko has suffered prolonged commissioning problems with its vanadium plant designed to produce 9 000 tons of vanadium pentoxide a year. The company, which sold its steel division to Iscor for R50m in July, has not met the 4 500 tons a year it contracted to produce with Rhovan, and has had to pay penalties as a result.

Usko spent R21m on the plant and wrote off a further R31m in 1989 and 1990. The company had run up debts of R182m overall by March this year.

Analysts said Highveld's interest in buying the Rhovan/Usko vanadium operation was to enlarge its control over local production at a time of oversupply. It shut down its Vantra plant, which converted vanadium slag into vanadium pentoxide,

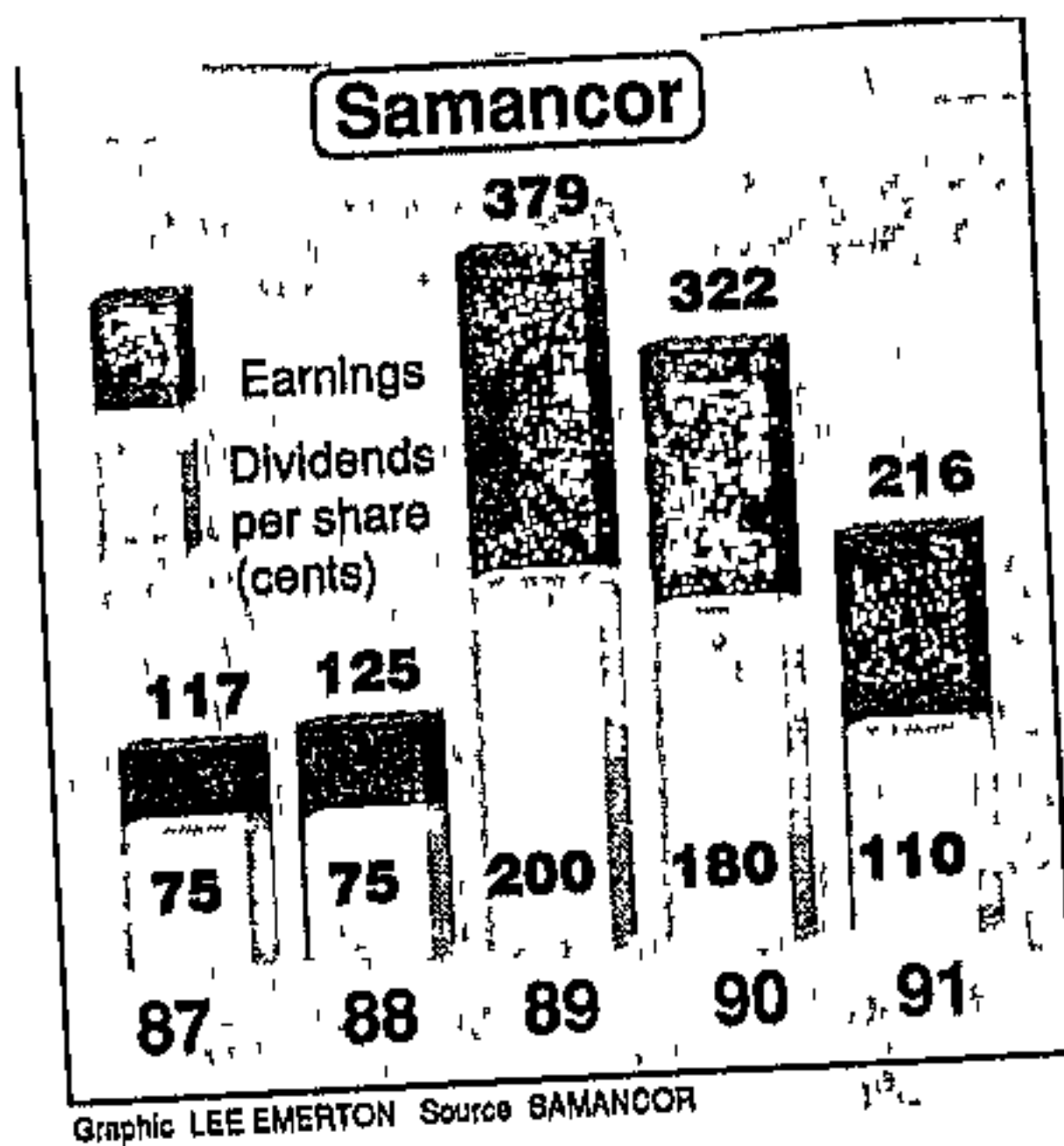
for the second time within a year because of the depressed market.

Highveld has about 70% of SA's vanadium pentoxide capacity and almost half of world capacity.

Usko's problems have been compounded by the weak vanadium market which has seen spot prices plummet from \$11,00/lb at the beginning of 1989 to \$2,30 this week. Highveld's price has fallen from \$7,50 to \$2,90 in the same period. The weak market helped scupper Rand Mines' Vansa Vanadium operation which shut down at the end of last year.

Vanadium Technology (Vantech) announced yesterday that it had bought Vansa's vanadium assets for R17m.

Director John Vorster, also Chromecorp Technology (CCT) CE, said he expected Vantech to bring the Kennedy's Vale vanadium operation to production in the early part of next year. Vansa has a production capacity of 3 000 tons a year.



Graphic LEE EMERTON Source SAMANCOR

Columbus venture waits for tax ruling

MATTHEW CURTIN ^{(189) B}

THE Columbus stainless steel joint venture between Samancor and Highveld Steel & Vanadium would go ahead at a cost of about R3,1bn if government gave its approval to tax incentives, project CE Fred Boshoff said yesterday.

The tax incentives were needed to get the project, to be built near Witbank, off the ground. *B/day 27/8/91*

Boshoff said the project's partners were still waiting for Cabinet to agree on a package of incentives, despite indications that the proposals aimed at encouraging beneficiation projects in SA were to have been settled at the end of July.

Samancor MD Hans Smith said a rights issue was one option and with the lifting of sanctions, the project did not need an overseas partner to market its product. But room would be left for foreign investors.

Smith and Boshoff were speaking at the presentation of Samancor's results for the year to end-June 1991, which saw group earnings a share fall by 33%. Samancor declared a total dividend of 110c for the year, down from 180c in 1990.

Smith said next year would be equally difficult for Samancor as low prices and inflation were set to continue.

But the rand's fall against the dollar and the prospect that demand for ferrochrome and ferromanganese would improve in 1992 were cause for optimism. While dollar prices had not moved in 1991, prices in third currencies had risen by up to 18%.

● See Page 11

Samancor hit by static prices and low demand

Bl Day 27/18/91.

189

STATIC chrome and manganese prices (ores and alloys) and falling ferroalloy demand hammered Samancor's results in financial 1991, setting earnings a share back by 33%

However, the rand's depreciation against the dollar and a lower tax bill cushioned the blows, enabling Samancor to increase its cash resources and defy MD Hans Smith's prediction in February that the second half of the year would be worse than the first

Samancor's earnings dropped by a third from 322c to 216c a share in the year to end June 1991. Attributable income fell from R539m to R356m.

The group raised its ordinary final dividend by 10c to 110c a share this year. Samancor has stopped declaring a special dividend which in 1990 saw shareholders paid out 180c a share overall.

Smith said the low commodity prices had knocked profits, but earnings were higher than forecast at the interim stage, helped by the lower tax bill and an increase in interest income since January.

The contribution from the group's chrome and manganese divisions to profits had fallen from 90% two years ago to 80% in 1991, with the contribution from chrome falling well behind that of manganese.

MATTHEW CURTIN

Smith said the chrome division was still in the black, a satisfactory position given the marginal status of chrome operations at Samancor's rivals in SA and overseas.

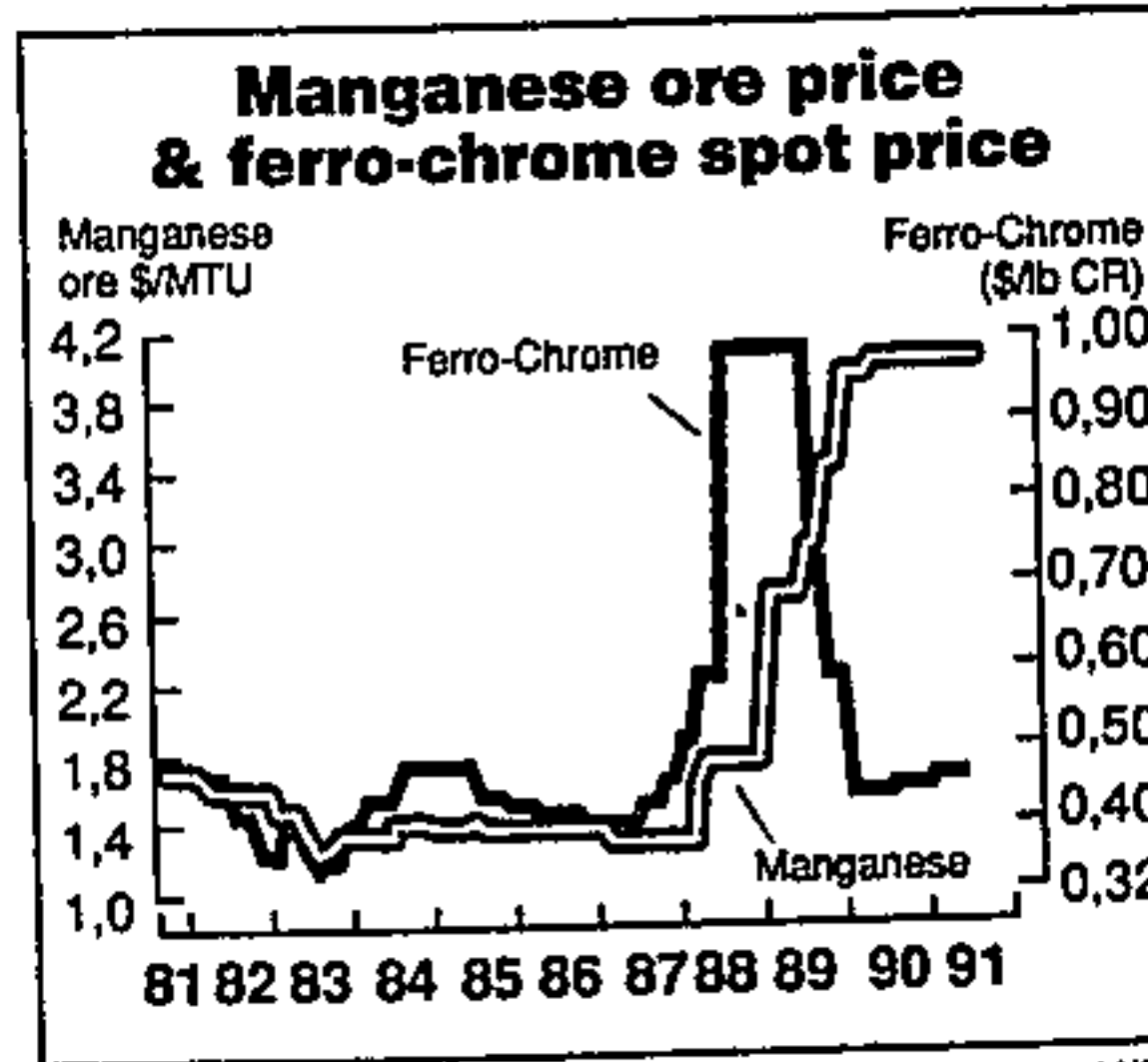
He said the division was operating at 80% capacity, and although consumption was high — near the record levels of 1988 — and stainless steel consumption was likely to reach a new peak of 10,7-billion tons a year by the end of 1991, the ferrochrome price was "unacceptably low" because of fierce SA competition.

SA producers — Samancor, Consolidated Metallurgical Industries, Middelburg Steel and Alloys and Chromecorp Technology — are responsible for 40% of the world's ferrochrome production and are the lowest on cost. Despite appeals from some producers and analysts for closer co-operation, the companies are yet to work together to push prices up.

Producer ferrochrome prices have been unchanged at US49c/lb for three quarters, but Smith was confident prices would rise in the long term. Customers' inventories are run down and production costs were likely to push the price up. SA's higher-cost competitors overseas could not undercut SA prices indefinitely.

Manganese division GM David Munro said the large fall in Samancor's sales of manganese ore was not from exports but in deliveries to the group's ferromanganese plant at Meyerton, a reflection of the weak alloy market. Ferromanganese prices have slipped to mid-1988 levels of \$565 a ton, while manganese ore prices have stood still at record levels.

The group's turnover fell 10% in 1991 from R2bn to R1,8bn. After tax profits slid from R528m to R356m, and capital expenditure was cut by 44% from R192m to R107m.



Graphic: LEE EMERTON Source: I-NET

Samancor feels the pinch

By Derek Tommey

steur
27/8/91

Samancor, the world's biggest manganese producer, has been feeling the cold winds of the international recession

Turnover in the 12 months ended June dropped 10 percent to R1,8 billion from R2,0 billion while income before tax dropped 38,1 percent from R916,4 million to R567,0 million

Distributable income fell 33 percent from R538,7 million to R363,4 million, and earnings a share fell from 322c to 216c

Its shareholders are having to bite the bullet. Samancor has declared a final dividend of 70c making a total of 110c for the year. This is almost 40 percent less than the 180c they received last year. Then they were paid an ordinary dividend of 100c and a special dividend of 80c

Altogether, Samancor is paying R117 million less to its shareholders than it did last year

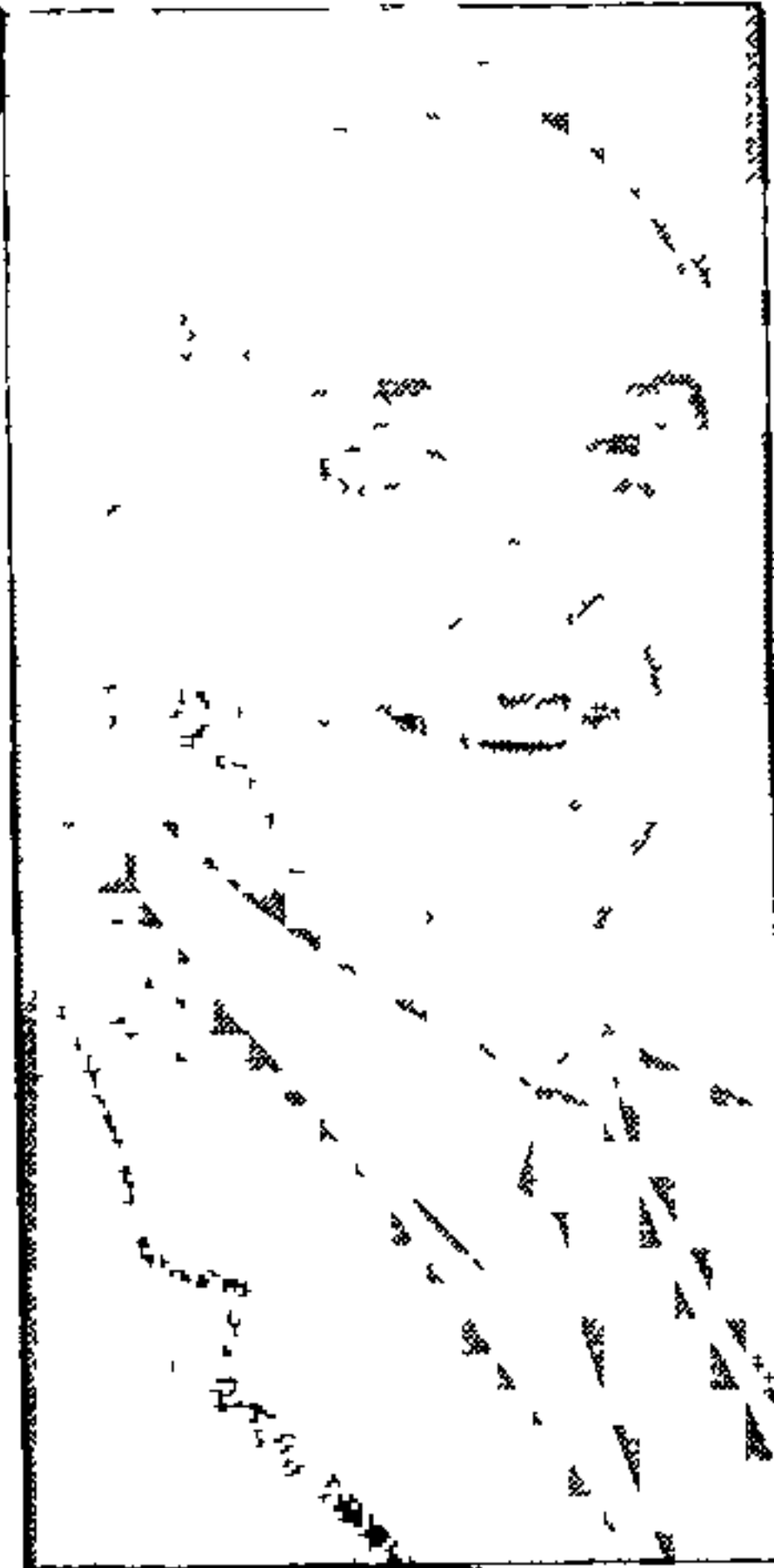
Tax down

However, they can draw some comfort from the fact that the Receiver of Revenue has come off even worse. His share of Samancor's profits has been reduced by 45,7 percent or R177,7 million to R210,8 million

In spite of the drop in earnings managing director Hans Smith is relatively satisfied with the figures

"They are better than the company expected half way through the financial year when it was forecast that profits would be substantially lower in the second half," he said

Reasons for the sustained profits in the second half include a tax break, the weaker



Hans Smith relatively satisfied with the figures

rand and an improvement in the cash position which left the company with increased interest earnings

He was proud of the fact that the company was still able to operate its chrome division profitably in contrast to the situation with most of its major competitors

Samancor remained financially a very strong company, he said. Production and sales of manganese alloys declined because of the market situation, which could be linked to the lower economic growth rate experienced by countries in the Far East, America and Europe

The year ahead would be a difficult one, said Mr Smith, but

he expected ferrochrome prices, which have remained weak, to recover in the current financial year

He said the company was affected last year by stainless steel producers destocking their chrome and ferrochrome stocks. This year the company was suffering from the running down of manganese stocks

But the drop in stocks had been much greater than the reduction in consumption, and he expected an improvement in demand in the coming months

Samancor was waiting for Government to move on the Columbus stainless steel project, which now was expected to cost about R3,1 billion

The final decision depends primarily on the lifting of sanctions, an appropriate Government package and the conclusion of financing arrangements

Sanctions easing

Mr Smith said he could give no details of the financing of the project until the Government moved. There were a number of financing scenarios, but until the Government defined the rules, it was not possible to take any decisions

As a result of the easing of sanctions it would not be necessary to have an overseas partner to roll and sell the stainless steel billets abroad. It was now planned to include a cold rolling mill in the project, which would be situated in the Witbank area

However, this did not rule out Columbus acquiring a foreign partner in order to obtain valuable technical assistance

The Government's proposals are expected to be announced shortly

Samancor investigating Albanian chrome venture

SAMANCOR is negotiating a joint venture with the Albanian government for the mining and upgrading of Albania's extensive chrome ore deposits. *BIDM 29/8/91*

The joint venture, involving financial and technical assistance, will be the first of its kind as Albania has had no relations with non-communist countries, sources said.

Samancor MD Hans Smith yesterday confirmed that the group had sent a technical team to Albania to assess and gather geological, mining and metallurgical data from the Albanians on their operations.

He said Albania was significant in the chrome ore sector, but it was still early to comment on the possibility of a joint venture.

Albania is expected to send a delegation to SA soon to evaluate the Samancor operation.

According to a report in London's Financial Times the Albanian gov-

BRENT VON MELVILLE

ernment was seeking a joint venture with Samancor to develop a deposit in the Kukes region, which contains about 14-million tons of chromite.

The report added that Samancor would also help to provide an enrichment plant for Albania to upgrade the ore into ferrochrome for export.

Chrome ore is Albania's largest mineral resource and the country ranks as the third largest producer of chrome ore in the world. It accounts for about 12% of the world market and exports are estimated at 360 000 tons. Ferrochrome exports were about 40 000 tons last year.

Smith, however, said actual Albanian production accounted for only about 5% of world production. Samancor was the world's largest producer of ferrochrome, accounting for 20% of world production.

Poor demand batters Assmang

POOR commodity prices and a slump in demand, which have played havoc with the financial results of SA's producers of ores and alloys in the past year, also battered interim results at Anglovaal's Associated Manganese (Assmang) in the six months to end-June

The company's interim dividend was cut from 500c to 250c a share, while the directors noted the interim dividend at subsidiary Feralloys was passed for the second year running

Tumbling ferro-manganese prices and sluggish ferrochrome prices wiped out the benefits Assmang derived from manganese ore prices which maintained their high levels reached late last year

The company's directors said depressed

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MATTHEW CURTIN

ferrochrome demand and prices meant that consolidated profit was virtually the same as that for the same period in 1990.

The directors said they did not expect demand or prices to improve in the second half of the year.

Assmang's after-tax profits stood still at R57m. Earnings a share rose 13% from 1 420c to 1 599c a share, as the company cut the transfer of profits to non-distributable reserves from R6,3m at the interim stage in 1990 to just R7 000 this year.

Higher interest payments and a higher tax bill offset Assmang's improved turnover and net operating profit. Only the fall in the transfer of funds pushed attributable earnings up from R50m to R57m.



Samancor's Smith beating the forecasts

Management milked about R53m out of its working capital as cash, largely as a result of lower inventories and the cutback in manganese ore and alloy operations. Interest income amounted to R112,3m (R138,2m for the previous financial year) equivalent to 20% (15%) of total pre-tax income, making it a major contributor to Samancor's earnings.

Though the value of the rand dipped sharply in the last few months of the 1991 financial year, the average value of \$1/R2,66 is only 1,5% down on the average of R\$1/R2,70 for the 1990 financial year, indicating that the tax changes must have played the major role in helping earnings.

The bulk of Samancor's income came from its manganese interests, but Smith declines to provide a split between the contributions from manganese and chrome to earnings. He says the group, however, did make a clear attributable profit on its chrome division, unlike major competitors in SA whose results for the same period show losses. Samancor's ferrochrome plants are now working at about 80% of capacity while the manganese alloy division is working at between 60% and 75% of capacity, depending on which alloys are being produced.

The share price remains at levels around R29, near the year's high of R31, but that looks expensive given the prospects for the next 12 months. Smith concedes it will be "difficult" for the group to maintain last year's performance and most analysts are looking for lower earnings and dividends.

Reasons are that the ferrochrome price remains stuck at 49c/lb because of competition for market share between the SA suppliers, while prices of manganese alloys are not expected to improve over the next few months. Japanese customers are cutting back on manganese ore imports by about 30%, because they are using up their own stocks.

Working costs continue to rise in line with SA's 15% inflation rate, and Samancor is negotiating a wage package with employees that will push up its wages by 21% on average when benefits on insurance, housing and retirement benefits are taken into account.

Also, with interest income now a major contributor, analysts are wary of Samancor's falling net cash resources. These dipped to R445,8m at June 30 from R694,6m a year

previously. Any drops in interest rates in the current year will hurt. Looking longer term to the 1993 financial year, Samancor will lose its various export benefits and tax breaks that were worth R150m before tax in the 1990 financial year.

Then there is the group's commitment to the proposed Columbus stainless steel plant, now estimated to cost R3,1bn because latest planning includes a cold rolling mill in SA following the lifting of sanctions. It seems inevitable there will be a rights issue to help fund this.

In the group's favour is the falling rand, and Smith's expectation that the bleeding taking place from the local and overseas ferrochrome competitors must result in a price increase at some stage.

Adding it all up, Samancor looks far too expensive at current levels. However, a number of analysts do not expect the share price to weaken much. Investors seem convinced Samancor offers good value and is a strategic long-term investment.

Brendan Ryan

SAMANCOR (189) B FM 30/8/91
Tough customer

Second-half earnings are way above earlier predictions from Samancor MD Hans Smith, as well as those from nearly every JSE analyst. Reaction from the market is that the results seem almost too good to be true.

At the halfway stage Smith predicted profit "substantially" lower than the R182,5m — 109c a share — earned in the first six months, and analysts estimated earnings for the full year at between 160c and 190c and the total dividend at a maximum of 100c. Instead, the second half was a virtual repeat of the first six months. Smith attributes this to a weaker rand/dollar exchange rate, lower tax rates, and higher-than-expected cash balances that boosted interest earnings.

WELL-TEMPERED

Year to June 30	1990	1991
Turnover (Rm)	2 006	1 806
Pre-tax profit (Rm)	916,4	567,0
Attributable (Rm)	538,7	361,8
Earnings (c)	322	216
Dividends (c)	180	110
Net worth (c)	689	795

World steel glut ^(189B) takes toll on Iscor ^{CT 30/8/91}

BRENT VON MELVILLE

THE glut on world steel markets, stumbling domestic demand and an ambitious capital spending programme have taken a severe toll on Iscor, which yesterday reported a dramatic drop in earnings for the year to end-June

Reduced margins saw attributable profits slashed 33,6% to R617m (R929m), translating into earnings of 33c (50,1c) a share. Dividends were down to 11c (17,6c) a share, increasing cover to 3,0 (2,8) times

MD Willem van Wyk attributed the poor showing to recessionary conditions in the group's local and overseas markets, as well as the increase in costs associated with the financing of its capex programme. He said the results were generally in line with forecasts

Van Wyk also warned that because no improvement had been detected in demand for steel, it would be hard to repeat this year's results

For the year under review the poor trading conditions were reflected in the fact that while turnover for the year increased 6,5% to R7,4bn (R6,9bn), poor margins hampered operating income to the extent of a 31% drop to R890m (R1,3bn). Financing costs jumped to R257m (R100m) off a dramatic R1,1bn surge in debt to just

under R2bn. Gearing more than doubled to 29% from 12%

Capex for the year amounted to a hefty R1,4bn (R1,3bn) and pushed up fixed assets by R1bn to R5,9bn. Van Wyk said this related mainly to the construction of a coal beneficiation plant at Grootegeluk, a 120 000 tons-a-year electrolytic chroming line at Vanderbijlpark and the upgrading of the Vanderbijlpark hot strip mill.

He said the majority of the projects in the current programme had now been completed and capex was expected to decline to about R800m for the current year

He added that steel production was now running at maximum capacity

For the year under review liquid steel production was up slightly to 7,2-million tons (7-million tons) while total steel sales volumes climbed a commensurate amount to 5,6-million (5,4-million) tons

But with local steel sales down 13,6% at 3-million (3,4-million) tons, Iscor was forced to pick up exports, which rose appreciably (34%) to 2,6-million (2,0-million) tons — 47% of total sales

Iron ore exports meanwhile climbed to 14,3-million (13,5-million) tons, although Van Wyk said this was still shy of the targeted 15,5-million tons

High capex, world steel glut hit Iscor

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B/Daw 30/8/91

BRENT VON MELVILLE

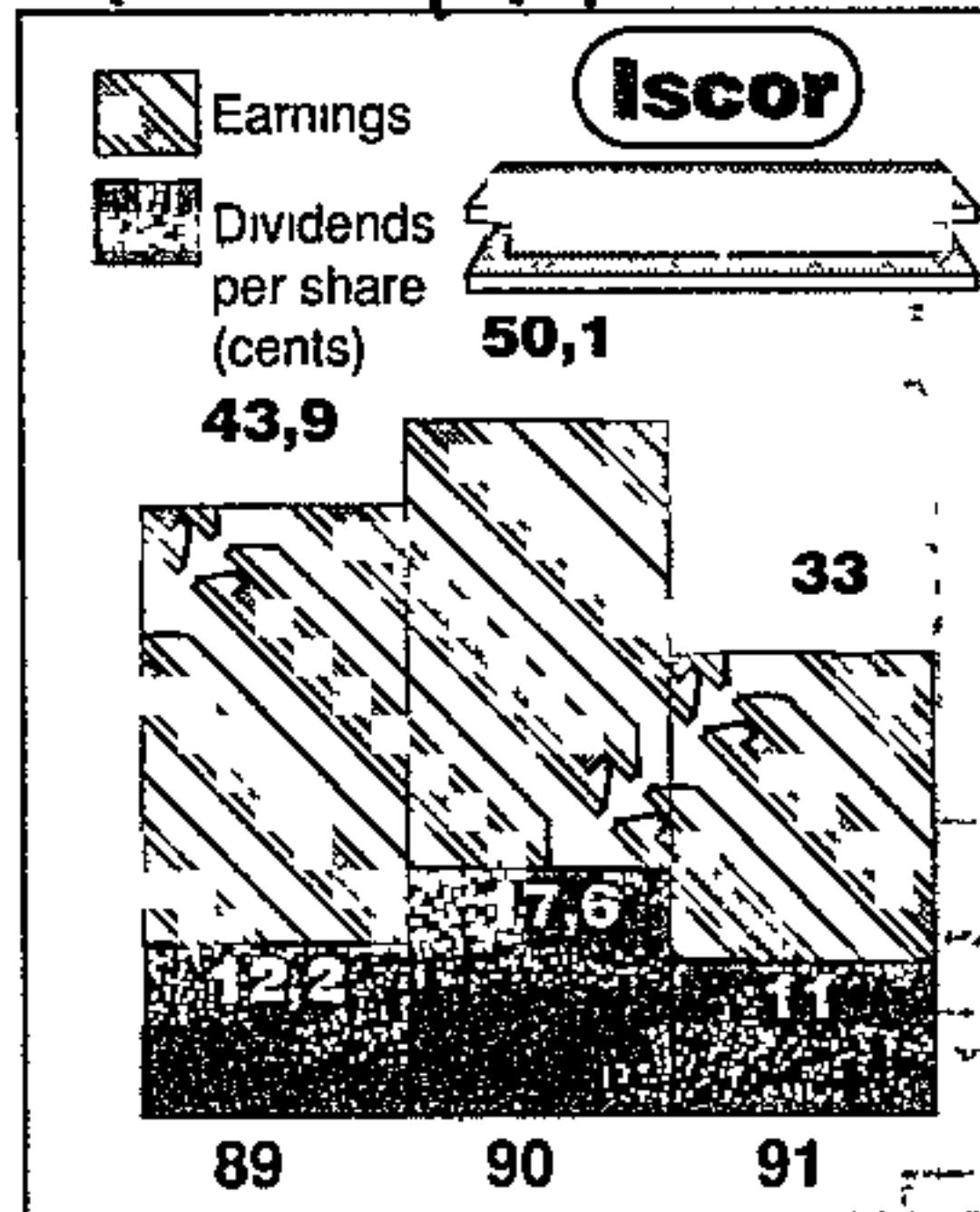
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Graphic: LEE EMERTON Source: ISCOR

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IsCOR 10⁰⁰⁰ 30/8/91

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Iron ore exports meanwhile climbed to 14,3-million (13,5-million) tons, although Van Wyk said this was still shy of the targeted 15,5-million tons, while coal sold to Eskom increased 21% to 9,8-million (8,1-million) tons.

At its current price of 220c, the results put Iscor on a p/e of 6,7 times and a dividend yield of 5%. Iscor's balance sheet puts net worth per share at 348c.

Samancor on the attack at price talks

B (Day) 1/10/91

(1898)

SAMANCOR has kicked off negotiations over December quarter ferrochrome prices by asking customers to pay US\$0,53/lb, a 4c hike on current prices and almost \$0,10 more than last week's free market spot prices

Simpson McKie analyst Hennie Vermeulen said the move was the first sign that Samancor had moved on to the attack since buying Middelburg Steel & Alloys' (MS & A's) ferrochrome operations

Samancor's purchase of MS & A for R575m two weeks ago gave the group, already the world's biggest ferrochrome producer, nearly 30% of world capacity, and 40% of world cost-effective capacity. It also put an end to MS & A's practice of undercutting its SA competitors.

Vermeulen said that while customers were bound to resist the higher prices, Samancor was demonstrating that the balance of power in the market had now shifted in its and SA producers' favour.

US customers had greeted the news with consternation and amusement, editor of the New-York based metals journal Metals Week, Patrick Ryan, said yesterday

He said SA producers had not been able

MATTHEW CURTIN

to sell ferrochrome at discounts to \$0,49/lb. US customers had inventory stocks of 40 000 tons of ferrochrome, and were currently not interested in buying ferrochrome at any price

Samancor marketing GM W Schroeder said yesterday negotiations with customers were still under way. However, a price rise was overdue, he said

Competition among SA producers meant that although prices were expected to rise in the June quarter this year, they stayed at \$0,49, Schroeder said

At that level even SA producers, the lowest on cost worldwide, were under pressure

Samancor had been pushing for a price increase for some time, and at \$0,53/lb, prices were still below average production costs worldwide.

Alan Kuhnert, marketing director at Consolidated Metallurgical Industries (CMI) — SA's second-largest producer — said CMI had followed Samancor's lead and asked for a price of \$0,525/lb

□ To Page 2

Samancor

B (Day) 1/10/91

(189)

□ From Page 1

Market reaction had been cool and no contracts for the December quarter had been won yet.

He said it was not the right time for a price rise of that order. World demand for stainless steel, which accounts for 75% of ferrochrome demand, was weak and SA producers would probably have to accept a price of \$0,52/lb

Ferrochrome demand in the December quarter was usually sluggish, he added

A Chromecorp Technology (CCT) spokesman said yesterday his company was likely to follow Samancor's example

Vermeulen said if the group established

that price for the rest of the year, Samancor's pre-tax profits would increase by about R80m. The ferrochrome division posted pre-tax profits of R58m in 1990/91

However, the price rise was likely to encourage other producers to increase production

SA ferrochrome producers were already operating at about 70% capacity. While Samancor would delay commissioning MS & A's newest plant with its 120 000-ton-a-year capacity, that was more than offset by plans to bring new Swaziland and Indian production with a combined capacity of 150 000 tons a year on line

Ferrochrome talks

1895 MATTHEW CURTIN ^{8/Day} 1/10/91

CONSOLIDATED Metallurgical Industries (CMI) is discussing with Chromecorp Technology (CCT) the sale of its ferrochrome operations in what may prove to be the second major shake-up in the local ferrochrome industry in a matter of weeks.

CMI chairman David Kovarsky said yesterday CMI was reinvestigating the purchase of CCT. CCT MD John Vorster was unavailable for comment.

The two companies are SA's second- and third-largest ferrochrome producers, with a combined production capacity of 510 000 tons a year, about 30% of SA's capacity.

Analysts said yesterday CMI's move was probably prompted by Samancor's purchase last month of Middelburg Steel & Alloys. CMI obtains its chrome ore from the Winterveld chrome mine.

Contest winner grew 80% a year

THEO RAWANA

189B

DELEEN Osborn, whose Stainless Projects cc has won the SBDC Central Region Entrepreneur of the Year Award, built her operation up to a R4m-a-year turnover in just five years.

Stainless Projects was awarded a cash prize of R5 000 — sponsored by Sanlam — in Johannesburg yesterday and qualifies for the national competition next month. *3/10 day 2/10/91*

The Johannesburg-based company, which manufactures large and small pressure vessels, piping, ducts, heat exchangers and process and storage vessels, had been growing at an average rate of 80% a year and now had a staff of 40, SBDC PRO Donne Tarr said yesterday.

Clients included companies in the pulp and paper industry, petrochemical companies, the food and beverage industry, pharmaceuticals and the mines.

"Stainless Projects has no formal marketing strategy, but Osborn believes that by being involved in large contracts at the right price, her client base can be maintained," said Tarr.

Prizes for the winner of next month's national competition include a R10 000 cash prize and a trip to the Far East, sponsored by Associated Tour Operators.

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Rift grows over aluminium price

B/day 2/10/91
THE recent moves by the Taiwanese government prohibiting dumping by Natal-based Hulett Aluminium had led to a rift between local users and producers, sources said yesterday.

(189)
Industry observers said users were bitter at having to pay up to 50% above world prices for the same products locally. The Taiwanese move had made the local industry aware of how cheaply Hulett had been selling its products overseas.

Hulett is SA's major producer of semi-finished aluminium products. It supplies about 90% of local rolled aluminium products and a substantial portion of locally produced aluminium extrusions.

BRENT VON MELVILLE

The company buys all of its aluminium from local producer Alusaf.

Downstream users pointed out that the company's deal with Taiwan was seen as dumping, not so much because Taiwan bought so cheaply by world market standards but because the SA aluminium market was paying "exorbitantly" high prices for the same products locally.

Local aluminium extruders have now called for the immediate cutting of import duties on aluminium products to cope with the "unrealistic" pricing policy set for the

□ To Page 2

Aluminium

industry

B/day 2/10/91
Extruders claimed that the reduction of import tariffs on aluminium products, currently running at about 25% to 30%, was the only way to bring the price of the local product in line with the world market.

London Metal Exchange (LME) prices of aluminium dropped 33% in the past year, from \$1 797 a ton in August 1990 to the current price of about \$1 149 a ton. Alusaf's current ingot price translates to about \$1 954 — more than a 60% premium on current LME prices.

The industry has frequently stated over the past few years that its price increases were due to the increases of international aluminium prices.

However, Volker Schutte, MD of Metal & Tool Trade, one of SA's largest importers and stockists of aluminium semi-finished products, said Hulett had refused to take into account price developments of the past 12 months.

Schutte said Hulett had now reverted to citing the high prices it paid for ingots from Alusaf as the main reason for its high local prices. On an international basis ingot prices comprise about 50% of the production cost of a standard semifinished product.

Hulett executive chairman Des Winship said metal prices had not increased on the

(189) □ From Page 1
local market for two years, and Hulett worked on a stable pricing policy. He said although international prices had risen dramatically at certain times, prices for Hulett products had increased at a rate below inflation for five years.

He said semi-finished products were worth about 20% of Hulett's sales, representing about 15 000 tons of aluminium.

Aluminium Federation of SA executive director Tony Paterson said while it was true that the local producer price was higher than commodity pricing, the aim was to create a "predictability" in pricing.

Paterson said a few years ago the situation was reversed "In the middle of 1989 primary aluminium could have been purchased at a producer price in SA and sold on the commodity market for a profit of R1 000 a ton. In essence it is an exercise in futility to try to compare the volatile LSE price with a stable producer price, and one has to look at pricing over a period of time to make sense of it."

He added that the pricing structure had helped the industry to a compound growth over the past 20 years of about 5,5% a year, supporting the view that a steady price was better than a volatile price — especially in comparison with industries which dealt on a commodity index, such as copper and stainless steel.

Gencor 'will not go to market to fund projects'

B10cy 2/10/97

184B

WILLIAM GILFILLAN

GENCOR would be able to finance its part of recent acquisitions and rights issues without having to go to the market, Anton Botha, MD of Gencor's investment arm Genbel, said yesterday.

Botha was reacting to speculation that the company would need to raise money through a rights issue to finance its part of Samancor's acquisition in the R1,1bn Middelburg Steel and Alloys (MS & A) deal, and to follow its rights in Sappi's R800m-R1bn rights issue. Gencor owns 43% of Samancor and 50% of Sappi.

One analyst said the rumours caused Gencor's share price to drop 7% over the last week to 1210c.

The conclusion of a deal with French aluminium and packaging group Pechiney to design the smelter for Alusaf's proposed R4,5bn expan-

sion programme had added weight to the market's view that Gencor would need to hold the issue, the analyst said.

However, the go-ahead for the expansion programme is dependent on government applying its new export incentive scheme for large capital and export-orientated projects to Alusaf.

The agreement with Pechiney includes a let-out clause if the project does not go ahead.

Gencor, holding 31% of Alusaf, would be required to fork out about R1,4bn for this project.

But Botha said Gencor's R1,7bn in liquid resources put it in a strong position to finance the various projects.

This was the case even after taking account of the R600m committed to the development of the Oryx gold mine.

Although the MS & A deal would reduce the cost of the Columbus stainless-steel project, it was still expected to cost more than R2,5bn.

But a large part of these expansions could be financed by loans and trade credits, he said.

Ignoring the possibility of soft loans and trade credits, Gencor, with its 43% stake in Samancor which in turn had a 50% interest in Columbus, would have to lay out about R537m if the project went ahead.

Gencor's total exposure to possible projects was about R3,3bn.

Botha said the group would need to take out R1,6bn in debt to finance these projects and, with R17bn in assets, it could afford these levels.

Siemens, GEC sell shares in Plessey SA to Sankorp

31 days 3/10/91 *189B*

CONTROL of Plessey SA has fallen into SA hands after years of uncertainty over the electronic manufacturer's future.

Sankorp announced yesterday that agreement had been reached for it to acquire the total shareholding of Plessey SA from Siemens AG of Germany and the General Electric Corporation (GEC) of the UK.

Sankorp GM investments Derek Hunt-Davis said yesterday he could not disclose the value of the deal, but that "it was a significant transaction in SA terms".

As part of the deal, Plessey will sell off its 50% shareholding in Telephone Manufacturers of SA to GEC SA and Siemens SA, "with a view to rationalisation within the telecommunications market".

Plessey's fate has been in the bal-

MARCIA KLEIN

ance since Siemens and GEC acquired control from its UK parent two years ago.

Sankorp previously owned 26% of Plessey, while Siemens and GEC each owned an effective 37% stake.

Hunt-Davis said that the sale of Plessey SA had been discussed over the past two years.

During that time Plessey management had indicated that it wanted control to be in SA hands.

Hunt-Davis said the deal made sense as both GEC and Siemens had other interests in SA, and Plessey was in competition with these.

He said Sankorp would retain access to both Siemens and GEC technology, and to the continued representation by Plessey SA of specific,

specialised products.

These products included radar, traffic controllers, PABXs and semi-conductors.

Plessey MD John Temple said Plessey had believed for several years that SA control would be in the best interests of the company.

Technology was a concern, he said, but the company had addressed the issue over some years by developing its own technology and linking up with overseas partners.

The change in ownership would open the way further to extend these relationships.

Hunt-Davis said there were some future growth opportunities and with Plessey independent of international majors there were opportunities for associations with other international players.

FERROCHROME FM 4/10/91

1898

Heading for higher prices

Should Consolidated Metallurgical Industries (CMI) succeed in taking over Chrome-Corp Technology (CCT), then control of nearly half the Western world's present supply of ferrochrome will be held by two groups, both of which are closely linked to Anglo American Corp

The development will affect both the ferrochrome producers and consumers. International customers are bound to cry "cartel!" despite the many arguments the suppliers will put forward to the contrary. An indication of what could happen is shown by Samancor's action in pushing for a 6% increase in ferrochrome prices for December quarter delivery to US\$0,52/lb from the current \$0,49/lb.

It appears Samancor feels it will get this increase, despite customer resistance now that the group has control of the ferrochrome operations of Middelburg Steel and Alloys (MS&A) which, along with CCT, had previously undercut the other SA producers on price in efforts to maintain market share.

Samancor had initially gone looking for \$0,53/lb, but has trimmed this because of CMI's action in quoting \$0,525/lb. Local ferrochrome industry sources say it's expected that sales volumes will drop during the fourth quarter, as customers resisting the increase mop up any material available on the spot markets.

While inventories held by US customers are high, the sources claim world-wide ferrochrome inventories are running at about three months' supply, which is low. "We'll sell less in the fourth quarter but make it up in the first quarter of next year," says one ferrochrome producer.

The producer acknowledges the dangers inherent in a situation where supply is so tightly concentrated. He confirms that customers are already looking to diversify sources of supply where possible, in the wake of Samancor's takeover of MS&A, but comments "Their options are limited."

"Responsible pricing is the name of the game," he says. "It was unacceptable to have prices so low that the entire industry was losing money. Equally, I think it was a mistake to have let the price go as high as 80c/lb in the boom."

CMI MD Zed van der Walt agrees that customers may well feel uncomfortable if CCT is taken over, but he denies any suggestion that a cartel will be set up. He points out that CMI has no intention of marketing in collusion with Samancor, that the SA producers account for only 40% of total world production capacity, that there is no restriction on entry to the business, and there would still be a third SA producer, Anglovaal's Ferralloys, which produces about 80 000 t



CMI's Kovarsky considering opening a chrome mine

annually.

He says total world ferrochrome production capacity is about 3,6 Mt, but world demand is currently at about 2,5 Mt. "Our future lies with our customers because we want to grow with them and there is no way we are going to kill the goose that lays the golden eggs," he says.

Whatever the customers may feel about it, the news is good for both CMI and Samancor shareholders, as higher ferrochrome prices must help the bottom line. At the prices of \$0,47/lb and \$0,49/lb, which ruled during the year to June, virtually the entire SA industry was losing money and the SA producers have the lowest costs in the world.

CMI made an operating loss of R11,3m for the year to end-June, on top of which came interest costs of R19,4m. Samancor MD Hans Smith says the group's chrome operations made a small profit in the year to end-June, but would not give the specific figure. The group accounts do not split up profits made from the manganese, chrome and other divisions.

The CMI share price has staged a steady recovery from a low of 610c in March, to current levels around 1 000c, Samancor's price spiked from 2 725c to 3 225c on announcement of the MS&A deal, before dropping back to current levels around 2 825c.

CCT MD John Vorster confirms that his group is talking to CMI about a possible sale, but says talks are at an exploratory stage. He declined to provide any further details, as did Van der Walt.

"Everything has a price and if an offer was good enough, then CCT's majority shareholders would probably sell, though I cannot talk on their behalf," says Vorster. Major shareholder in CCT is the international met-

al trading firm Marc Rich, while CCT's management holds 10% of the equity.

CMI, with the Purity operation it acquired last year, has a total production capacity of 330 000 t/year of ferrochrome, with current production estimated to be running at about 260 000 t/year. CCT has the capacity to produce about 180 000 t/year and Vorster says his plant is working "flat out."

Samancor's own capacity is about 640 000 t/year, with production now running at about 540 000 t/year. Acquiring MS&A adds 300 000 t/year to total capacity, with a further 120 000 t/year to come from the new Krupp installation once the bugs are ironed out of it.

Major questions to be answered over the CMI/CCT negotiations include the issues of the marketing of CCT's metal, currently done by Marc Rich, and how CMI proposes to pay for the acquisition. The group became heavily overgeared in acquiring Purity for R181,3m and had to hold a R102m pref issue to bring its debt equity ratio down from 109% in December to 49% in June.

CCT should cost more, as it's a larger operation, which has successfully established itself. And, as its competitors acknowledge, it is well run by Vorster, who was Samancor's GM Chrome before going into business for himself.

The question of finance could well hold back the CMI share price and the group also has other demands on its available funds. Chairman Dave Kovarsky says in his review, published this week, that a feasibility study is under way to open up a chrome mine on the Thorncliffe deposit, near its Lydenburg works. At present, the Lydenburg plant buys its ore from Rand Mines Winterveld Chrome Mines, which has been acquired by Samancor as part of the MS&A package. *Brendan Ryan*

DATAKOR FM 4/10/91

Turning back

Ambitious plans of Datakor and unlisted parent Mercedes Information Technologies (MIT) to expand offshore through the acquisition of 49% of US multinational Timeplex have run aground. The move appears to have been snagged by changes to the financing of the transaction put together by Swiss Bank Corp.

Datakor and Sankorp-controlled MIT announced in June that they had joined forces with a Swiss electronics conglomerate, Ascom Holding, to buy Timeplex from the debt-ridden US computer supplier, Unisys, for US\$207m. About 70% of the acquisition funding was to have been provided by Swiss

Columbus to fix new technology

1898

S/Times (Bus) 6/10/91.

COLUMBUS' stainless-steel management is committed to fixing the Chrome Direct Reduction plant that formed part of the Middelburg Steel & Alloys (MS&A) plant acquired from Barlow Rand

Highveld Steel operates 13 kilns and its kiln technology may be applied to solve problems which have forced the closure of the 120 000 tons-a-year-plant which comprises a kiln and a melting furnace

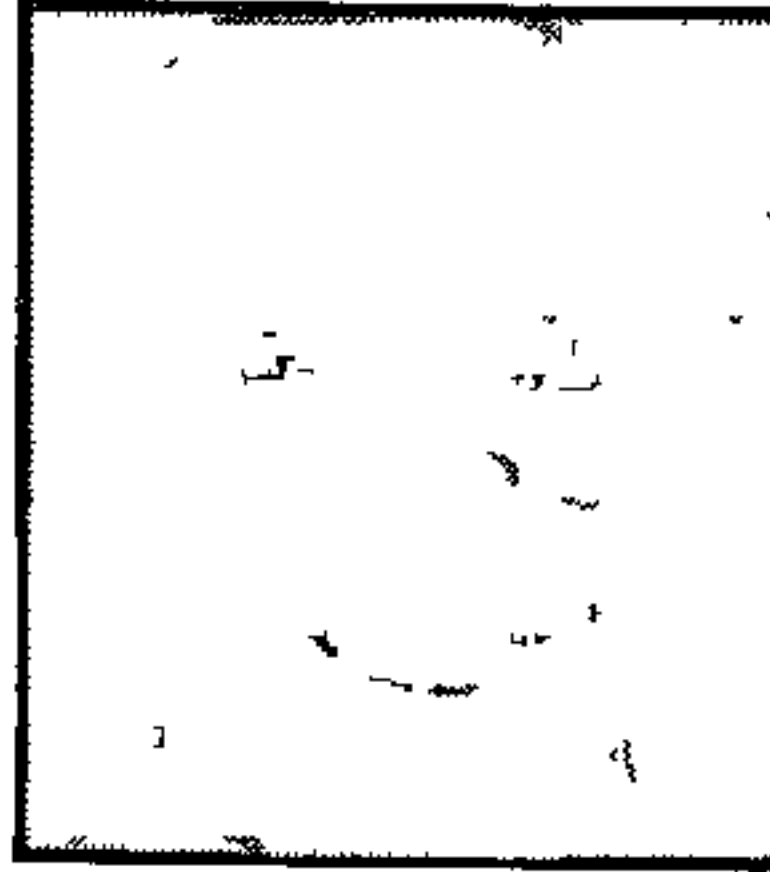
Columbus CE Fred Boshoff worked for Highveld for 10 years before joining Samancor in 1985

Ferrochrome is an important cost component in the production of stainless steel. The CDR process promises a quantum leap forward in ferrochrome production technology and Mr Boshoff believes that the CDR process offers much more potential for lowering ferrochrome production costs than the plasma process developed by MS&A. An average of about 300

By IAN ROBINSON

tons of ferrochrome are consumed in the production of 1 000 tons of stainless steel which would mean a total annual consumption of about 150 000 tons of ferrochrome at the project's planned production level of nearly 500 000 tons

Nickel represents the most important cost area in stainless steel production comprising up to 50% of total costs. South African nickel production — at an estimated annual level of 25 000-30 000 tons — will probably exceed Columbus' requirements of about 20 000 tons, but price rather than availability will



HANS SMITH

pose the major problem for the project

South Africa produces high-grade nickel whereas stainless steel producers seek the lowest cost nickel supplies available such as ferromnickel, cathode offcuts and stainless steel scrap

Nickel prices are also very volatile and have fallen from a peak of \$24 000 a ton in March 1988 to a current level of about \$7 600

Mr Boshoff is confident

that Columbus will be able to secure adequate supplies of nickel on international markets at competitive prices

As a long-term project it is also supporting research and development to use manganese as a substitute for nickel in austenitic stainless steels. Austenitic grades will comprise about 70% of Columbus' production and ferritic grades, which do not contain nickel, the balance

The third major raw material input — iron units — for stainless steel production will be derived from steel scrap. Mr Boshoff believes that the steel scrap pool in the country will be sufficient to support Columbus' annual needs of 200 000-300 000 tons but, if necessary, consideration could be given to building a direct reduction plant to produce sponge iron

Samancor is convinced that there is sufficient growth potential for Columbus to enter the world market without intruding into the markets of overseas stainless steel producers who buy ferrochrome from Samancor

Samancor MD Hans Smith said that Western world stainless steel demand is expected to grow at an average annual rate of at least 3,5% during the 1990s from a current level of about 10 million tons. This is equivalent to an annual increase of 350 000 tons and as Columbus is expected to come on stream in 1995 this will mean that it will only account for about a quarter of projected Western world expansion in demand over the next four years

The capacity to produce and market a mixture of intermediate hot-rolled and finished cold-rolled grades will provide marketing flexibility. Cold-rolling can add up to 50% to the value of hot-rolled steel and annual cold-rolled capacity will be 200 000 tons

Columbus will sell No 1 finish hot-band with gauges within the range 2-10 millimetres and Mr Boshoff believes that markets for hot-band will expand during the decade as producers in densely populated industrial countries become increasingly reluctant to build new hot-rolling facilities. Therefore this could represent a market gap for developing cost-competitive countries such as South Africa

CMI wants to buy Samancor mine

B/Daw 4/10/91.

1898

CONSOLIDATED Metallurgical Industries (CMI) has approached Samancor with a view to acquiring the Winterveld chrome ore mine, following the recent sale of the mine by Barlow Rand to Samancor

CMI MD David Kovarsky said yesterday there was a concern that the mine, from which CMI sourced its chrome ore requirements for its Lydenburg plant, was to be controlled by Samancor, one of its competitors

Kovarsky added that CMI was looking to source its chrome ore requirements from the Thorncliffe chrome ore deposit, owned by CMI's major shareholder JCI

Financed

Meanwhile, negotiations between CMI and Chromecorp Technology (CCT) were going "reasonably well" CMI was discussing the purchase of CCT's ferrochrome operations

Kovarsky said that CMI would know by the end of this week whether a deal had been concluded

He added that, as CMI's debt levels were already reasonably high, any acquisition would probably be financed by a combination of debt and the issue of shares

CCT MD John Vorster has been quoted as saying that everything has a price and if an offer was good enough, then CCT's majority share-

WILLIAM GILFILLAN

holder would probably sell A major shareholder in CCT is international trading firm Marc Rich

Kovarsky, in this year's annual review, said CMI's trading year to June was dominated by depressed prices caused through the international oversupply of ferrochrome

But he said the steady growth in world stainless steel consumption, as well as the closing down of capacity by high-cost ferrochrome producers, should restore the balance in supply and demand within a year or two

About 80% of world ferrochrome is used to manufacture stainless steel

The boom in ferrochrome demand in 1988 and 1989 boosted prices to \$0,81 a pound from a low of \$0,40 in 1987 This attracted additional output from existing and new producers which, with the 1989 decrease in stainless steel production, caused prices to retreat to \$0,47

These low prices saw CMI record a loss in 1991 of R24,7m, compared with the 1990 profit of R71m

Kovarsky said the outlook for stainless steel was good and price increases in ferrochrome could be expected

Kovarsky added that, in the meantime, CMI's low cost production would enable it to survive the pressures of oversupply

Highveld Steel drops vanadium price

B/Dam 9/10/91 189B

MATTHEW CURTIN

HIGHVELD Steel and Vanadium has set a \$2,60/lb price for its vanadium pentoxide sales for the December quarter, a \$0,30/lb drop which market sources said yesterday would hammer the group's earnings

Highveld has been struggling unsuccessfully to sustain its producer prices above free market spot prices and above the \$3,00 mark

In the March quarter this year, Highveld upped its price to \$3,10/lb from \$2,95 against the trend in spot prices. In the following quarter, Highveld cut prices back to \$2,90, and current levels are closer to spot prices which have been hovering below the \$2,50 mark in recent months

Spot prices fell to \$2,27 last week,

against \$2,45 at the end of June and \$2,83 a year ago

The bulk of vanadium pentoxide is used in the manufacture of special steels in the form of ferrovanadium. Demand for steel has been sluggish for nearly two years, with the market further affected by worldwide oversupply and excess vanadium pentoxide capacity

Highveld is responsible for half the world's vanadium supply, but SA producers could in theory meet current world demand on their own. Low prices have been responsible for the recent mothballing of two SA operations, Rand Mines Vansa Vanadium a year ago and Usko's last week

Highveld has suspended production from its Vantra plant twice in the past year in the face of oversupply

Meanwhile, a market source said tough bargaining was continuing this week over ferrochrome prices for the December quarter. Samancor, the world's largest producer, originally put in a price of \$0,53/lb, a four cent hike on the previous quarter's price and the ruling mark for the year

He said Samancor had since reduced the price to \$0,52/lb, after its main SA rival Consolidated Metallurgical Industries had put in a price at a half a cent discount

He said it seemed some US customers had accepted the \$0,52 price, but important talks with European customers would only finish this week

Steel deal:

B/Dcm
no probe

9/10/91
WILLIAM GILFILLAN

THE Competition Board said yesterday it would not probe the R1,1bn acquisition of Middelburg Steel & Alloy by an Anglo American and Gencor consortium.

However, chairman Pierre Brooks said in a statement that although the transaction had been cleared, it had only qualified approval in view of the "potential negative effects" on competition between the Sanlam and Anglo American/De Beers groups.

(189B)
The incorporation of MS & A into the Columbus steel venture served the public interest in that existing infrastructure could be optimally utilised and the cost savings would increase the international competitiveness of the project

Ferrochrome takeover talks fall through

TALKS begun last week by Consolidated Metallurgical Industries (CMI), SA's second biggest ferrochrome producer, aimed at taking over rival Chromecorp Technology, had fallen through, CMI chairman David Kovarsky said yesterday

In an announcement to shareholders, CMI said negotiations had been terminated CCT has now turned down two bids for its operations, the first of which came in the form of a reported R300m joint offer from CMI and Samancor in April last year

International trading firm Marc Rich markets CCT's ferrochrome and is a major shareholder in the company MD John Vor-

MATTHEW CURTIN

ster has said any decision to sell CCT would depend on whether its majority overseas shareholders thought an offer for the company was good enough (18¹⁸)

Last year CMI bought Purity Metals for R181m CCT has a larger capacity than Purity and has the reputation of being a well-managed, low-cost operation.

CMI sources its chrome ore from the Winterveld chrome mine now owned by rival Samancor. Kovarsky has said CMI has approached Samancor with a view to buying Winterveld

Biparty 11/10/91

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Steel industry sees no relief from recession

ANDREW GILL

(189B)

CONTINUING recession in metal-related industries has taken its toll on employment, with Seifsa expecting 35 000 job losses in 1991 after 27 000 were lost in 1990

In his address at the organisation's annual meeting yesterday, Seifsa president Robert Barbour said the recession was unlikely to ease before the second quarter of 1992.

Blowing 15/10/91.
The economy remained sluggish as a result of high interest rates, poor business confidence, concern over future economic policy and a negative rate of capital investment

He said companies in the metal industries had been affected more severely than other sectors of the economy.

There had been huge cutbacks in capital expenditure by customers such as Eskom, Transnet, Armscor and the Post Office and the Mossgas project had been scaled down

He said changes in government priorities had meant major cutbacks in government capital expenditure. Even the much needed improvement in infrastructure, such as housing, road-building and electrification, was being hampered by the unrest.

Industry turnover was expected to climb to about R50bn from 1990's R47bn but production volumes were expected to be lower, local demand for steel remained low

Export volumes were still reasonably good although margins had been severely reduced largely as a result of continued recession in the northern hemisphere.

Also, the turnaround in export fortunes as a result of the lifting of sanctions might take a long time to be realised. He said steel exports would probably take up to three years to regain the market share lost in 1986.

If SA intended to increase exports, much needed to be done to increase international competitiveness.

Low productivity, high interest rates, high taxation and, in some cases, excessive tariff protection all worked to erode SA's competitive position, Barbour said

COMPANIES

CMI raises ferrochrome price

CONSOLIDATED Metallurgical Industries (CMI) has set a \$0,52/lb price tag for several ferrochrome contracts in the December quarter, a 3c boost which — if sustained in the coming year — could add as much as R30m to the company's earnings

8/Day 15/10/91
MD Zed van der Walt said yesterday that the 6% increase had not been settled across the board, but several US and European customers had accepted the \$0,52 price. Sales volumes had fallen slightly, a development he attributed to market activity in general rather than to a reaction to the higher prices.

Van der Walt said CMI was confident prices would be sustained in 1992, confirming that the ferrochrome sector was "at last coming out of a bad time".

Hopes of a price rise earlier this year had been stymied by the slow recovery of the US economy, but he was optimistic about market conditions in 1992. He noted that as part of Samancor's take over of Middelburg Steel & Alloys, it was planning

MATTHEW CURTIN

to delay the start-up of MS & A's new chrome direct-reduction plant, to reduce the threat of oversupply. *(1890)*

Samancor chrome division GM Wilrich Schroeder would not comment on progress in price negotiations except to say talks were continuing.

Market sources have said Samancor was also likely to set a contract price of \$0,52. Samancor originally put a \$0,53 price into the December quarter negotiations, but cut the price by a cent when CMI put in \$0,525.

Prices have not risen since the end of last year, and their low levels slashed profits at Samancor's chrome division, CMI and at MS & A.

Simpson McKie analyst Hennie Vermeulen said that SA producers would win the price increases at the cost of 20% to 25% cut in volumes. But with a price rise in the bag, they would be well placed to improve sales in the first quarter next year.

Metal industries to axe 35 000 jobs this year

1899
CT 15/10/91

Own Correspondent

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Another salvo fired at conglomerates

w/mail
By REG RUMNEY 11/10-17/10/91
THE Competition Board has given the green light to the Columbus Stainless Steel Project — but warned that it might take action in future.

This is the second occasion in recent weeks when Competition Board (CB) chairman Pierre Brooks has issued an apparently favourable finding about an acquisition or merger, but added his note of caution and disquiet about the state of affairs.

The decision was there will be no formal investigation of the deal in

1898
1899
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which Barlow Rand sold Middelburg Steel & Alloys and Barlow's chrome interests to a "consortium comprising companies in the Sanlam and Anglo American/De Beers groups"

But Brooks concludes: "In view of the potential negative effects the transaction could eventually have on competition between these two groups the clearance thereof perforce only signifies qualified approval of the venture."

In the Board's Report No 30 which investigated Anglo and De Beers

building up their share stake in Gold Fields of SA, it was found that no monopoly situation had been created, and no further action needed to be taken by the board or the minister

But the GFSA report has an extensive postscript, apparently to spur debate, which notes "the indications are that both from an economic and political point of view the degree of concentration in this country is probably too high".

In his latest report, Brooks, outlining a possibly more active role for the board, notes: "... it is important for competition policy to be directed not only at arresting the drift towards coalescence of the different groups but also at purposeful group disentanglement and the identification and elimination of restrictive practices spawned by an excessive concentration of economic power."

In clearing the Columbus deal, the CB struck a compromise between the desirability of domestic competition and industrial development. This Anglo spokesman Michael Spicer identifies as one of the problems with the CB's approach. In reference to the successful newly industrialised countries, he poses the rhetorical question: "Why do small countries have big companies?"

There are a number of issues which he says are not dealt with adequately in the purely theoretical framework of the CB's views. How to deconcentrate? To whom to sell off companies? Since big foreign investors would probably be frowned upon, only other conglomerates would be able to buy. What to do with the money? For example, a conglomerate investing money abroad from sold-off companies here would be accused of being unpatriotic. But if it bought new South African companies with the money it would be accused of spreading its tentacles again.

Spicer reckons a corollary of deconcentration would have to be liberalisation of markets.

LABOUR

By Ferial Haffajee
 THE threatened wage strike at Iscor has been averted, and settlement has been reached at various other large firms hit by disputes in annual house agreement talks with the National Union of Metalworkers (Numsa).

With the annual round of house agreement talks now completed, only two firms, Ferralloys and Cisco, are known to have been hit by strike action. But levels of settlement are generally below inflation, reflecting the sorry state of the metal and engineering industries.

Numsa also revealed that most union proposals in house negotiations on job security had been "thrown out of the

w/m 11/10/91
IsCOR pay settlement averts strike action
 window", as were attempts to persuade employers to join industry-wide training agreements earlier clinched in central forums in the metal, automobile manufacturing and tyre industries.

For largely historical reasons, major firms employing a total of some 20 000 workers are exempted from the metal industries' main agreement and negotiate in-house with trade unions. The annual wage round is concluded in the aftermath of, and is strongly influenced by, the national settlement.

At Iscor, where Numsa staged a suc-

cessful strike ballot, further negotiations yielded an increase of 10 percent on actuals, which is to be backdated. At Iscor's Cape Town subsidiary, Cisco, workers won an increase of 10,5 percent on actuals after going on a one-week strike.

At Usco in the Vaal, workers accepted a low five percent increase because, said a Numsa spokesman, the company was floundering and negotiations to sell the company to Iscor and other interests were under way.

Settlement has finally been reached at Ferralloys plants in Machadadorp and

Cato Manor in Natal, ending a five-week strike. Numsa secured an 11 percent increase, backdated to August, and workers will also receive a 5c-an-hour increase in January.

March 21 (Sharpeville Day) was won as a paid holiday — but this concession has only been granted until next year and will be renegotiated in next year's wage round. (1878) Hulelts Aluminium workers in Natal and Olifantsfontein have been granted March 21 as a paid day off and won an 11 percent increase.

At Middelburg Steel and Alloys,

Numsa has claimed a minor breakthrough on a tool allowance for artisans. In terms of the agreement, the company will subsidise half the cost of tools and will provide workers with interest-free loans to pay the balance.

The company also upped its wage offer to R2,77 an hour, a 70c increase on its original proposal, according to the union.

At Alusaf, workers received a 10 percent on actuals, while at the Manganesse Metal Company plants in Klerksdorp and Nelspruit — where a positive ballot threatened strike action — a settlement was subsequently reached on a revised employer offer of 11,5 percent, a two percent improvement.

CMI FM 18/10/91
Growing pains

1898

Activities: Producer of ferrochrome
Control: JCI 35,4%
Chairman: D Kovarsky, MD Z van der Walt
Capital structure: 42,5m ords Market capitalisation R436m
Share market: Price 1 025c 12-month high, 1 100c, low, 610c Trading volume last quarter, 108 000 shares

Year to June 30	'88	'89	'90	'91
Turnover (Rm)	158	324	215	275
Pre-int profit (Rm)	53,6	171,2	69,0	(11,3)
Pre-int margin (%)	34,5	52,8	32,0	—
Earnings (c)	89	237	167	(58)
Dividends (c)	65	115	115	nil
Net worth (c)	241	363	415	357

Results reflect heavy short-term costs associated with acquiring the Purity chrome mine and smelter while, owing to flat conditions, output is running at an estimated 260 000 t/year against 330 000 t capacity. Despite this, CMI has just made an unsuccessful bid for ChromeCorp Technology (CCT), whose smelter is next to the Purity plant, near Rustenburg. CCT can produce about 180 000 t/year of ferrochrome and its acquisition would have pushed CMI's total annual capacity to 510 000 t.

Being bigger must mean more production and marketing clout but MD Zed van der Walt comments the main motive in wanting to get larger is a firm belief in the tremendous future of the stainless steel industry. "We are well established as second largest producer in the Western world (after Samancor) so we're past the stage of being too

FM 18/10/91
 small to count. We want to continue to grow either organically or through acquiring low-cost producers." (189)

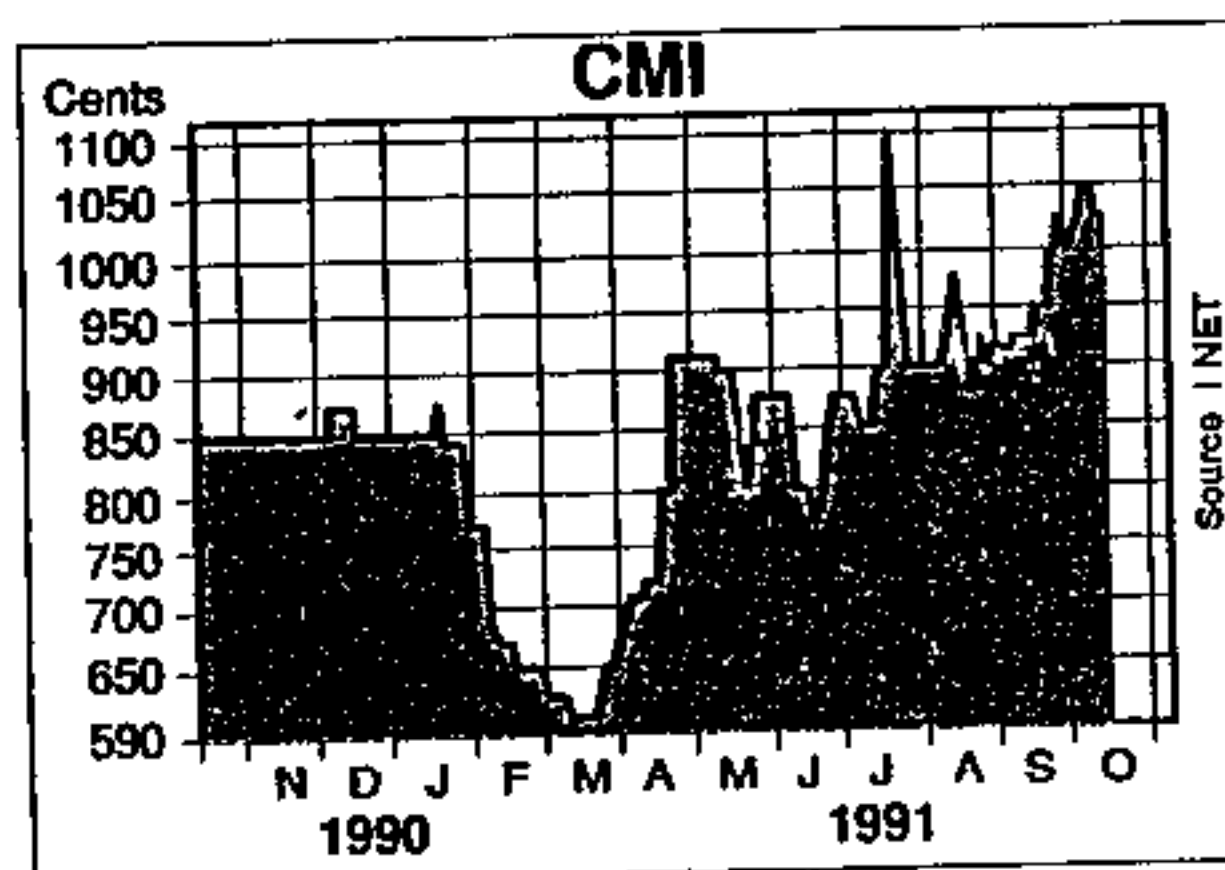
Van der Walt says there were a number of factors why the CCT deal did not go through but not one particular sticking point. "We were not desperate to buy CCT at any cost. When we added up the pluses and minuses we felt that it was just too dear."

One factor was marketing. International metals trading firm Marc Rich, the major shareholder in CCT, is also its marketing agent and insisted on retaining that contract.

One would expect the benefits of acquiring CCT to include a strengthening of CMI's marketing hand through eliminating a competitor from the quarterly price negotiations. CCT's marketing strategy to date has been to wait until Samancor settles its contract price and then come in US0,5c/lb lower.

While taking over CCT would have major long-term benefits, minority shareholders might not have appreciated the short-term costs. Biggest question was how CMI would have paid, and the most likely combination of more debt and a large share issue would have knocked earnings growth.

With the Purity plant bedded down and running at design capacity, CMI's main



FM 18/10/91 (189)
 short-term concern involves the chrome ore supply to its Lydenburg smelter. It has so far bought ore from Winterveld chrome mine which has just been sold to Samancor. Chairman David Kovarsky isn't happy with his source of supply being controlled by a major competitor, notwithstanding the security of a two-year notice period. CMI has opened negotiations to buy Winterveld, reasoning that Samancor has more than enough chrome mines to supply its own needs.

If that does not work out the group intends developing a new mine using mineral rights owned by JCI at Thorncliffe, about 65 km from Lydenburg. Van der Walt says a decision will be reached by year-end.

CMI will return to profitability this year but dividend prospects do not look good. Like all ferrochrome producers, CMI stands to make large profits once the world economy gets going again and it must be this aspect, plus long-term strategic considerations, that is keeping the share so near its 12-month high of R11.

Brendan Ryan

SAMANCOR

FM 18/10/91 (189B)
Into a totally new ball game

Activities: Producer of a range of base metal ores and ferro-alloys including ferrochrome and ferro-manganese

Control: Gencor 41%

Chairman: B P Gilbertson, MD H J Smith

Capital structure: 167m ords Market capitalisation R5bn

Share market: Price R30 Yields: 3,66% on dividend, 7,2% on earnings, p e ratio, 13,9, cover, 2,0 12-month high, R32,25, low, R18,75 Trading volume last quarter, 324 000 shares

Year to June 30	'88	'89	'90	'91
Turnover (Rm)	913	2 128	2 006	1 806
Pre-tax profit (Rm)	234	839	916	567
Earnings (c)	125	379	322	216
Dividends (c)	75	200	180	110
Net worth (c)	365	543	689	795

* 15 months

The annual report has, to put it mildly, been overtaken by events. Acquisition of Middelburg Steel & Alloys (MSA)'s ferrochrome operations and a 50% stake in its stainless steel plant has transformed the group and radically affected prospects.

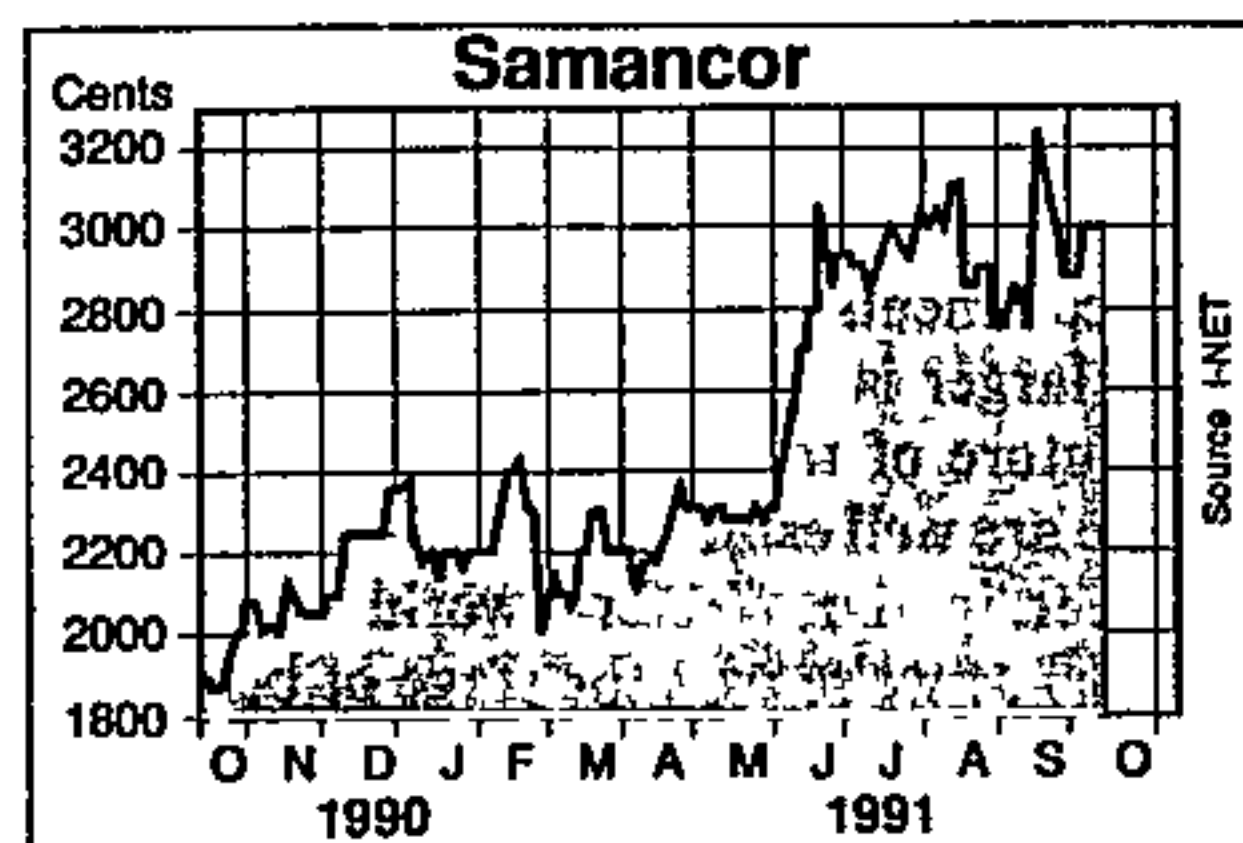
Samancor is paying by issuing 22m shares for the ferrochrome operations and R250m cash for its stake in the stainless steel plant.

Chairman Brian Gilbertson forecast, immediately ahead of the MSA deal, that Samancor would find it difficult to match last year's earnings. All other things being equal, extra shares and lower cash reserves should make it even more difficult, but MD Hans Smith says these developments do not materially alter Gilbertson's forecast.

Main reasons are that he is looking for markedly better ferrochrome profits from higher prices as well as the release through rationalisation of funds tied up in working capital. Acquisition of MSA means less price competition between SA producers, who have been cutting each other's throats over the past year to maintain market share.

That drove the price as low as US47c/lb last year, but Samancor is now pitching for 52c for fourth-quarter delivery despite flat market conditions and, it appears, heavy customer opposition.

The stakes are large. Smith says each 1c translates into a R21m rise in pre-tax profit, based on production running at 75% of combined Samancor capacity/MSA annual capacity.



Samancor's Gilbertson... responsible marketing strategy

city of 1 Mt. "It'll take a few quarters of trading under the new structure before they accept that we intend taking a responsible marketing strategy," he says.

Smith adds that negotiations for fourth-quarter delivery are still under way with so far only one customer, based in the US, accepting the new price level.

On stainless steel, the MSA deal makes Samancor's Columbus joint venture with Highveld a virtual certainty, but means another six-month delay because of the need to reassess it, given that the partners now control an operating stainless steel mill.

Initial estimates are the cost could be cut by between R500m-R1bn from the previous forecast of up to R3,5bn. Highveld/Samancor have acquired personnel with both technical and marketing expertise and it appears the Columbus expansion will be phased in more gradually. Production is now not expected to start before 1995.

The share price has surged, hitting a 12-month high of R32,25 from R27,75 at the time the MSA acquisition was announced, before dipping to current levels around R30. That appears expensive considering the short-term profit outlook, but the price is being strongly supported by investors looking at growth prospects to be realised several years down the road.

Brendan Ryan

FM 18/10/91 (189B)
SUN BOP Financing the Lost City

Margins were hit by higher wages and a decline in hotel occupancy by three percentage points to 77%, yet earnings continued to

FM 18/10/91
Activities: Operates ten casino resort hotels in Bophuthatswana

Control: Sun Bop Holdings 81% Safra has ultimate control

Chairman: S Kerzner, MD P H Wagner

Capital structure: 108m ords Market capitalisation R3,3bn

Share market: Price 3 050c Yields 4,3% on dividend, 5,8% on earnings, p e ratio, 17,2, cover, 1,3 12-month high, 3 650c, low, 1 625c Trading volume last quarter, 703 000 shares

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	7,8	7,8	0,01	9,0
LT debt (Rm)	49,8	44,0	30,0	57,8
Debt equity ratio	—	—	—	—
Shareholders interest	0,59	0,55	0,57	0,59
Int & leasing cover	12,5	25,3	n/a	n/a
Return on cap (%)	19,8	23,5	24,2	22,4
Turnover (Rm)	348	499	627	772
Pre-int profit (Rm)	102	159	190	230
Pre-int margin (%)	29,3	31,9	30,4	29,7
Earnings (c)	63,3	105,6	145,2	176,9
Dividends (c)	47	78,5	108	132
Long-term (Rm)	252	317	392	552

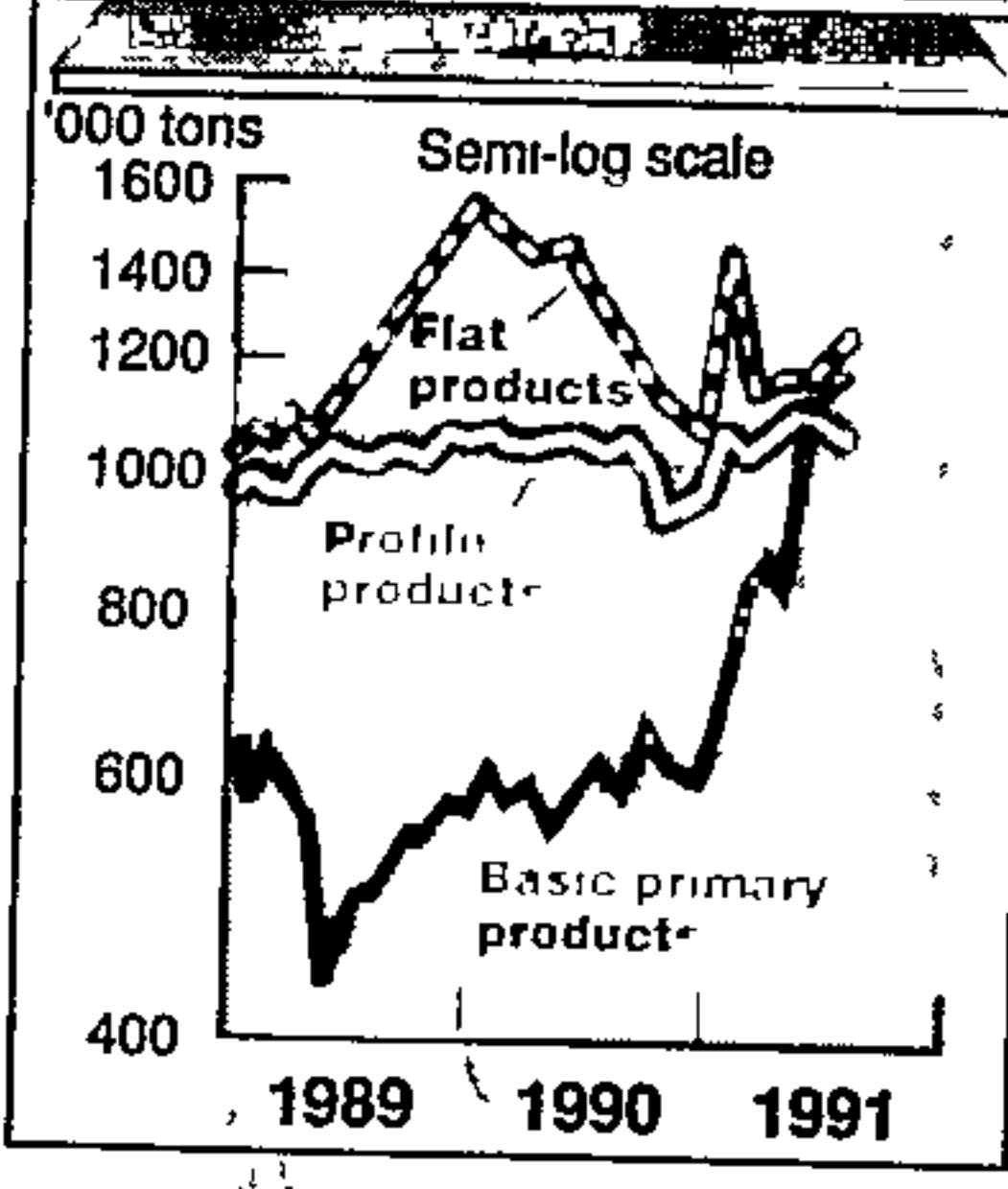
increase well above inflation. Chairman Sol Kerzner says the hotel industry has been hit by the poor local economy but the future of regional tourism is promising, as SA regains international acceptability. He says Sun Bop is particularly well placed to benefit from an increase in overseas tourists, with its blend of gaming and entertainment.

Sun Bop will open its most ambitious development apart from Sun City itself next month: the Carousel, at Babalegi. Devoted primarily to day trippers, it promises to be a strong cash generator for the second half of this year. It will take some business away from Morula Sun, as it is significantly larger.



Sun Bop's Resear cash from the Carousel

Stocks of primary steel products on hand



Graphic LEE EMERTON Source CSS

Steel stocks jump to 1,27-million tons

BRENT VON MELVILLE (189B)

STOCKS of primary steel products continued to reflect the malaise in the SA steel industry in July, registering an average rise of 21% over the same period in 1990.

According to Central Statistical Service (CSS) figures released this week, the main jump came from stocks of basic primary products which more than doubled to a record level of 1,27-million tons from about 600 000 tons in 1990 *6/day 21/10/91*

Stocks of profile products meanwhile showed a more sedate 3,4% increase from last July, while actually declining slightly from June's stock levels.

Flat products showed a 3,8% decline off the high levels at last July.

The decline in flat products, generally used in the production of "white" consumer goods, was largely due to a 17% drop in stocks of sheets, and tin-plate, which were down 22,7%.

SA bucks trend in steel output

BRUSSELS — Western world crude steel output fell 1,3% to 39,8 million tonnes in the year to September

The International Iron and Steel Institute said in its monthly bulletin that the big three centres for steel production — the US, Japan and the EC — all showed drops in output

In South Africa, production went against the overall trend, rising by 26,9% to 855 000t

The EC figure for September was 11,6mt, down 3,6%. The US was down 9,8% to 6,6mt and Japan 2,1% lower at 8,9mt

Among EC states, Germany recorded a 4,1% drop to 3,5mt, France was down 12,1% to 1,5mt and British production fell 6,9% to 1,5mt — Reuter

Alusaf starts work on R4,5bn expansion plan

(1898)
3 Day 21/10/91
MATTHEW CURTIN

ALUSAF has received firm commitments from foreign alumina suppliers as a prelude to starting its multibillion-rand expansion project

Alusaf marketing GM Johannes Diemont said the company was talking to potential customers about securing aluminium ingot contracts

Plans to upgrade Alusaf's smelting capacity from 172 000 to 638 000 tons a year at a cost of about R4,5bn are dependent on government applying its new export incentive scheme to the project

Diemont said the most critical issue for the success of the project was to secure aluminium sales contracts Alusaf was talking to various large end-users about contracts which might involve barter agreements with alumina suppliers

Risky

Alusaf has already won a 25-year contract with Eskom whereby the utility will supply electricity at rates tied to aluminium prices. The scheme is expected to make Alusaf one of the world's lowest cost producers as electricity takes up the lion's share of working costs in aluminium smelting

Alusaf's expansion scheme comes at a time when the aluminium market is going through a prolonged slump

Frankel Max Pollak Vinderine analyst Kevin Kartun said the Alusaf project was "a highly risky venture"

He was sceptical about Alusaf's assumption that in going ahead with its expansion plans it would put off similar plans in South America and the Middle East.

Alusaf MD Rob Barbour has said the

company was keen to deter competitors from expanding their operations, arguing the project was unstoppable

Kartun said other countries also had the benefits of cheap power supplies. The risks associated with the project were high given the depressed market, the expense of the expansion programme and its dependence on securing long-term sales contracts

Diemont said Alusaf faced only the normal business risks associated with a cyclical industry

Genmin services manager Francois Prins said Alusaf's position on the international aluminium production cost curve was more important than the supply-demand balance

Aluminium prices have crashed this year because of weak demand and massive oversupply, the result of record production rates and a surge in Soviet exports which have more than doubled in three years

Low prices have prompted three of the world's leading producers, Alcan Aluminium, Reynolds Metals and Pechiney, to cut production by nearly 300 000 tons overall in Quebec and England, the US and France

Prins said it was hard to say how the current market conditions were going to affect Alusaf's expansion programme, scheduled to come on stream by 1994.

But Alusaf would be competitive whatever the market conditions because of its low working costs, a similar position to the ferrochrome industry which had survived poor prices and demand because it was the lowest on cost in the world.

Hefty tariff hikes on motor industry steel

189B
B/DAY 24/10/91
BRENT VON MELVILLE

GOVERNMENT has announced hefty increases in tariffs of steel used extensively by the motor vehicle and appliance manufacturing industries, effectively shutting the door to the motor industry's intention to look elsewhere for their steel

The Government Gazette of October 18 shows tariffs on uncoated cold rolled coil and sheet have been amended to an across-the-board protection level of R1 670/ton free on board (fob)

This is compared to previous rates ranging from R596/ton and R706/ton fob, reflecting jumps of between 136% and 180%. In terms of the revision, any landed steel below the R1 670/ton rate is penalised by the full difference of the price, plus a 5% duty

This compares to Iscor's current list price of R1 730/ton free on rail for cold rolled sheet. An industry source pointed out that the increase in the protection levels meant an effective import parity price landed on the Reef of more than R2 000/ton

He added that the current list price also contrasted sharply with market prices in the main industrial countries — the US, UK, France and Germany — ranging from R1 170/ton to R1 270/ton.

The National Association of Automobile Manufacturers of SA (Naamsa) would not comment on the increased protection ahead of its meeting with Iscor tentatively scheduled for November 20

But according to one motor indus-

try source, the increased tariffs would effectively block the industry from going elsewhere for their steel requirements, and gave Iscor carte blanche to increase steel prices

"At the same time the tariff levels could well promote the trend towards the import of cheaper and superior electrolytic coated steel plate for cars and components, as is the current trend in the automobile industry overseas," he said. The revision to the tariff structure has not updated the rate of duty on coated steel

But the decision to increase tariffs on cold rolled sheet had neglected the SA Rolled Steel Producer's Co-ordinating Council's request to increase protection for other locally made steel products, said Iscor spokesman Ernest Webb-Stock

Dumping

The council had also requested that the Board of Trade & Industry "update" tariffs on imported hot-rolled steel products and wire rod. Iscor's argument was that the tariffs were in urgent need of revision to protect against "dumping"

Council chairman Willem van Wyk said it was not possible to compete against dumping by allowing ordinary market forces to operate

Independent Wire Converter's Association (IWCA) chairman Robin Bosomworth said the decision not to increase tariffs on wire-rod was welcome.

Govt slaps hefty increases on steel tariffs

From BRENT VON MELVILLE

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CT 24/10/91

189
B
CP

STEEL TARIFFS FM 25/10/91

Score one for David (189B)

Iscor and other big steel producers came away disappointed last week when government finally ruled on their application for higher steel import tariffs (248)

Government decided not to go along with the request filed by the SA Rolled Steel Producers' Co-ordinating Council in December to increase the protection for locally made hot-rolled steel products and wire rod. The decision was published in last Friday's *Government Gazette* (189B)

Iscor argued that the protection for these products has not been raised since 1985. "Over the past six years, cost inflation in the local economy has soared, so we are understandably disappointed that government turned us down on wire rod and hot-rolled

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Continue - D

BUSINESS & TECHNOLOGY (189)

FM 25/10/91 (189B)
steel imports," says Iscor spokesman Ernest Webb-Stock (189)

The decision is a big victory for the Independent Wire Converters' Association, which furiously lobbied against the wire rod tariff hike. Chairman Robin Bosomworth says the refusal to heighten protection is a welcome sign that government will be showing more sensitivity to the interests of small companies and consumers.

"Government is becoming increasingly aware of conspiracies within industry. The fact that it refused to hike tariffs on imported wire rod also illustrates the importance of effective lobbying in SA's overprotected economy. This might be a lesson to other steel users in the economy."

Bosomworth says that if government had gone along with the council's application, imported wire would have cost about R1 550/t on the Reef, more than double Iscor's export price of R750/t. While the council argued that jobs would be lost if protection were not raised, the association argued that local steel users would create more jobs if steel prices were kept down.

But the big steel makers did not go away empty handed. Government did agree to increase the reference prices for the formula duties on imported cold-rolled and galvanised flat steel products. "While the ad valorem duty has remained at 5%, the formula duties have been increased to conform with international prices," Webb-Stock says.

Bosomworth says his association's lobbying success underlines the need to form a steel consumers' council "to offset the lobbying abilities of the big boys," especially now that government seems to be realising the importance of a more competitive business environment. ■

Cheap power

Alusaf's key

S/Times (BUS) 27/10/91 -

189B

ALUSAF needs a second low-cost smelter to ensure its survival.

Managing director Rob Barbour says that to remain an international player Alusaf needs competitive power costs

Alusaf's survival is also critical to Eskom, which has to maintain electricity sales at a high level to reduce overcapacity

The convergence of their interests led to a deal which will convert Alusaf from a high-cost producer in the top quarter of world operators to a low-cost one

This will be achieved through linking Eskom's power charges to Alusaf to the price of aluminium on the London Metal Exchange (LME) at a fixed ratio of 16,3%.

Raw

This tariff rate will also apply to Alusaf's smelter as soon as the new one is commissioned and could result in a reduction in power costs of up to 40% at today's LME price.

Aluminium smelting uses a lot of electricity — up to 15 000 kilowatt hours (kWh) a ton of aluminium produced compared with only 3 500 kWh for ferrochrome. Power usually comprises from a quarter to a third of aluminium production costs.

Mr Barbour believes that Alusaf will be competitive in other major cost areas — raw materials, labour and maintenance

Alumina is the major raw material used in making aluminium, which is produced from bauxite. About 1,9 tons of alumina are required for a ton of aluminium.

Neither alumina nor bauxite is produced in South Africa and Alusaf is seeking contracts with a "sensible portfolio of suppliers", both principal-to-principal and through traders. It is also exploring the possibility of deals whereby alumina would be exchanged for aluminium.

Mr Barbour believes Alusaf will obtain alumina at competitive prices because of

By IAN ROBINSON

its large size and buying power and SA's favourable geographical situation on world trade routes.

Maintenance and low production costs are a function of plant design. Alusaf has signed a contract with Pechiney of France which will provide engineering technology and assistance with cost data.

Mr Barbour is hopeful that a R7-million feasibility study, due for completion in April 1992, will confirm confidence in the profitability of the project.

Alusaf is about to select the site of the new smelter. The choice has been narrowed to Richards Bay and sites in the Eastern Transvaal.

Saldanha Bay is no longer being considered.

The existing smelter will be upgraded after commissioning of the second one and annual production capacity will be raised by 50 000 tons from 165 000.

Peaks

Mr Barbour's major concern about the decision to go ahead with the project relates to the aluminium price more than to its competitiveness. LME prices of under \$1 200 a ton have fallen from more than \$2 600 in mid-1988.

Although prices should improve by the time the smelter is commissioned in three or four years — they could reach peaks — the low current quote could raise doubts about the project's profitability.

Alusaf is confident that world demand for aluminium will grow at an average annual rate of about 3% until the end of the century from about 16-million tons.

Alusaf's new smelter will provide only a tenth of new capacity required.

Eskom in line for 25% of Alusaf

By CURT VON KEYSERLING

ESKOM has acquired an option to buy a 25% stake in Richards Bay aluminium producer Alusaf. (1898)

Gencor is the main shareholder.

An Eskom spokesman says it was given the option free because it identified the opportunity for Alusaf's capacity expansion programme, now under review, and played a key role in feasibility studies.

Eskom is a statutory body and has never held shares in manufacturing concerns. But the spokesman says there is nothing to prevent it from doing so.

Eskom will become involved if the opportunity improves its cost effectiveness in supplying electricity to its customers generally.

He says if Eskom takes up its option, it will not try to influence day-to-day management. (S/Time (Buss))

Discounts

The cost of the 25% shareholding is not known because the debt equity ratio of the undertaking, if it goes ahead, has not been determined.

If the expansion takes place, it will use 800 megawatts of power and could account for 16% of surplus generating capacity in 1994. This could result in the reactivation of some generators six months earlier than expected.

Electricity accounts for much of aluminium's cost. The project depends on a low tariff from Eskom linked to the price of aluminium. If this formula were applied now, Alusaf's electricity tariffs would fall by about 40%.

The spokesman says the project will benefit other customers through reduced tariff increases in future because all carry the cost burden of Eskom's surplus capacity.

The arrangement is in line with a plan announced last year by Wim de Villiers shortly before his death when he was Minister of Economic Co-ordination and Administration.

The plan involved helping new export industries with discounted tariffs for rail transport and electricity.

Eskom still looking at its option on Alusaf

ESKOM had entered the second phase of its investigation into the purchase of 25% of aluminium producer Alusaf, Eskom CE Ian McRae said at the weekend *Monday 28/10/91*.

"Our option is still very open and we will only take a decision once the study has gone further. Eskom's decision will not affect Alusaf's expansion programme," he said.

Eskom was given the option free because it assisted in making a proposed expansion project more feasible by agreeing to tie electricity rates to the aluminium price for the next 25 years.

Alusaf hopes to expand its smelting

ROBERT LAING

capacity from 172 000 to 638 000 tons a year at a cost of about R4,5bn. The expansion, scheduled for completion in 1994, would raise Alusaf's power consumption to 800 megawatts, 16% of Eskom's spare capacity. *(189B)*

A R7m feasibility study, scheduled for completion in April, will indicate profitability of the project. *(222)*

Gencor holds 31% of Alusaf, the Industrial Development Corporation 41% and Swiss aluminium group Alusuisse 22%.

McRae said the tariff deal enabled Alusaf to produce at competitively low prices.

Power costs account for as much as a third of aluminium production costs. The deal should reduce electricity costs by 40%. *(250)*

No figure could be placed on the 25% stake yet, McRae said.

Alusaf forecast that aluminium consumption would grow by 3% a year. MD Rob Barbour recently said he wanted to impress upon 15 other producers planning to increase production that the SA project was unstoppable.

If competing projects went ahead, markets would be flooded and the already low aluminium prices would fall further.

Tokyo starts probe into metal dumping

(189B)

B1 Day 2/12/91
MATTHEW CURTIN

THE Japanese government launched an investigation at the weekend into allegations that SA, Chinese and Norwegian producers have been dumping ferro-silico-manganese on the Japanese market.

AP-DJ reported from Tokyo that after complaints by the Japanese Ferroalloy Association, the probe, expected to last a year, began. It might see anti-dumping duties imposed on producers found guilty.

A Japanese finance ministry spokesman said the decision was the first time Japan had decided to conduct an investigation stemming from a dumping claim.

Samancor and Highveld Steel and Vanadium subsidiary Transalloys are SA's two producers of ferro-silico-manganese, which is used in the manufacture of steel.

A Transalloys spokesman said yesterday the company would look closely at Japan's charges before commenting.

Samancor spokesmen were not available yesterday, but last week officials said the company had not dumped any material in Japan. They said the Japanese were concerned primarily with Chinese exports of cheap material. Ferro-silico-manganese prices have plummeted 40% in the past two years in the face of a flood of cheap, low quality Chinese and Soviet material.

STAR 4/12/91.
Rheem to

build R150-m can factory 189B

Finance Staff

Highveld Steel's metal packaging subsidiary Rheem SA has announced plans to build an all-aluminium beer and beverage two-piece can factory

The project, which will involve an estimated capital investment of R150 million and will employ more than 100 people, follows extensive research of both the local and overseas markets

The manufacturing facility will be sited on the East Rand following the signing of a turnkey agreement between Rheem and Packaging & Containers International of the US, which is one of the leading engineering groups in its field

It has experience in the supply and commissioning of such projects in the Far East and Australia

159

W/Mon 6/2/12/12/9

Numsa said the workers were due for retrenchment today. It said it would appeal for support from its members in other plants, from the Cosatu and the "tripartite alliance", and from the International Metalworkers' Federation.

Highveld strike to fight layoffs

WITBANK ^{B1000 6/12/91} - All the black workers at Highveld Steel, the huge iron and steel manufacturer in Witbank, resumed their strike yesterday in an attempt to stop the company retrenching 600 employees

About 4 000 workers downed tools again following their brief work stoppage on Tuesday, National Union of Metal Workers of SA (Numsa) spokesman Frank Boshielo said yesterday.

Attempts to negotiate a compromise on Wednesday had failed, said Boshielo

Numsa first attempted to convince the company that it should retain the services of the 600 workers and then, apparently conceding that the retrenchment would go ahead, negotiated with management over a settlement package for the affected employees

Boshielo said the company was offering a retrenchment package of two weeks pay for every year a worker had been employed.

Numsa was demanding four weeks pay for each year

He conceded the strike was illegal in terms of the Labour Relations Amendment Act, because no strike ballot had been conducted.

"The problem is that the company wants to retrench the 600 workers tomorrow. There is no way to block them except by an immediate strike"

The company gave notice of their intention to retrench on November 12, just three weeks before the 600 employees were to lose their jobs, Boshielo said.

Numsa expects the company to seek legal means to force the strikers to return to work

It says it will oppose such action and the strike will continue.

Only white employees were at work at Highveld Steel's three plants in Witbank yesterday.

Management confirmed the strike and said negotiations would continue early today.

It said workers had downed tools at Vantra, Transalloys, Rand Carbide and Highveld Steel yesterday - Sapa

SA loses ferrochrome share

SA's ferrochrome producers have won a 6% price increase for exports to the US, Europe and Japan after protracted price negotiations for the December quarter. But the higher prices have cost them a large part of their share of the international export market in the period

Consolidated Metallurgical Industries (CMI) marketing director Alan Kuhnert said yesterday the higher prices had affected the volume of SA exports, as customers had relied instead on ferrochrome from Scandinavia, India and Turkey, as well as stainless steel scrap.

However, come the first quarter next year these supplies would be inadequate to meet demand, and stainless steel manufacturers would have to buy SA material SA, through main producers Samancor, CMI,

MATTHEW CURTIN

and Chromecorp Technology, produces 30% of the world's ferrochrome, the core ingredient in stainless steel manufacture.

Kuhnert said some customers in Europe had accepted a \$0,03 increase in ferrochrome prices to \$0,52/lb in the December quarter.

He said small, integrated steel mills in Japan — those that produced only stainless steel — had accepted a provisional price of \$0,52. However, the large blast furnace companies, which produced both stainless and carbon steel, were resisting the price increase, following the lead set by European producers. Traditionally, price talks begin with American customers, followed by Europe and Japan.

□ To Page 2

Ferrochrome

Kuhnert said US customers had bought material at the new price, but "those Europeans who have not bought material so far will not do so this quarter" US market sources have said US companies have taken only minimum amounts of ferrochrome from SA and only on a "me too" basis, whereby they would buy ferrochrome at \$0,52/lb or the price taken by European

customers, whichever was lower

Samancor marketing GM Wilrich Schroeder declined to comment on the state of Samancor's price negotiations for the current or next year's March quarter

A market source said it seemed likely the SA producers would put a price of \$0,52/lb into the market for the next quarter's talks, which are about to begin

□ From Page 1

Highveld strikers expected back at work

610am 11/12/91
WORKERS at Highveld Steel and Vanadium are expected to return to work this morning after several days of illegal industrial action which has knocked production at the group's steel, vanadium and ferro-alloy divisions

Nearly 4 000 members of the National Union of Metal Workers of SA (Numsa) started strike action on Tuesday last week in protest at the retrenchment of 600 workers

Management and worker representatives agreed yesterday to continue talks to resolve the dispute, after Highveld issued an ultimatum on Monday for workers to return to work yesterday or face dismissal. A Highveld official said "Management and employee representatives at the Highveld group have agreed to hold further talks (this morning) and all employees

VERA VON LIERES
and MATTHEW CURTIN

will return to work for their respective shifts"

All four Highveld operations at plants near Witbank were affected by the industrial action, but production had continued "albeit at a level lower than normal"

A market source said yesterday that it was unlikely that the company's ability to market its products had been affected

Worldwide demand for vanadium pentoxide and ferro-alloys is weak at the moment, and there has been such an oversupply of vanadium products that Highveld has been able to close down its Vantra division twice in the past year. Most of SA's ferro-alloy producers are operating under capacity

Falling steel prices and a glut in ferro-alloy markets saw Highveld's interim earnings tumble 43% from 1990 levels. Pre-tax profits fell 57% from R117m to R50m

Numsa spokesman were locked in talks yesterday and could not be reached for comment

The Highveld official denied a report in this week's New Nation that Highveld had simply informed the union of the 600 retrenchments and had refused to negotiate a severance package

"In terms of an agreement with the union, employees were given three weeks' notice of the impending retrenchments, which were discussed at numerous meetings

"Severance pay has been given," the official said

Highveld Steel strikers return to work

ABOUT 4 000 workers at Highveld Steel in Witbank returned to work yesterday after agreement was reached between management and workers' representatives, a Highveld Steel official said

The workers, most of them National Union of Metalworkers of SA (Numsa) members, had been engaged in illegal industrial action since last Tuesday to protest against the retrenchment of 600 workers

"In terms of the same agreement, management and employee representatives have been holding talks today to resolve the situation," the official said

Sapa reports that most of Highveld Steel's skilled workforce left their posts yesterday morning in protest against alleged discrimination by management. About 800 white workers were involved in the action

The Mine Workers' Union said all but nine black workers who were dis-

B 110 my 12/12/91
VERA VON LIERES

missed last week after the illegal strike had been re-employed, Sapa reported

Highveld Steel management declined to comment yesterday on the action taken by skilled workers but said negotiations were continuing with employee representatives

Meanwhile, management at Iscor's Durnacol mine in northern Natal said yesterday it had begun to re-employ workers. About 3 100 workers were dismissed after a month-long strike

This followed a meeting with the NUM earlier this week at which the parties failed to reach agreement on re-employment conditions

An Iscor spokesman said management had indicated that former employees would be given preference in the selection of a new workforce

NUM acting general secretary Marcel Golding said this week the

company intended to re-employ about 2 000 workers, and was using a lawful strike to effect retrenchments

The Iscor spokesman said the mine would employ only about 2 000 workers as it had been over-staffed

The union was aware of the situation, he said

Management would respond to a union proposal for mediation in the matter today, the spokesman said

A Gold Fields spokesman said yesterday Doornfontein gold mine had applied for a court order to evict 4 018 dismissed employees from the mine. The application would be heard in the Pretoria Supreme Court tomorrow

The mine had previously said about 5 800 workers were dismissed after beginning an illegal strike last Monday and refusing to abide by an ultimatum to return to work last Wednesday

Staff Reporter

(189B)

(189B)

(189B)

(189B)

Metalworkers call off strike

STAR

12/12/91

were due to lose their jobs

He said that in terms of the agreement with the union, employees were given three weeks' notice of the retrenchments, which were also discussed at several meetings. In addition, severance pay had been paid.

Mr Boshelo said workers went on strike in an attempt to block the retrenchments.

The strike is a sequel to the downing of tools by workers at the mine last Tuesday in protest against the retrenchment of 600 employees.

The 4 000 employees of Anglo American's Highveld Steel Corporation in Witbank who were given an ultimatum to return to work on Tuesday or face dismissal returned to work yesterday, an Anglo spokesman said.

The spokesman said this followed an agreement reached with management on Tuesday.

In terms of the agreement, Tuesday's talks continued until yesterday and management and employees' representatives

agreed to hold further talks today to resolve the situation, the spokesman added.

All employees would return for their respective shifts, the statement added.

The illegal strike by the workers, in defiance of a court interdict obtained by the company which ordered them back to work by Monday morning, affected the vanadium and ferro-alloy operations.

The spokesman said the strike's impact on Highveld's ability to market its products had not been seriously affected.

The spokesman denied claims by National Union of Metalworkers regional secretary Frank Boshelo that the union was forced to act immediately as management had informed the union of its intention to retrench workers only on November 12, three weeks before they

Metal workers return to work

12/12/91
ALL 4 000 members of the
National Union of Metal-
workers of South Africa
who had been involved in
industrial action at
Highveld Steel in Witbank
returned to work yesterday

This was confirmed by
both Numsa and a spokes-
man for Anglo American
Corporation

Negotiations between
Highveld Steel's manage-
ment and the union were
still continuing yesterday -
*South African Press Asso-
ciation*

AGRICULTURE IN SOUTH AFRICA
IN THE EIGHTIES AND NINETIES:
AN ANNOTATED BIBLIOGRAPHY.

Aluminium cans will help to keep SA tidy

(189B) S/Times (BUS) 15/12/91

BY IAN ROBINSON

A REBATE on the import duty on specialised aluminium sheet was the breakthrough Rheem SA required for its project to make aluminium cans for beer and soft drinks.

The Board of Trade and Industry has effectively reduced the duty on aluminium sheet for two-piece cans from 25% to 5%.

South Africa does not make the specialised grade of sheet required.

Rheem said in its application for tariff relief that it did not expect a permanent rebate, implying an expectation that the sheet would eventually be made in SA.

Rheem managing director Stuart Park says "Aluminium is the beer and beverage can of the future. It is the only economically recyclable container. It is also the only product which can justify the ordinary man being paid to be environmentally conscious."

Turnkey

Rheem, a division of Highveld Steel & Vanadium, will spend R150-million on a plant to make two-piece aluminium cans.

Hulett Aluminium makes the alloy for the ends of the cans and is conducting feasibility studies to upgrade its Maritzburg plant. It could include facilities to make can body stock.

Mr Park expects the project to stimulate downstream employment through can collection centres. The US has 10 000 such centres.

The level of recycling will be important in determining aluminium's competitiveness with tinplate. Smelting of aluminium scrap requires only about 5% of the power used to make primary aluminium. Recycling levels of 50% to 90% have been achieved abroad.

Recycled tinplate is not

much cheaper than the primary product.

A venture between two large can manufacturers — Metal Box and Crown Cork Company SA — supplies reclaimed cans to Iscor's Vanderbijlpark works. But it is not economic and is subsidised by the two companies.

A spokesman for Iscor, which has a tinplate and a tin-free steel line with annual capacities of 320 000 tons and 120 000 tons respectively, says aluminium will compete in the same market. Iscor is studying the potential effect on demand for its products.

Stream

Metal Box and Crown Cork have reacted coolly to the prospect of competition from aluminium cans. They question the wisdom of dependence on imported materials — aluminium sheet or alumina for domestic production of the sheet.

Don McCartan, managing director of Nampak, holding company of Metal Box, says Metal Box is "very comfortable with steel cans".

Worldwide about 80% of beverage cans are aluminium. Most cans in the US, Sweden and Australia are made of it. Tinplate cans predominate in France, Germany, Spain and Belgium.

Three companies in the US, France and Japan have joined forces to make an ultra-light steel can that uses 30% less metal.

SA Breweries, which fills about 500-million cans a year, says it has not "pushed" for aluminium. Although aluminium cans offer marginal technical advantages over tinplate, neither material is decidedly better than the other.

Mr Park says Rheem's plant is due to come on stream in mid-1993 and make about 500-million cans a year — 16% of the domestic market.

S/Times (Guss) 15/12/91

Samancor lays off another 400

(400) (18 9B)

SAMANCOR is expected to retrench about 400 employees at the Middelburg Ferrochrome plant — previously Middelburg Steel & Alloys Chromium

The plant has a complement of about 3 000

MS&A was taken over by Samancor in September

Notice of retrenchment was given to more than 100 employees at MS&A head office in November

Samancor declines to confirm the scale or terms of retrenchments because no finality has been reached

Samancor general manager, chrome, Wilrich Schroeder says "discussions with employees and employee representative organisations regarding rationalisation are under way"

Losses

Mr Schroeder says the rationalisation of its operations is "due to market conditions prevalent in the ferrochrome industry" These have forced producers to explore all possible avenues in order to remain alive

It is believed that the primary objective of the retrenchments is to reduce the staff complement at Middelburg to one comparable with other Samancor ferrochrome operations — Ferrometals and Tubatse

However, shelving of the Chrome Direct Reduction (CDR) plant and persistent losses at the low-carbon factory have aggravated the po-

By IAN ROBINSON

sition The scale of the retrenchments reflects the different business philosophies of MS&A and Samancor

John Hall, director of Barlow Rand and former chairman of MS&A, says he introduced a no-retrenchment policy in 1978 which took into account the cyclical nature of the business This resulted in a stable labour force

In spite of overstaffing in times of depressed demand, MS&A's production costs compared favourably with other ferrochrome producers

A Middelburg employee who has been given notice of retrenchment expresses anger about Barlows' alleged indifference to the fate of its former employees He says he feels like "a puppet on a string"

Mr Hall denies that Barlows is indifferent and says the "welfare of people who would inevitably be retrenched was of primary concern to Barlows and they were involved with the new owners (of MS&A's stainless-steel and ferrochrome companies) to achieve generous retrenchment packages"

However, he declines to say how generous because this could set a precedent He says head-office employees who declined offers of transfers to Middelburg still received retrenchment packages

Retrenchment terms at the plant are believed to be similar to those offered to MS&A head-office employees — 5% to 7% of annual remuneration package times the number of years' service

There is dissatisfaction about the basis of selection of employees to be retrenched It is also alleged that no company contributions to the pension fund will be paid out to retrenchees The employees' contribution will be repaid at an accrued rate of interest of only 2%

Hardship

Mr Hall says negotiations were held with each employee and every attempt is being made to avoid hardship A list of MS&A retrenchees has been circulated throughout the Barlow group in an attempt to place them

A labour lawyer consulted by some head-office retrenchees describes the terms as "quite generous" But the retrenchments, from the procedural point of view, were handled badly in the early stages Employees were faced with a fait accompli and there was inadequate consultation

Middelburg Steel's purchase finalised

THE consortium of three of SA's leading mining groups finalised the R1,1bn purchase of Barlow Rand's Middelburg Steel & Alloys (MS & A) at the weekend

Although the deal in which Anglo American, De Beers Consolidated and Gencor acquired MS & A's stainless steel and ferrochrome operations, plus Rand Mines' chrome mines and mineral rights, was announced in September, conditions precedent to the deal were only fulfilled last week

However, the essential parts of the transaction remain unchanged, with the sale worth R26m more at R1,101bn to the sellers than expected

Management and staff at MS & A have borne the brunt of changes since the deal was announced

Business Times reported at the weekend that Samancor would re-trench 400 workers from the Middelburg ferrochrome plant bought from MS & A. The plant employs about 3 000 people, and Samancor's existing ferrochrome plants are understood to be working at only 70% average capacity

The retrenchments stemmed from the restructuring of Samancor's enlarged ferrochrome capacity, as the ferrochrome market remained depressed worldwide, and the shelving

of the chrome direct reduction plant.

The new-technology ferrochrome plant has been bedevilled by problems before and after its commissioning earlier this year, and Samancor has said it would be closed for 18 months to allow for its redesign

About 100 employees from MS & A's head office in Sandton have already received their notice.

Samancor bought the ferro-alloy business of MS & A for R487,5m. The Columbus joint venture of Samancor and Highveld Steel and Vanadium bought MS & A's stainless steel division, which will become the core of the new R2,5bn stainless steel project, for R500,9m

Samancor bought Rand Mines' Henry Gould and Millsell mines for R30,7m, chrome and associated base metal mineral rights for R30,1m, and Winterveld chrome mine for R51,8m

In a joint announcement yesterday, members of the consortium said the deal would have no material effect on earnings a share.

However, assuming that the deal had taken place on July 1 1990, it would have lifted Samancor's and Highveld's net asset value by 13% and 31% to R12 and R10 a share respectively.

1898
B/day 17/12/91
MATTHEW CURTIN

Stainless steel deal solidifies

By Derek Tommey (1898)

The establishment of a major stainless steel plant has taken a further step forward with Columbus and associate Samancor reaching formal agreement with Barlow Rand to buy its chrome and stainless steel interests

An announcement today shows that Barlow Rand is to get slightly more than it expected. The group is to receive R1,101 billion — R26 million more than it originally forecast.

An amount of R988,4 million will go to Barlow Rand itself and R112,6 million to subsidiary Rand Mines.

This does not seem a bad price for an investment which, according to Barlow Rand's latest annual report, apparently yielded a pre-tax return in the year to June of R62 million.

The cash will come in useful. At the end of June, Barlows owed the banks R2 billion, so the new money could save it R200 million a year in interest payments.

In the year to June, Barlows sold its entire stake in Driefontein, Hartebeestfontein, Ofsils,

Southvaal, De Beers and Palabora, while reducing holdings in Ergo, Kinross, Vaal Reefs, Western Deep, Zandpan and Impala Platinum.

However, interestingly it increased its stake in Rustenburg Platinum from 163 400 to 224 800 shares.

It has retained all or almost all of its holdings in Barbrook, Blyvooruitzicht, Durban Deep and Harmony.

Barlows is to receive R500,9 million from Columbus for the sale of the stainless steel business and a 50 percent stake in Middelburg Steel & Alloys.

Columbus' shares are held equally by Anglo American's Highveld and Gencor's Samancor.

Samancor is paying R487,5 million for Barlows' ferro-alloy business and the balance of Middelburg Steel & Alloys.

Samancor is also paying R112,6 million for Rand Mines' chrome and associated base mineral rights, its management contracts with Henry Gould, Millsell and Winterveld and, subject to the approval of Vansa shareholders, the entire issued share capi-

tal of and shareholders' claims against Winterveld.

Highveld has financed its R250,45 million share of the Columbus payment by issuing 16 million shares at 1 565c a share, which have been taken up by De Beers and Anglo American which, in turn, has exchanged 8,2 million Highveld shares for 1,5 million Arnica shares.

Samancor paid its R250,45 million due to Columbus in cash. It financed the balance of its purchases by issuing 17,6 million shares at 2 775c a share.

It issued a further 4 million shares at the same price to raise funds for the Rand Mines transactions.

The Samancor shares were taken up by Anglo American, De Beers and Genmin.

The transactions will not have a material effect on the earnings a share of Highveld or Samancor, but will improve the net asset value of their shares.

The transactions will also have no material effects on the earnings a share of Anglo American, De Beers, Gencor or Genmin.

Rhovan unscathed by Usko's demise

MATTHEW CURTIN

RHOMBUS VANADIUM (Rhovan) has emerged largely unscathed from a torrid year in which its vanadium joint venture with Usko fell apart

Rhovan posted an after-tax profit of R4m and attributable earnings of R22m, but Usko's demise has put off indefinitely Rhovan's plans to pay dividends by 1993. These results for the year ended September are based on operating results from end-March, before which all operating costs, revenue and interest were capitalised.

Shareholders will not know before March whether Rhovan is going to stick with the vanadium business.

MD Rob Still would not comment yesterday on details of Rhovan's plans, except to say negotiations were continuing.

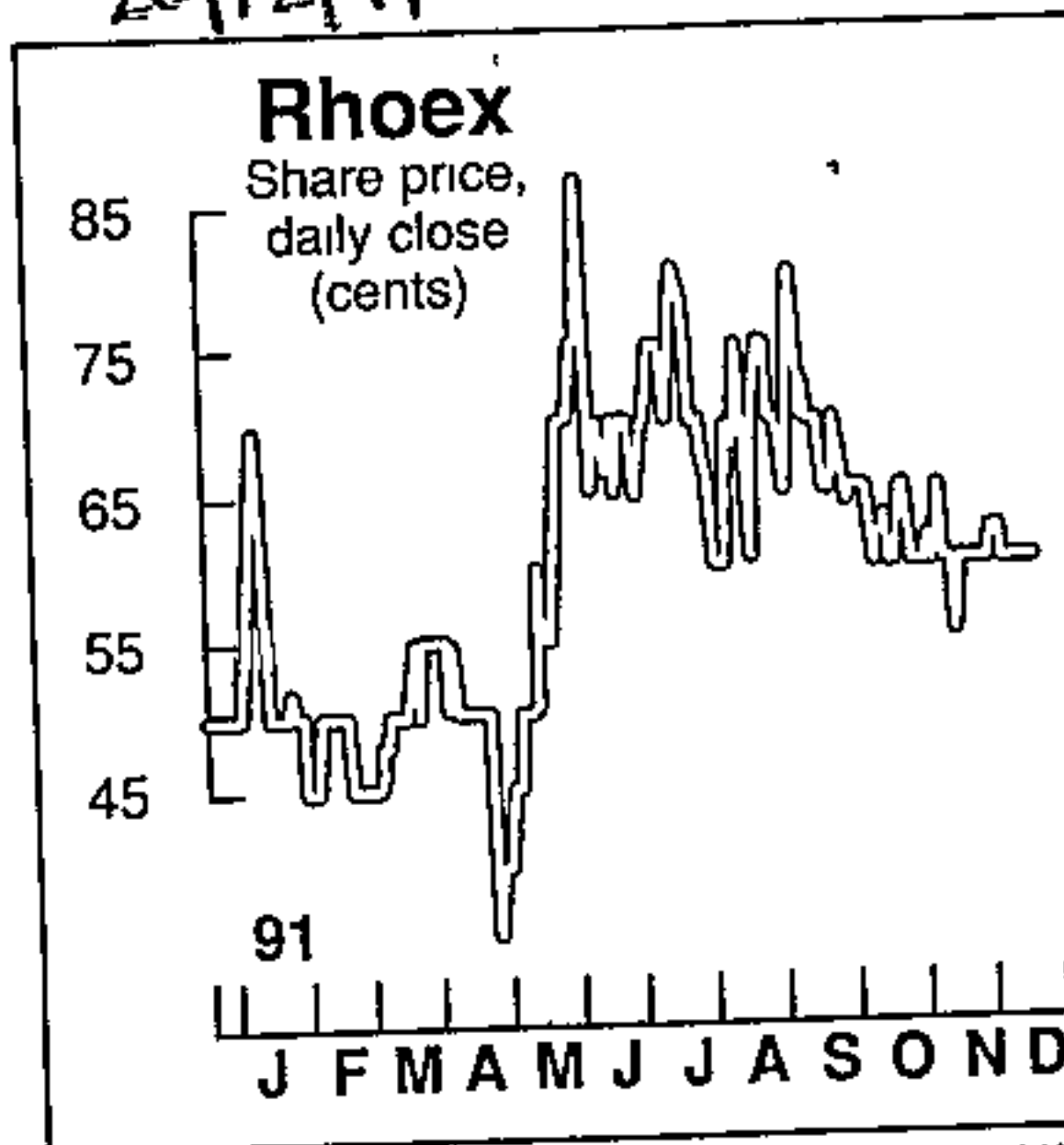
It is understood Rhovan's principal options are either to sell its vanadium operations or secure financing to proceed with building a new vanadium pentoxide plant to exploit its established mining infrastructure once a technical feasibility study is completed in March.

The vanadium pentoxide market is currently in the doldrums, hit by low prices and weak demand as recession takes its toll on the steel manufacturing industry, the main consumer of vanadium.

Still has said while Rhovan had won international backing, only a producer confident of the lowest production costs could go ahead with a new project in the present market conditions.

Market sources say that if the second option prevails, the earliest Rhovan would be back on stream is 1993. It has mothballed the Usko plant and plans to sell assets it does not need, while its mine and concentrator have been put on a care and maintenance basis.

Rhovan produces vanadium-bearing



Graphic LEE EMERTON Source I NET

magnetite concentrate from its mine and beneficiation plant at Ba-Mogopa near Brits. The company contracted to supply the concentrate to Usko, in exchange for royalties on Usko's profits. Usko would process the concentrate into vanadium pentoxide flake.

Usko was unable to work its vanadium pentoxide plant. The company was technically bankrupt at its year-end in September and in the restructuring of its operations, Usko sold its vanadium assets to Rhovan for a nominal R2 and paid R19m in penalties for breaching its contract to buy Rhovan's concentrate.

Rhombus Exploration (Rhoex), Rhovan's holding company which manages the vanadium mining company and whose stake increased from 39% to 59% following the purchase of Usko's assets, turned in a pre-tax profit of R3.5m in the fifteen months ended September.

Rhoex has several exploration projects at an advanced stage, including joint ventures to develop mineral sands in Northern Natal and Transkei with Shell and Rand Mines respectively.

MIDDELBURG STEEL

Carve-up

FM 20/12/91

(189)

Ratification of the deal by the consortium including Anglo American Corp, De Beers and Gencor to acquire Middelburg Steel & Alloys (MS&A) and related interests confirms Barlow Rand will receive R1,1bn cash

Rand Mines will get R112,6m from Samancor for its chrome interests — the Henry Gould, Millsell and Winterveld chrome mines — and the mining house will use this money to remove the last of the debt on its balance sheet, which at one stage last year totalled R312m.

Proceeds from the sale of the chrome interests are better than expected, as Rand

FM 20/12/91

(189)

Mines chairman Dammy Wati had predicted the group would get about R100m for these assets. The final figure included R3,6m in interest payments

Highveld Steel & Vanadium (Hiveld) and Samancor are buying the companies involved (not just the businesses) and raising the bulk of the cash by issue of new shares to Anglo, De Beers and Gencor

Samancor gets MS&A's ferro-alloy business as a going concern with effect from October 1 last year. The Columbus joint venture — owned by Hiveld and Samancor — gets MS&A's stainless steel business as a going concern from the same date. Columbus and Samancor each acquire half of MS&A's issued shares

Hiveld is issuing 16m new shares, of which 10,4m go to Anglo and 5,6m to De Beers. Anglo is passing 5,35m of its new Hiveld shares through to Amic, in return for 950 000 Amic shares issued at R88 each, while De Beers is passing 2,9m of its entitlement to Amic for 500 000 Amic shares at the same price. Of the 21,6m new Samancor shares to be issued, Anglo and De Beers get 7m and 3,8m respectively, while Gencor's mining arm Genmin gets 10,8m

Brendan Ryan

Highveld battles to hold vanadium pentoxide prices

BIDON 24/12/91 (1898)
 HIGHVELD Steel and Vanadium, the world's largest producer of vanadium, has secured an unchanged price of \$2,60/lb for its vanadium pentoxide sales for the first quarter of next year

MATTHEW CURTIN

However, one market source said yesterday that Highveld had battled to maintain the price at the same level as the current quarter, and would probably offer discounts to make up its premium to free market spot prices. Those prices have been hovering around the \$2,30 to \$2,45 mark for several weeks.

A Highveld official said yesterday that the "soft steel market" worldwide was contributing to pressure on vanadium pentoxide prices. However, there was the prospect of "tightening availability" for ferrovanadium in the short-term. In such a climate Highveld thought it was right to hold the price at the \$2,60 level, he said.

The primary use of vanadium is in the manufacture of special steels.

Ferrovanadium prices tend to lead vanadium pentoxide prices, and spot prices for the alloy — at about \$12/kg — are currently at their lowest level for six years.

Highveld's vanadium pentoxide has slid from \$3,15/lb in the March quarter this year in the face of slack demand from steel producers, excess production capacity particularly in SA, and perceptions of oversupply. The group has more than 40% of world vanadium production capacity, and with rival SA producers could in theory meet total demand for the metal.

Meanwhile, SA's ferrochrome producers, facing similar problems, have struggled to secure a 3c increase in ferrochrome prices, to \$0,52/lb for the coming quarter, and are cutting back production because of slack demand.

The London-based Metals Bulletin reported last week that Consolidated Metallurgical Industries (CMI), the world's second largest ferrochrome producer after Samancor, would reduce output at two of its operations.

Its Lydenburg C furnace would be shut down indefinitely — it has a 70 000-ton production capacity — and its Rustenburg plant would undergo an extended maintenance programme, taking out 4 500 tons of the furnace's 55 000-ton yearly capacity.

Chairman David Kovarsky said the C furnace would be shut until market conditions improved, and workers shifts would be reorganised and overtime cut to take in the slowdown in operations. There would be no lay-offs.

The Bulletin said Samancor and Chromecorp Technology were also considering cutbacks, although a Samancor official said "any suggestion of cutbacks is speculation at this stage."

December-quarter price talks between SA producers and customers in the US, Europe, and Japan had been particularly sensitive with no steel producer wishing to be seen breaking ranks by publicising the price it had paid.

Viability of SA's 'costly' aluminium can deal queried

ROBERT WICKS

B/Dary 31/12/91

THE recent announcement that Rheem SA, a division of Anglo Highveld Steel and Vanadium, is to manufacture an all-aluminium can for the beer and soft drink industries looks set to create fierce competition for the two existing local suppliers.

However, Metal Box (Nampak) and Crown Cork Company SA, which up to now have monopolised the market with a steel sheet product, were both sceptical of the project going ahead with one claiming the scheme could cost SA between R50m and R250m a year in forex

A R150m plant will be erected following the agreement signed by Rheem with Packaging and Containers International (PAC)

The move follows low world aluminium prices and a rebate on the import duty of specialised aluminium sheeting by the Board of Trade and Industry (BTI).

The BTI has reduced the import duty on aluminium sheeting (for two-piece cans) from 25% to 5%

Although Crown Cork MD Dick Sheppard could not be reached for comment, it is understood the company is sceptical about relying on imported materials for domestic production of aluminium sheeting.

Nampak deputy chairman Peter Campbell said the company intended remaining a major supplier of steel, and would do so with the assistance of Iscor. Nampak recently spent R120m on a canning plant at Springs in the Transvaal. The plant is scheduled to produce 550-million cans a year when it comes on stream in 1993.

The company already claims to have captured about 70% of the 2,5-billion can a year market

He said the possibility existed that Metal Box could convert its plant to aluminium production, but added that this was unlikely

He said the BTI was trying to "level the playing fields" between local producers of tin plate and importers of aluminium by lowering the import duty of the material

"The importing of aluminium could cost SA between R50m and R250m annually in foreign exchange

Rejected

"It is one thing to eliminate protectionism, but this is perhaps not the best decision, bearing in mind that there are no local producers," Campbell said.

National Beverages MD, Sandy Allan, said a number of delegations had approached him in recent years about the possibility of introducing aluminium cans to the domestic market.

"The costs involved were generally greater than the steel cans presently in use and these plans had to be rejected," Allan said

He added National Beverages was keen to introduce a third supplier into the market as there were only two large can manufacturers in the country at present

Allan said the aluminium cans would not have to be lacquered in the way that steel cans were.

This process ensured that no off-taste was created by iron-pickup from the steel cans

Hulett Aluminium director, Ian White, confirmed the company had recognised the need to upgrade its Hot Mill facilities in Maritzburg in order to keep abreast of international competition

The upgrade was directed towards improving Hulett Aluminium's international cost and quality competitiveness and a spokesman indicated that it would enable the company to produce competitive can body stock

Hulett, which currently produces and supplies the major portion of SA's can end stock requirements, welcomed the announcement that an all-aluminium can was to be produced for the SA beer and beverage market

Iscor has recently opened a line capable of producing 10 000 tons of chromed plate a month, enabling the company to supply a lower cost material which can be used in lieu of tin plate for a range of applications, such as can ends

It is understood that a study has been launched to determine when additional tinplate capacity should be installed, especially when considering the growth in the beverage can industry

MANUFACTURING - IRON, STEEL...etc
1993 (C)

Otis boosts ^{189c} earnings 30₅pc

Finance Staff *STAR* 15/11/93.

Otis Elevators, benefiting from the acquisition of Melcorp for the full year, boosted its earnings by a healthy 30 percent in the 12 months to end-November.

On a R70 million improvement in turnover to R186,3 million (R117 million) operating profits were R21 million (R13,1 million).

Net income was up 30,5 percent to R10,2 million (R6,5 million), equal to earnings per share of 50c (38,3c), despite a higher number of shares in issue.

The dividend for the year has been raised to 25c from 19c

KNJ tools up to trade in Africa

SI Times (BUS) 17/1/93

1896

KNJ, post the Sukhulu merger, has established a R90-million a year turnover subsidiary with the takeover of Midas's Homequip and Motoquip. The company, MTM Trading, is the biggest small tool and machine tool business in Africa. Sukhulu has a strong history of global and African trade.

MTM houses Mitco Tool and Champion Chainstore Services. The motor components division of B&S Suzuki as well as the tool and hardware division, Altool, also form part of MTM.

Midas retained Champion's Fishingquip and incorporated it into Akals Sports.

KNJ's Ivor Ichikowitz says South African manufacturers need to replace their machine tools if they are to be competitive locally and internationally. Small tools have a big future as the informal sector develops and exports to Africa increase.

KNJ won the approval of Syfrets, which bought out founder Keith Jenkins's stake late last year after control changed to the Ichikowitz family. Syfrets has displayed some in its shop window, the Growth Fund unit trust.

KNJ is up from a low of 25c in September to the present 80c

Diamond
at between R1 200 and
Other similar makes

KNJ takes big step ^{189C} _{STAR} forward

By Leigh Hassall

19/1/93.

The share price of industrial holding group KNJ has moved up 25 percent in apparent approval of the group's latest acquisition and restructure of a significant trading arm

The group's market share of small tools and machine tools has doubled through the acquisition of the operating interests of Homequip and Motoquip from Midas for an undisclosed sum

A new company, MTM Trading, has been formed to house the acquired interests and the existing Mitco tools division and to accommodate a reshuffle of operating divisions within the KNJ group

Turnover of the new subsidiary group is estimated to be about R90 million, of which R25 million will come from the Midas-acquired interests.

The name of machine tool division, Drury Redman, will change to Drury Machine Tools

The share price moved up 20c to 100c in the early hours of yesterday's trade

The counter has leaped forward from 25c in July last year after private company Sukhulu Holdings announced it would take over the loss-making KNJ in a reverse deal

The latest restructure is another of the new management's moves to return the group to profitability through synergy, rationalisation and renewed export drives

This is still 'Otis country'

Almost 100 years ago in SA the first Otis lift was sold by an agent in Cape Town. The company currently has 11 000 installations in this country and is still the leader in its field.

Some years ago, readers of SA publications may remember, an advert depicted the skyline of Johannesburg with a caption that went something along the lines of "This is Otis Country"

That still pertains to this day Not only in SA, but internationally Otis remains a leading company in elevator systems and technology

The Otis association with SA extends back to 1896 when the first Otis lift was sold by an agent in Cape Town

In 1914 a branch office was established in SA by the British parent company (then known as Waygood Otis) and Otis Elevator Company Limited was listed on The Johannesburg Stock Exchange in 1968

Currently Otis has more than 11000 installations in SA (including those of Melcorp which held the Mitsubishi agency and which Otis acquired from its SA owners in October 1991)

"Otis is therefore no fair-weather friend of South Africa and is just as committed to the new SA," says managing director Roy Markham

Markham came to SA determined to make a major impact

STAR 27/1/93
on the company's business approach, notably towards its service division which, he says, is now the subject of an intense focus for improvement

"Through efficiencies we have contained costs, improved the quality of our service and generally changed our attitude towards customers In short, we do what we say we will do," he says

A similar wind of change has blown throughout the company and the principles of high quality, value-for-money service apply to all facets from engineering and manufacture to installation

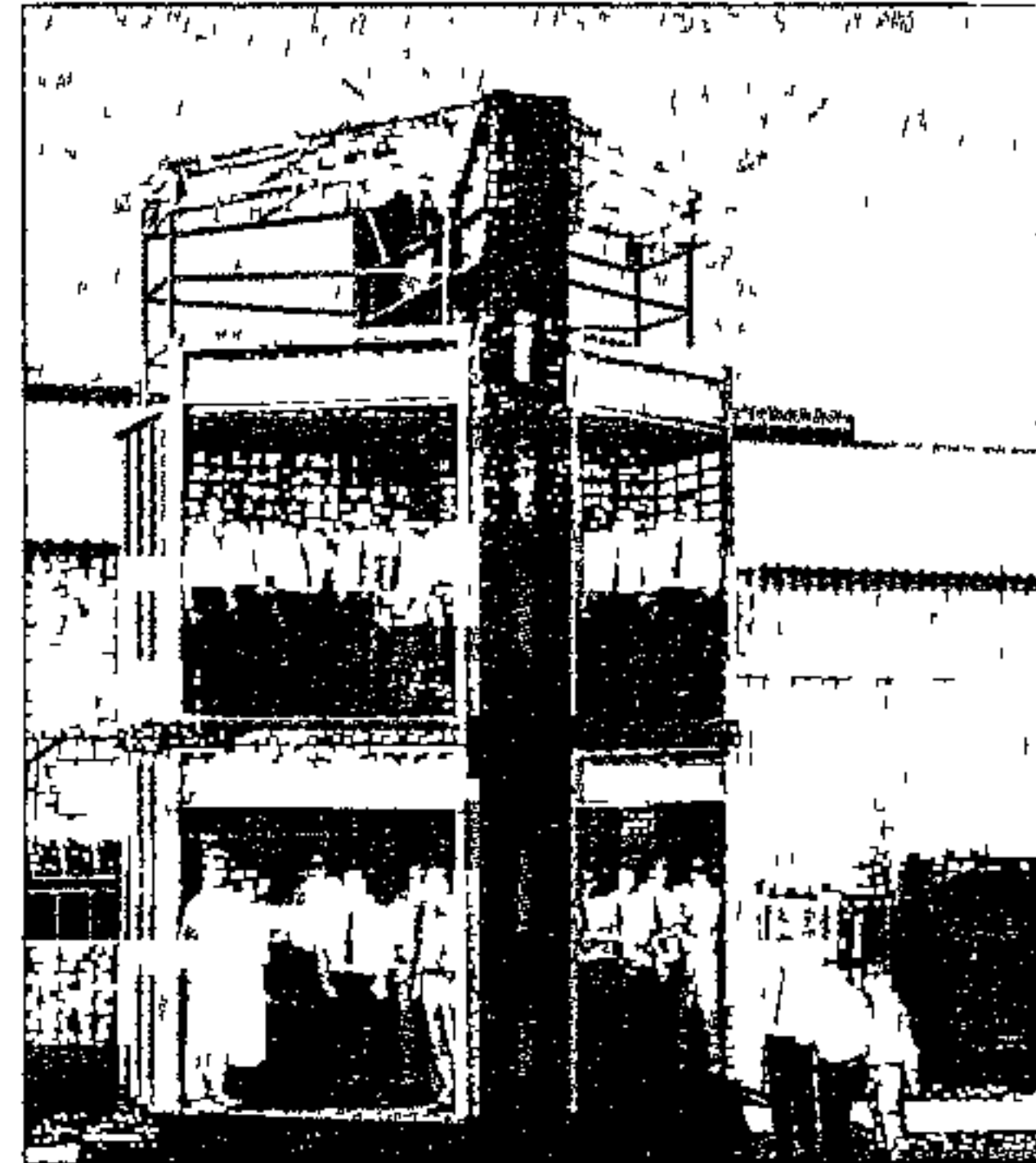
There is also a determination to let the market know that the venerable Otis company is moving with the times and is indeed setting the pace

This was amply demonstrated recently when a complete lift and shaft module was lowered into position through the roof of the Four Ways Mall shopping centre, achieving considerable savings with the minimum of disruption to the rest of the site

The company pre-assembles lift entrances and cabs as a matter of course at the well equipped and recently modernised Wadeville factory, originally built in the '50s

"Elevonic" is the trade mark that Otis has coined to describe its electronic elevators, an earlier example of which is to be found in the Diagonal Street headquarters of Times Media Limited

1896
The latest Elevonic generation has been installed at Anglo American's new headquarters in 55 Marshall Street
The latter is typical of the new



Lift off ... Otis has some notable achievements in the industrial market, among them this example of lift technology in the mining industry.

thinking in lift technology with a host of user-friendly features

However, Otis has by no means lost sight of the broader spectrum of the lift market and it provides an excellent range of inexpensive standard units

The company's involvement in the industrial market is less well known but this important and growing sector of its business in SA encompasses the supply of some mind-boggling achievements in lift technology in the mining industry for example

Sector 1 Constructⁿ
See McGregors.
For further information,
please phone
(011) 334-5200

Bearing Man keeps dividend

ANGLOVAAL'S bearing, seals and power transmission company Bearing Man did well to increase attributable income 51% to R3,54m from R2,35m in the six months to end-December 1992, today's published results show. *B/DM 3/2/93*

However, earnings growth was diluted to 15% at 38c a share (interim 1991 33c) by a higher number of shares in issue resulting from the merger of the group's bearing business with Anglovaal subsidiary Steel-metals in September 1991

The 15c interim dividend was maintained. Turnover climbed 35% to R73,59m (R54,37m) mainly due to the merger and other acquisitions, a statement said.

Bearing & Transmission Equipment and UDI Bearings were acquired in August 1992. In January 1993 Superior Fluid Seals was acquired for a goodwill consideration of R750 000. All the deals were financed with available cash

Difficult trading conditions, the deepening recession and the August steel worker

EDWARD WEST

stayaway adversely affected operating margins and limited growth at the operating income level to ^{22%} at R8,16m (R6,67m). *(187c)*

This was offset by management efforts to reduce working capital which — combined with lower average interest rates — enabled a 33% reduction in finance charges to R1,49m (R2,22m).

Net operating income increased 50% to R6,68m (R4,45m). Tax absorbed R3,13m (R2,1m), resulting in net income increasing 51% to R3,54m (R2,35m). Borrowings fell to R5,7m (R11,3m)

On November 27 1992, 51 750 shares were issued and listed at 250c and 300c a share when qualifying employees exercised their options in terms of the Bearing Man share purchase scheme.

Directors reported earnings for the second six months of the financial year were expected to exceed those of the first six months

Star 3/2/93

Bearman lifts income 51 percent

A 35 percent increase in turnover, coupled with a reduction of a third in finance costs, boosted Bearing Man's (Bearman) taxed income by 51 percent for the six months to end-December.

The bearing, seals and power transmission distribution company improved taxed income by over R1 million to reach R3,5 million.

However, the merger with Steelmetals in September 1991 resulted in an increase in the weighted average number of shares in issue.

Consequently, the increase in earnings a share was limited to 15 percent at 38c (33c previously).

An unchanged interim dividend of 15c a share has been declared.

The board is optimistic that earnings for the second half-year will exceed those of the first half-year, despite the likely continuation of difficult trading conditions.

Bearing acquired Superior Seals' trading assets and business in January for a goodwill consideration of R750 000 and expects the acquisition to increase group penetration of the automotive and industrial seals markets. — Sapa.

Klipton profit takes severe knock

JONO WATERS (189C)

INDUSTRIAL holdings group Klipton reported a 67% drop in attributable profit to R779 000 (R2,3m) in the six months to December 1992 because of trading conditions and the month-long Numsa strike

Earnings fell 73% to 5,5c (20,6c) a share. Klipton only declares a dividend at the end of its financial year.

Turnover increased by 5% to R62,8m (R59,9m) but operating profit dropped 49% to R2,6m (R5,08m). Higher interest charges and more shares in issue contributed to the fall in attributable profit.

Klipton joint chairman Nigel Matthews said the past six months was the toughest trading period Klipton had faced in the current recession.

However, certain operations in the group's safety and security division continued to perform well. The continued deterioration of the economy severely affected the remainder of the group's operations.

The integration of Castor & Ladder and SA Castors had taken longer than expected and the benefits of this acquisition had not yet been fully realised.

Expenditure was tightly controlled in the group and significantly below budget.

Matthews said the company was hoping for stable conditions and no further deterioration in the economy during 1993.

16/2/93
BIP/AM

S Burde shows its mettle

STAR 24/2/93

With more than 48 years experience in its field S Burde and Co is now capable of designing and manufacturing almost any product in steel and sheet metal.

189C

Everything from dust extractors to stainless steel palm trees," is the way David Abramowitch, head of the Projects Department of S Burde & Co, describes the capabilities of his vibrant operation

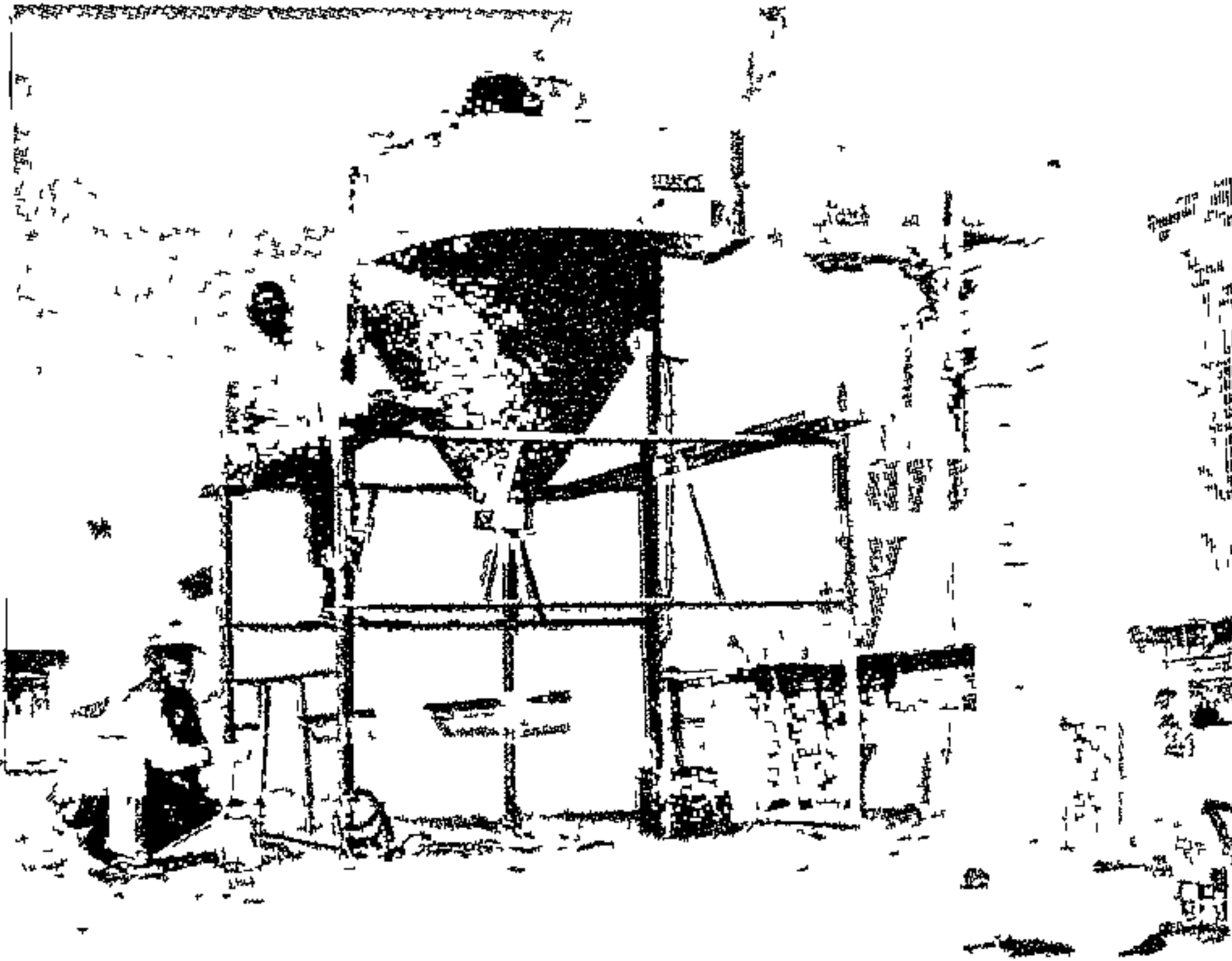
With more than 47 years of experience S Burde & Co is, in fact, uniquely equipped to design, manufacture and install a wide variety of customised sheet metal products for specialised industrial, mining, agricultural, commercial and domestic applications

The product line-up is extraordinarily varied and includes

- Ducting for dust and fume extraction
- Pneumatic conveying
- Cooling and heating supplies
- Paper milling and printing machinery air supply
- Georgian-style corrugated roofs
- Chicken hatch boxes
- Special box gutters and flashings
- Industrial rain water goods
- Kitchen canopies in catering units for restaurants, hotels and homes.
- Customised storage tanks, containers and enclosures
- Pool table parts, tool boxes, card racks, security rails in banks, refuse bins and ring clamps
- Roll form products, coil slitting and cut-to-length
- Also metal pressings and much more besides

The S Burde Projects Department has three main areas of expertise

1. Industrial Services for the likes of pneumatic conveying and so on — essentially industrial products incorporating sheet metal



ON THE JOB . . . Project team installing waste extraction unit.

Once details of a particular project have been clarified the experienced staff of the projects department swings into action, backed up by the company's extensive and well-equipped factory in Booyens, Johannesburg

Abramowitch says The teams will see your job through from concept to installation and will even arrange corporate image if necessary They will willingly undertake routine maintenance work to ensure that your plant is kept running smoothly All work is guaranteed

Over the years S Burde's project division has successfully completed projects for major corporations like SAB, Mondi, Royal, Kohler, Metal Box, Telkom and Spoornet They also undertake extensive work for a host of small organisations and individuals

2 Architectural Services" is a service to architects, engineers, designers and consultants The approach in this instance is assisting with planning and designs Abramowitch says We consider ourselves IMAGINEERS Your requirements and our expertise allow us to uniquely solve your needs" This can do" attitude has brought in extensive work for the company For example, the signage industry — the re-imagining of BP and Engen, work for Sun International (the Carousel, Wild Coast

Sun and other ventures), works at Gold Reef City and the Rivonia Boulevard's tree guards, benches, fencing, gates and lights

3. Diana S Designs specialises in domestic products, the likes of colourfully crafted underplates, unique candlesticks and designer chairs and tables — each individually crafted to the client's specific requirements

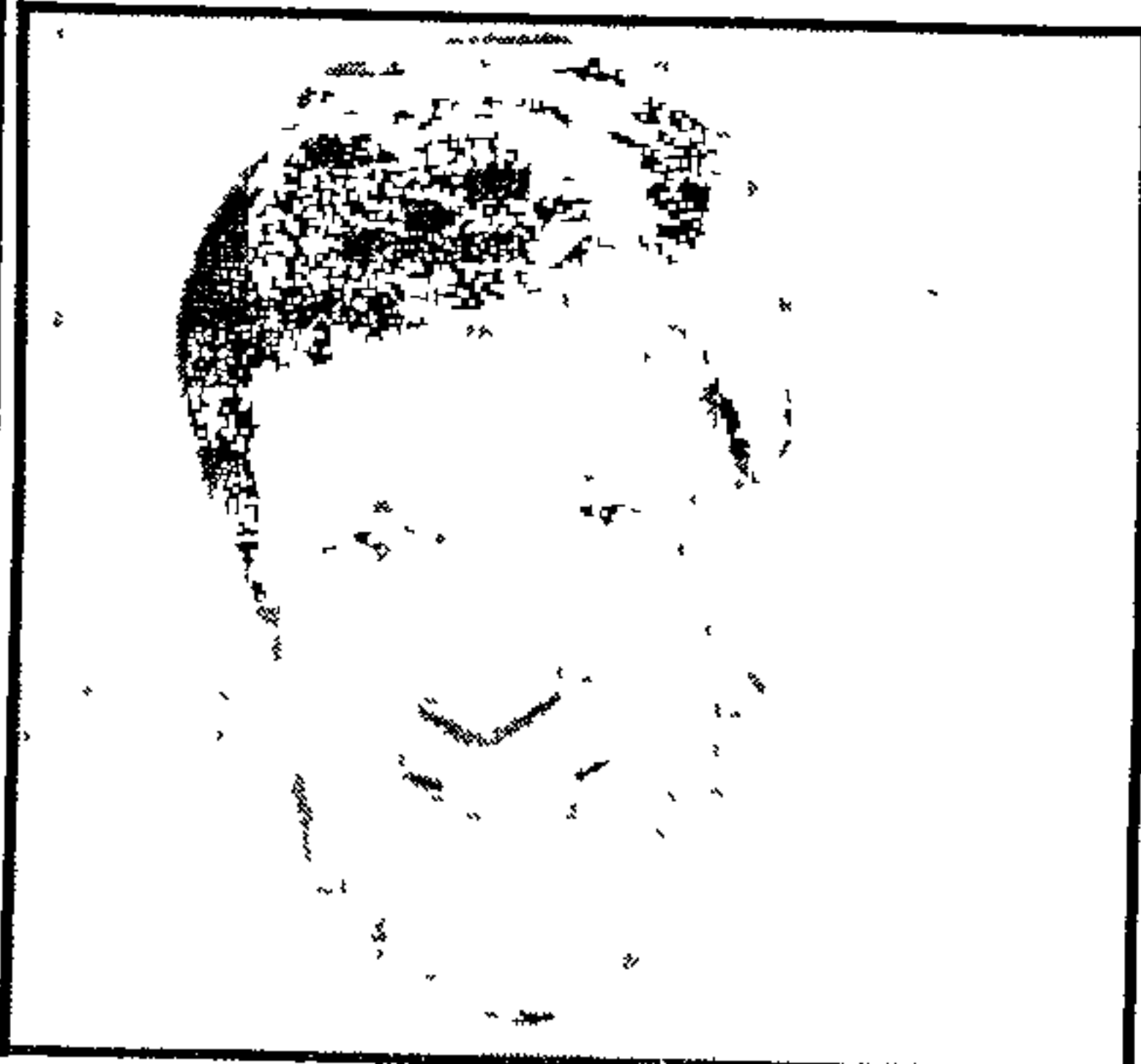
The common denominator in all these products is sheet metal and light structural work in materials including mild and galvanised steel, stainless steel, Chromadek, copper, brass, aluminum and even hi-tech products like Alpolite and Alucabond

"Finally," says Abramowitch, "we are not only the most versatile in the field, giving good, old fashioned personal service, but we are highly competitive, innovative and our track record speaks for itself From the man in the street to giant corporations, we approach each project on the basis of 'we understand what you want, and this is what we can do' " We know where our market niche is and we remain committed to it in the interests of our clients and ultimately, the continued health of the company "

For further information, please contact David or Ruth at (011) 493-5490 9

MONEY

Stainless containers are a steal at R100 000



RICHARD EATON 'Income is a rand hedge'

SALES of stainless steel tank containers are thriving as people use them as an offshore investment

A tank container is used to transport chemicals and hazardous waste materials on land and sea trade routes

Multistar Container Transport managing director Richard Eaton says manufacturers of tank containers are unable to keep up with investor demand

He explains that each container is sold to an investor for R100 000 "This is an offshore investment, as it is leased on the international market and earns a dollar income

"This income is a rand hedge, as the more the value

S/Times (Bus) 28/2/93 (1890)
By TERRY BETTY
 country as the containers are a major user of stainless steel

of the rand falls the greater the investor's return"

Mr Eaton says the return on a container over the last 10 years has been about 11% a year of the value of the container. However, as the value of the container grows, so do the returns

For example, tank containers that Multistar sold for R38 000 six years ago are now earning a 34% return and can be sold on the second-hand market for R70 000

Containers are able to earn this return for 20-30 years and after that can be sold to companies as static storage vessels

Eaton says a number of tax advantages have also attracted investors

The value of the container may be depreciated at 20% over five years and, as the returns are likely to initially be less than this, the investment can produce a loss that may be used to offset other income

Advantages

"For example, a container costing R100 000 will be depreciated at R20 000 a year. If the income in the first year is R10 500, then the investor has a loss of R9 500 to offset against other income and reduce his tax bill by R4 085"

Other tax advantages are that if the buyer borrows funds to purchase the container, then the finance charges are tax-deductible

If there are so many advantages, why is the Receiver of Revenue so happy to allow the investment?

Eaton explains that returns on the containers realise R15-million in foreign exchange for SA each year

It is also beneficial to the

Columbus Stainless Steel local sales manager Johan Smit estimates that more than 60% of SA's benefited stainless steel exports are in the form of container tanks

SA has just overtaken France as the world's largest producer of containers

Eaton says some 60 000 containers are used on the international shipping market, half of which are lease containers

The market is expected to expand to 100 000 by the year 2000 as old storage methods are being phased out because they are not environmentally friendly

Cutting the cost of your bank account

CONSUMERS can slash the costs of running their cheque accounts if they shop around for the best price and negotiate with their bank manager

"Few people do this. Most presume the charges are standard and just accept them," says Wespro managing director Jaap Spelt

Spelt says some clients are charged three times more than others even though they use the same bank

Range

One would think this is only small change, but Spelt says he has recently recovered R3 000 for one client for erroneous bank charges

And that does not include

S/Times (Bus) 28/2/93
By TERRY BETTY

branches. A United Bank spokesman explains that R12 is the rate they charge their "naughty" clients

But a Nedbank bank manager says this is the standard rate that is open to negotiation, although he admits this is not pointed out to clients when they apply. He says 90% of clients — companies and individuals — accept the charges as they are

"All you have to do is flex your muscle and haggle with your bank manager," says Spelt

He says there is a school of

R300 administrative fee going through his account every month

He says one bank manager has told him that, when a branch is behind profit projections, it takes R30 off every account a month in the guise of administrative charges

"If somebody queries this it will be reversed and blamed as a computer error, but only 1% of the clients even notice

"If this bank has 200 000 current accounts countrywide it translates into an extra profit of R6-million a month," claims Spelt

The Group's follows:

CONSO

OTIS FM 12/3/93 (189C)

Modest growth prospects

In the Eighties, Otis had no debt but its dividend cover was low and earnings growth was minimal. An unexpectedly high tax bill, with steadily declining activity in the building industry, forced management to rethink its business strategy for the Nineties.

A new MD was appointed in 1990 and it was decided to expand the company. Otis operates in a specialised area and expansion without diversification led to the purchase in

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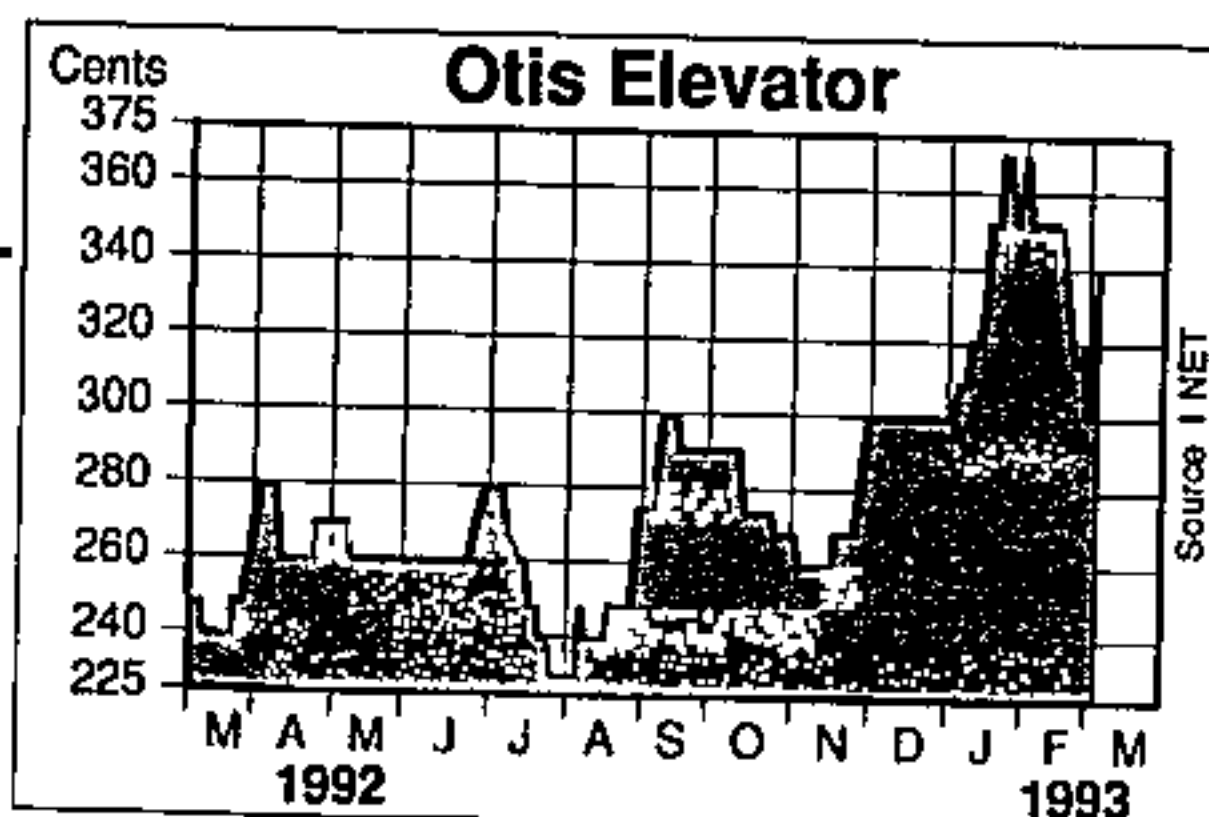
COMPANIES FM 12/3/93

1991 of a 25% stake in Melcorp — the local agent of Japanese lift and escalator company Mitsubishi — for R5,7m payable over 12 months. At the same time, a UK subsidiary of US-based ultimate holding company United Technologies, bought the remaining 75%.

Three months later, in January 1992, Otis held a R7,4m rights issue — underwritten by the UK subsidiary United Technologies Plc UK — to raise part of the R16,3m needed to buy this 75% from United Technologies. Local borrowings and cash balances provided the additional R9,3m. The R14,4m excess of the purchase price over the fair



OTIS'S Gnodde
cover could be reduced



(189C)

Activities: Makes and services elevators and escalators

Control: United Technologies Plc UK 51%

Chairman: A M D Gnodde, MD R E Markham

Capital structure: 20,4m ords Market capitalisation R69m

Share market: Price 340c Yields 7,4% on dividend, 14,7% on earnings, p/e ratio, 6,8, cover, 2 12-month high, 370c, low, 230c Trading volume last quarter, 83 000 shares

Year to Nov 30	'89	'90	'91	'92
ST debt (Rm)	3,6	1,9	—	—
LT debt (Rm)	0,06	0,06	0,06	0,37
Debt equity ratio	0,20	0,12	(0,31)	(0,37)
Shareholders interest	0,36	0,43	0,40	0,31
Int & leasing cover	53,8	12,7	n/a	n/a
Return on cap (%)	46,4	20,8	31,7	45,3
Turnover (Rm)	92	98	117	186
Pre-int profit (Rm)	17,2	6,4	13,1	21,1
Pre-int margin (%)	18,7	6,5	11,2	11,3
Earnings (c)	51,0	12,0	38,3	50,0
Dividends (c)	45	12	19	25
Net worth (c)	76	77	97	71

value of the assets arising out of the acquisition of Melcorp was set off against distributable reserves. Reserves at year-end fell to R5,4m from 1991's R19,8m.

Profit margins remained almost unchanged last year at 11% and turnover increased 52%. MD Roy Markham says the

activity was inflated by orders for major new equipment projects secured before 1992. Turnover for 1993 will be reduced because of a drop in last year's new equipment orders. Markham does not expect to see an improvement in profit margins. On the contrary, he says they will be under extreme pressure.

Otis has shown only a 29% net earnings growth since 1988. New management is trying to change market perceptions that Otis is a high-yield stock with little or no long-term return. The Melcorp purchase should help to change this theory — for now.

Otis had a reputation for distributing most of its earnings in the form of dividends. The dividend cover was around 1,0 for a number of years, but for the past two years, cover has been held at 2,0. However, chairman Dru Gnodde says "consideration will be given in 1993 to reducing the dividend cover." Is this a sign of a return to the pattern of high payouts with limited earnings growth?

Growth in the company is achieved from maintenance, refurbishment and servicing activities. Market share was gained with the acquisition of Melcorp. Profits this year will depend heavily on property owners' views on the attractiveness of further investment in their existing buildings. Markham expects a below-inflation increase in earnings.

The share price has almost recovered to the 1989 peak. Its 6,8 p/e is modest, but Otis needs to shed its low-growth reputation before the counter can be bought on a long-term view.

Kate Rushton

A space-age samoosa maker

By RENÉ DU PREEZ

THE age-old tradition of folding samoosas by hand has now entered the machine age, thanks to a Cape Town engineering company who have developed a samoosa making machine

Based on an idea patented by the late Omar Kimmie of Fez Holdings, Cape Manufacturing Engineers (CME) have now completed a 10-year project in developing the machine that is sure to bring a new standard of hygiene to samoosa folding

The machine, which rolls the dough, fills the pastry and then folds the samoosa before being flipped into a container, can be carried by two people and fits easily onto a standard kitchen table

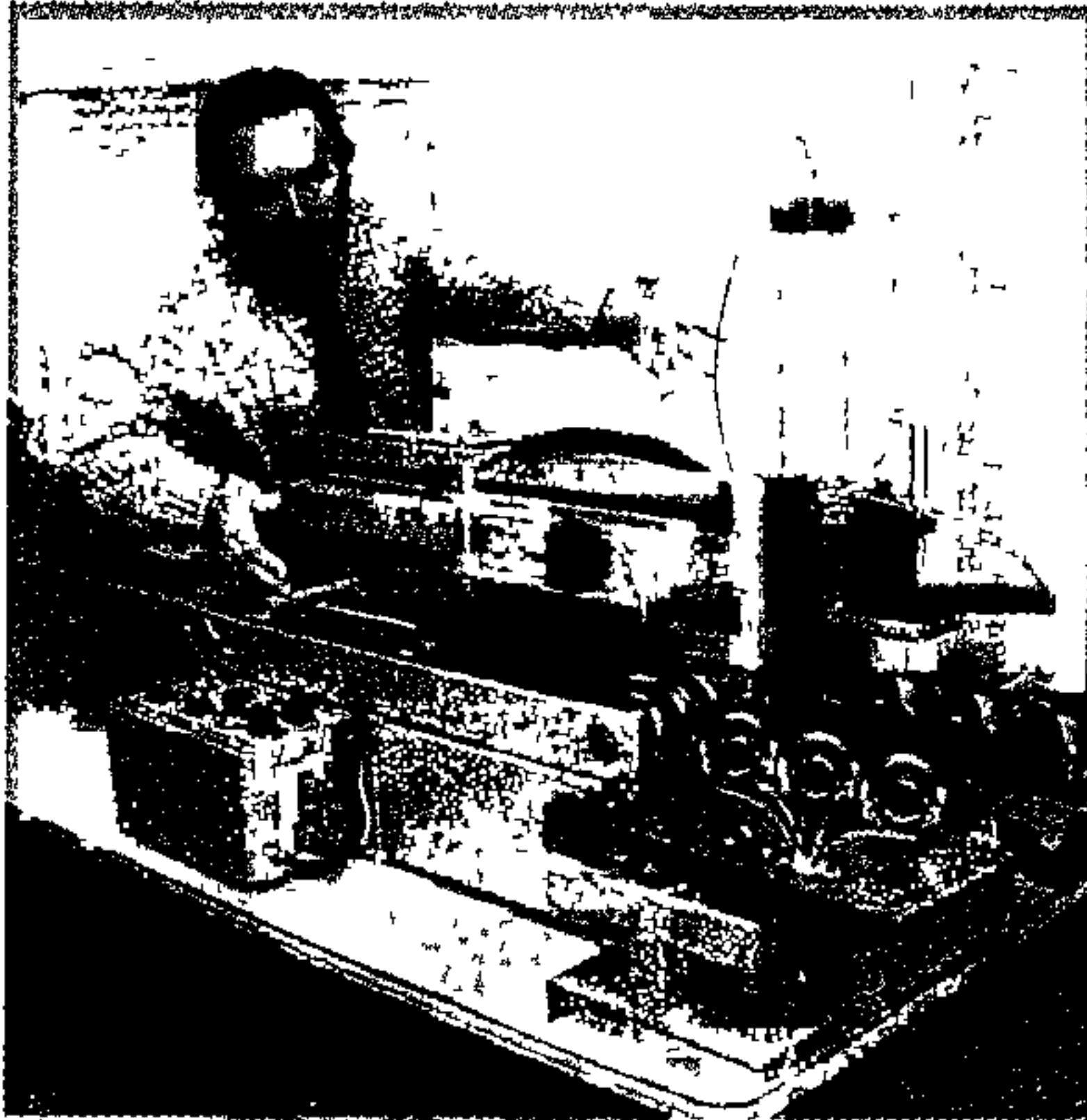
Although the machine is not expected to threaten the jobs of samoosa folders, it does open new opportunities to the small businessman

"We consider this samoosa maker and folder as the first in the world to combine rolled dough and filling to produce a folded samoosa," said CME's Mike Dalton

"It has been designed with great attention to hygiene and cleanliness and is ideal for small to medium-sized bakeries or point-of-sale establishments such as supermarkets and take-aways

"Another plus for this machine is that it will offer consistency in shape, size, mass and quality, which I believe is essential as people expect consistency in what they purchase today"

The machine, which is expected to retail at R55 000, can be a one-man operation with little or no mechanical knowledge required



WORLD FIRST? .. Mr Mike Dalton of the Cape Manufacturing Engineers company shows off what may be the world's first samoosa making and folding machine Picture JACK LESTRADE

ADE freezes prices to forge ahead

Stiles (Cape Metro) 2/13/93.

BY JEREMY WOODS

ADE, the country's largest diesel engine manufacturer, born out of the apartheid system, has cancelled all price increases this year, in a dramatic bid to compete in the New South Africa

The move comes at a time when annual inflation is close to 10 percent, and represents a cut in prices to sharpen ADE's competitive edge in its markets

Announcing the move this week, managing director Fritz Korte said "We have frozen our prices on all models for the calendar year. In effect, we are cutting our prices"

Atlantis Diesel Engines, based in Atlantis near Cape Town, was created in 1980, when the government feared that trade sanctions brought about by its apartheid policies would prevent the major industrial nations from selling diesel engines to South Africa

A ban on diesel engines would restrict the movement of goods round the country and could jeopardise crop and farming production

Under government auspices, and with the Industrial Development Corporation advancing start-up funds of R450-million and becoming the major shareholder, the manufacturing plant at Atlantis was quickly built

Part of the original licensing deal included the supply of technology from Mercedes-Benz in Germany and Perkins Engines of the United Kingdom

These important facets of ADE's start-up, were negotiated at the

highest levels of government, both here, in the UK and in Germany

Why these foreign governments co-operated in this way has always remained something of a mystery, though speculation has been rife

By 1981, ADE had produced its first batch of engines which started to roll off the production line later in the year

Since then more than 175 000 engines have been built for use in the South African market, where ADE holds some 95 percent of the heavy commercial vehicle market and 70 percent of the medium-sized engine market

In addition, the company supplies 77 percent of engines used in the agricultural market, including tractors, and, since entering the industrial engine market in 1983, it has sold 6 900 units for use in underground and surface mining earthmoving and construction

But for all this, ADE, whose markets and future were always closely protected in the days of sanctions, is at a major crossroad in its corporate life

Apartheid and sanctions are, fortunately, bankrupt beliefs of the past

The business philosophy of the New South Africa is to lower the tariff barriers, encourage competition, banish bureaucracy and throw any corporate bodies who cannot survive, to the dogs

But for ADE, the problems of survival two years ago, as this new age of competition was dawning, looked almost insurmountable

With 97 percent of the heavy vehicle market dominated by ADE's engines, growth here looked limited

Morale was low, as was profitability, and the future looked bleak

ADE could easily have been mothballed

Enter Mr Korte

"Although we produced excellent engines, our traditional markets lacked the growth of the early years as the vast majority of heavy trucks in the country had ADE engines

"Tariff barriers were coming down, we were losing money, had spare plant capacity and a huge wage bill for nearly 3 000 full-time employees," Mr Korte remembers

"There was little new money around for companies in our situation and it was a time when some people wondered whether we would survive at all," he says

Against that, ADE produce engines specifically for local conditions with an excellent track record for performance, and most importantly, a network of some 1 400 ADE parts specialists

"This is one of our great hidden assets

"If you break down in the middle of the Karoo, we don't have to start flying in parts. We can get you back on the road as soon as parts and a mechanic can get to you"

The other ADE plus is that most mechanics round the country have mostly only been trained to work on ADE engines

Mr Korte had a good hard look at the business and, with his management team, sat down and made a plan that tackled the perceived problems

"Part of the protection package offered by government was a 40 percent tariff on other diesel engines used in vehicles for the transport and agriculture markets and some customers resented that. So we had an attitude problem"

Then there was the long lead time that customers had to wait for engines to be delivered, the price of the engine, and the profitability of the company itself, with its huge wage bill and high staff levels

Customers suddenly found they were being listened to, engines were delivered in two months instead of six, prices started coming down and staff were offered a re-trenchment package that almost reduced the level of employees by half

Last year ADE, after years of losses and marginal profitability, made a R21-million profit after tax

Mr Korte is optimistic that this can be increased this year

"We have top quality engines, there is no doubt about that. But we have spare capacity and need to expand our business"

He has a completely open mind as to how this can be done and regularly sends teams or individuals abroad to investigate a possible deal

ADE's assembly of Massey Ferguson tractors is the sort of deal Mr Korte is looking for

The body of the tractor arrives in a large wooden crate, is assembled with its ADE engine, and sent off to dealerships around the country

And Mr Korte is looking for other deals like it

"We have a foundry that needs more work, excellent machining facilities and we are good at assembling partsling parts," he says

Is ADE over the worst? Is its path assured?

"I think so. The business is looking much fitter, the staff are more motivated and we are making good profits and looking for expansion into areas like industrial engines where we have only a small part of the market

"But in the modern world and the current economic climate one can never be absolutely sure, so we try never to miss a chance to move ahead or improve our business"

Transkip into Africa

(189C)
21/3/95
S(Times BUS)

By JULIE WALKER

KNJ's half-year loss of R6,9-million was R2-million lower than chief executive Lou Ichikowitz had expected when his Sukhulu group effected a reverse takeover of the group

Although the merger date was July 1, the effective change was delayed until October

Since then it has been a matter of combing through, cutting back and rationalising the portfolio of businesses that came with KNJ and focusing on strengthening in the right areas

Premises have been centralised and retrenchments inevitable, the costs of which have been taken to account.

Turnover climbed 29% to R165-million and net operating income was well up at R4,5-million

But a higher interest bill, write-offs, preference dividends and losses from discontinued operations depressed the bottom line to a loss of 3,8cps

Mr Ichikowitz says there is scope to bring down stocks of R116-million — largely im-

ports — without a fire sale

"There is about R40-million worth of lazy assets that need to be turned to account," he says "We do not want to take short-term steps that turn into medium-term disasters"

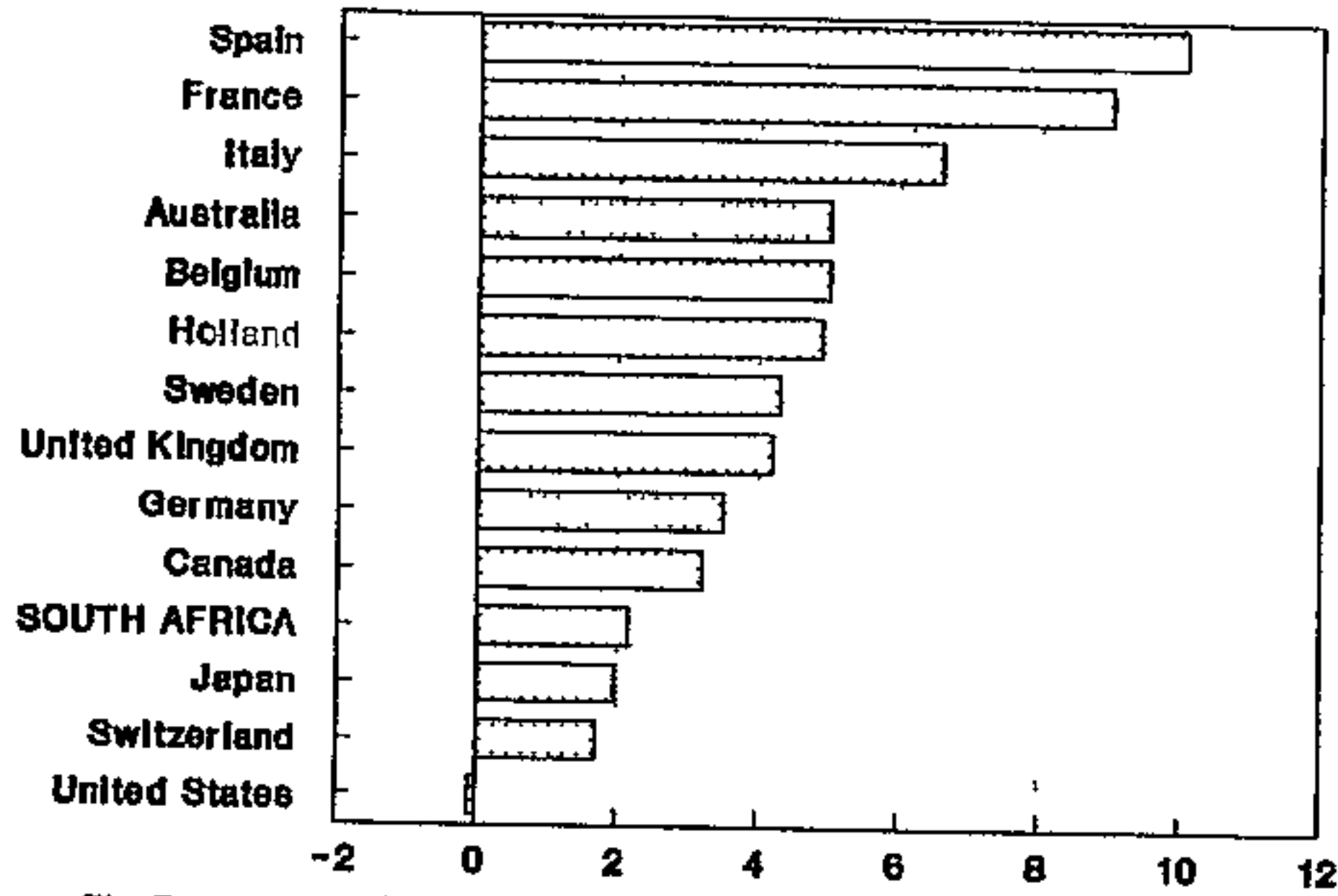
KNJ's freight company, Transkip, has been merged with Continental Freight Services to become a bigger

player in the business of freight forwarding

"Transport into Africa is a must for companies aiming to grow their business there We have been customers of freight forwarders for years, so know that clients require top service We aim to provide that"

Mr Ichikowitz hopes that KNJ will be able to break even by the end of the financial year and to grow through merger, acquisition, partnership and joint venture.

Real interest rates



Source: The Economist/CBS statistics

South African real interest rates, obtained by subtracting the inflation rate from the BA rate, are among the lowest in the world. An analysis of inflation rates and interest rates show that real rates in South Africa are running at around 2 percent. Real rates are lower than this only in Japan, Switzerland and the US, where they are actually negative. Highest real interest rates are found in Spain, France and Italy, which are all fighting to maintain the current value of their currencies. The low real interest rates in the US and Japan should help interest-sensitive industries such as commodity importers and this should have some impact on South Africa.

KNJ looking for improvement

By Leigh Hassall

STAR 22/3/93
189C
Rationalisation and cost-cutting look set to return loss-making industrial group KNJ to healthy profits

Although the group had an interim loss to December 1992, chief executive Lou Ichikowitz says the company will be close to break-even at the end of June and will return to profitability by June 1994.

KNJ was taken over in a reverse deal by private company Sukhulu Holdings in October last year.

At the weekend the group announced an interim loss of R6,9 million, or 3,8c per share. It recorded a loss of R21,1 million, or 16,3c per share, for the year to June 1992.

Ichikowitz says the group achieved increases in both turnover and profitability at the net operating income level during the interim period.

An interest bill of R6,6 million, arising mostly from a surplus of a stock, dampened performance.

Ichikowitz says that by the end of December this year stock will be back at more reasonable levels, resulting in an interest saving of about R10 million.

The group also announced the formation of a new freight services company resulting from a merger of their existing interests, Transkip (Pty) with Continental Freight Services of Polaris Shipping.

Ichikowitz says the new company will make a good contribution to the bottom-line and provide a platform for other opportunities.

KNJ shares have doubled from 40c at the time of the announcement of the Sukhulu merger to a high of 105c last month, and are currently trading at about 85c.

The counter is attracting institutional interest, with two large institutions currently holding 31 percent of the shares.

Machine costs levelling out

8/09/93 EDWARD WEST 1890

INDUSTRIAL machinery cost inflation was levelling out and locally made machine prices had increased by an average 8% a year over the past three years, Dunlop Heywood Africa joint MD David Read said.

This trend had had a favourable effect on insurance renewals, new or pending project evaluations and the costing of asset replacement.

However, prices were being substantially reduced in current highly competitive markets 22/3/93

Imported machinery costs had stabilised as a result of low overseas inflation rates, a more stable rand, the reduction in import surcharge — to 5% from 10% — and the introduction of VAT, which was recoverable if the buyer was a registered vendor.

The rand would have to devalue by about 20% at current levels for SA industrial machinery manufacturers to be competitive mainly because of the distance of SA's major export markets, Read said.

KNJ's restructuring and loan burden take their toll

ANDY DUFFY

KNJ's heavy borrowings and painful transition from industrial holdings to consumer goods group cost shareholders R6,9m for the six months to December 1992

Losses a share on KNJ's expanded share base dropped from 4,5c to 3,8c, but the dividend is unlikely to be restored before June 1994

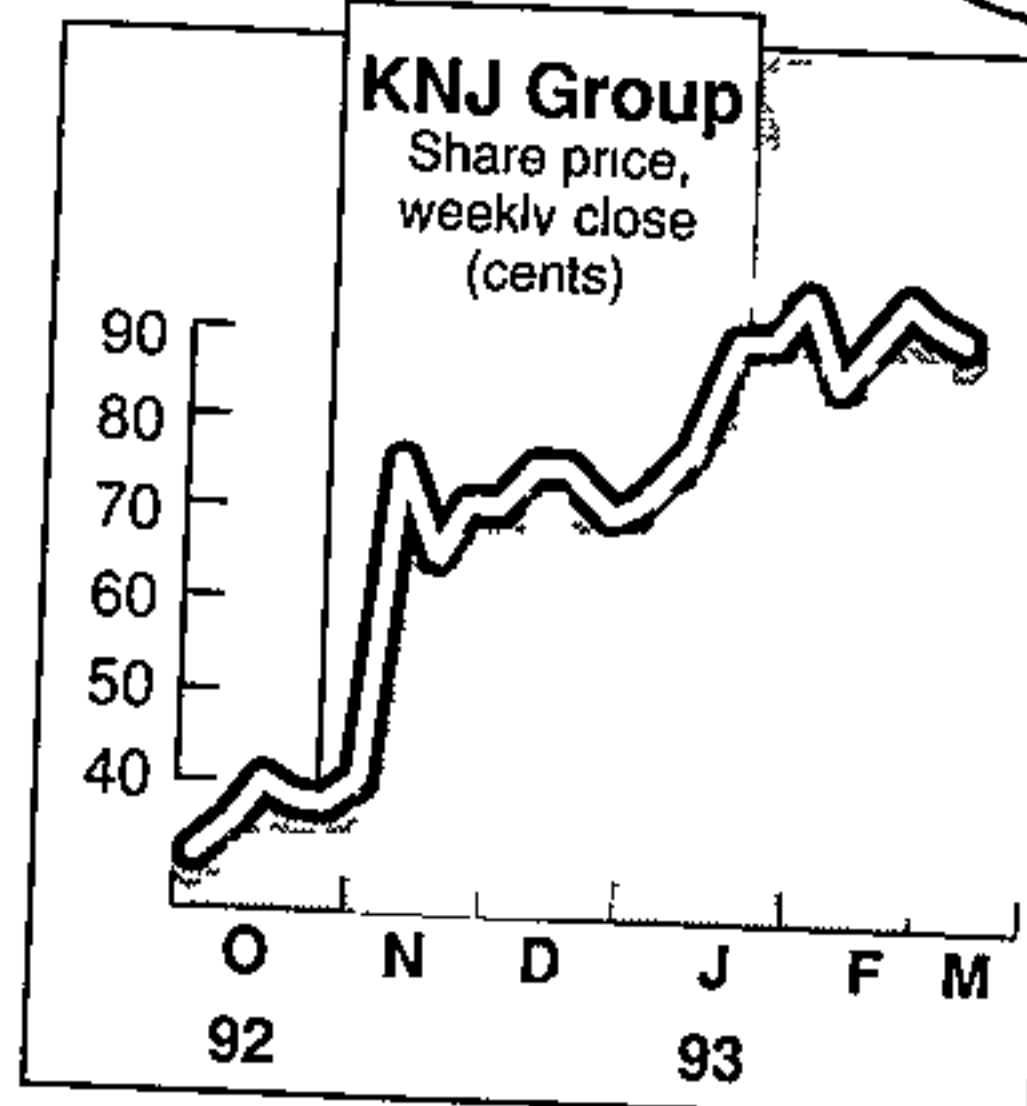
Operating profits for the television to motorcycle group leapt 65% to R4,46m, on turnover up 29% at R165,6m, but the figures were swamped by R6,57m financing costs as debt rose 79% to R66,8m

KNJ also sustained extraordinary and non-recurring losses of R3,7m, as Sukhulu, the franchise and distribution group which took control of the company in October, pushed through its restructuring programme

Closures so far include 13 retail branches and eight warehouses, and KNJ also offloaded the loss-making Bonuskor Steel and the bulk of its property portfolio

The company is also considering the merger of its operations with those of Midmacor, its loss-making, separately listed subsidiary

The company cut 500 from its 2 300 staff across the board, and further



Graphic: LEE EMERTON Source: I NET

losses are expected by the year end

"This is painful, but it had to be done," KNJ CE Lou Ichikowitz said. "We have a clearly defined core business (and that is) manufacturing and distributing products for the man in the street"

The rationalisation, he added, would save KNJ about R1m a month

The retained operations had been profitable, but KNJ said they had been "choked" by an oversupply of stocks totalling R40m in the period

Ichikowitz said this was the main reason why borrowings had risen, and that the reduction of such stocks

over the year would see borrowings fall back

He added that the results were better than expected, and that the company was slightly ahead of its schedule in refocusing group activities

New ventures, which include two distribution deals with Chinese groups, and the franchise rights for a range of Italian sports shoes and clothing, were likely to feed contributions through from next year

The company has also merged its freight forwarding subsidiary Transkip with Polaris Shipping's Continental Freight Services. The venture was likely to show profit of around R2m, Ichikowitz added

The Midmacor merger was likely to be addressed later this year. The 38%-owned subsidiary suffered an attributable loss of R2,3m for the period, and Ichikowitz said the benefits of its separate listing were not clear. "This is something we have to draw our attention to"

The company claimed its shares were too tightly held. Last year's reverse listing gave Sukhulu 51% of KNJ's equity, with multinational trade group Eisenberg taking 7%. Since then 28% has been taken up by investment institutions. It refused to comment on the prospect of a rights issue

ADE freezes engine prices

07 22/3/93 JOHANNESBURG —
Atlantis Diesel Engines
has frozen the price of
its engines, and no price
increases are envisaged
for 1993, according to
ADE MD Fritz Korte.
He said in a statement
early this morning
"ADE has been able to
take this action through
a dramatic cost reduc-
tion and productivity im-
provement programme."
— Sapa (89C)

Pichold swops Picapli shares for Powertech

(189c)
CF 30/3/93

By AUDREY D'ANGELO
Business Editor

PICARDI Holdings (Pichold), which sold control of its manufacturing arm Picapli to Power Technologies (Powertech) last month, has exercised its option to exchange its remaining shareholding for 1.4m Powertech shares and 80 000 new ordinary shares in Altron

Announcing this yesterday, the directors said Powertech now held 75% of Picapli, which was being renamed General Technologies (Gentech). Simon Nash, who will run the company, holds 18%.

Peter Watt, CE of Powertech and chairman of Gentech, said the new name clearly identi-

fied Gentech with its corporate parent and did not restrict its focus to its present market in domestic appliances

But, Watt said, although the name and image would change, the company's strong brand names — KIC, Hitachi, Whirlpool and Indesit — would still be used.

"Gentech has access to some of the best technology internationally and future plans include the forging of additional strategic alliances with appropriate international companies to keep us competitive in both regional and global markets"

Watts said Gentech had the advantage of being able to adapt products to suit the spe-

cific requirements of African markets

It had "secured the necessary infrastructure to support a broad-based structural reform programme aimed mainly at improving quality standards and customer service and safeguarding profitability"

The directors say it would be "inappropriate" to issue interim results for the renamed Gentech for the six months to December "These results would not take into account the effect of the restructuring of the company's operations and management since control passed to Powertech and Nash in January

"Conservative accounting

policies have been implemented in line with those of the Altron group The preliminary results for the full eight month period to February 28 will be published near the end of April 1993"

Former chairman Jan Pickard explained last December that Pichold was selling control of the company, a leading manufacturer of "white goods", because the outlook for the coming year was difficult and Powertech had the resources to ride out the rest of the recession

A spokesman for Powertech said the company had the potential for growth

Macadams' net profit slips

8/10/93 30/4/93 LINDA ENSOR

189C

CAPE TOWN — Net profit at Macadams Bakery Supplies Holdings — which makes and supplies bakery and confectionery equipment — slipped in the year to end-February with sluggish local sales and a high interest bill partially offset by the surge in exports

MD Raimund Pouliart said finance charges of R1,43m (R1,3m) were incurred to finance the 112% rise in exports. He was satisfied with Macadams' performance in tough trading conditions. Turnover rose to R37,3m (R34,2m) but operating income was maintained at R2,5m. Net income slipped to R1m (R1,2m) and earnings a share fell to 6,2c (7,2c) on a larger number of shares in issue. Debt equity stood at 0,55 (0,58) at year-end.

Motor industry 'terminally ill'

EDWARD WEST

THE motor industry was in so much trouble it could help neither itself nor the motorist in the quest for affordable new cars, National Association of Automotive Component and Allied Manufacturers (Naacam) director Denzil Vermoogen said at the weekend.

Speaking at the opening of the Cape Motor Show in Goodwood, Vermoogen said the love affair that once flourished between SA motorists and their cars had been soured by high prices.

The R38bn-a-year automotive industry was employing 150 000 people whose livelihoods were at stake due to the steady deterioration of the industry.

He said 24 000 employees in component production and 7 000 in the retail trade had lost their jobs over the past three years. New car sales peaked in 1981 at 300 000 units, but last year's sales of just more than 180 000 was lower by more than a third.

The downturn started with the sharp drop in the rand in the '80s because the local content programme had failed to curb imports. Thus, the economic downturn and flaws in the local content programme had caused car prices to escalate.

Seifsa employers opt for industrial councils

ERICA JANKOWITZ

ABOUT 75% of Seifsa employers wanted the existing industrial council system to continue, although there was a trend towards decentralised bargaining over the past few years, a survey conducted by the Innes Labour Brief found.

Significantly, half of Seifsa's Natal respondents was opposed to the continuation of the council compared with only 17% of PWV companies, 28% from the eastern Cape and 27% from the western Cape.

Innes found that 64% of the Natal companies opposed to centralisation wanted regional bargaining, with only 32% supporting plant-level bargaining.

In contrast, 65% of PWV companies who oppose centralisation would support plant-level bargaining.

Last year there was another decrease in the number of industrial councils operating in SA, to 87 from 89, the latest National Manpower Commission report said.

Councils only covered 873 000 workers in 1992 compared with a million in 1991. So far this year, the building industrial councils seemed to be under threat of closure.

with major employer bodies withdrawing. Last year's Seifsa agreement was the first to discourage the long tradition of two-tier bargaining in the sector.

Previously, unions would try to win additional benefits to those contained in the council agreement by bargaining with individual employers.

Innes found 33% of respondents still operated plant-level bargaining structures, mainly in the western Cape. In 60% of cases Numsa was involved.

Plant-level bargaining usually covered conditions of employment, wages, productivity, training and benefit funds.

Innes said this was important in that issues which were previously regarded as part of "management prerogative" were now being negotiated with the union.

"Discussions are under way at Numsa's initiative to reform the current process, nature and content of the industry's collective bargaining arrangements," Innes said.

Mine equipment firms eye China

JONO WATERS

SA's mining equipment manufacturers will be trying to capture a share of the \$50m China spends each year on mining equipment imports, at SA Minetech '93 in Shanghai later this year.

More than 70 SA firms are taking part in the August 31-September 4 exhibition. Delegates from about 300 Chinese mines are expected to attend.

Exhibition organiser John Thompson said he expected SA mining executives would attend to gain experience of Chinese mining practices.

Shanghai Exhibition Centre deputy director Xia Guo Liang said the Chinese investment code allowed for the setting up of joint ventures, co-operation in the manufacture of technology and direct investment in some mining operations.

SA has a Centre for Chinese Studies in Beijing. Director Robert Moodie said China's geology and mineral resources ministry "strongly supports the expo and is keen to establish mining industry business exchange through this and other avenues".



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(189C) JONO WATERS (278)

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J Bibby's half-year takings plunge

3/08/93 13/5/93. (189C)

LONDON — Losses by its newly acquired Spanish and Portuguese earth-moving operations helped send half-year profit crashing at J Bibby, the UK multinational conglomerate which is 79% owned by Barlow Rand.

While sales jumped by 49% to £416m during the six months to March 30, pre-tax profit dropped by 63% to £6.5m.

Earnings a share after tax were harder hit. At 2.1p they were 87% down on the previous year and the interim dividend has been cut from 2.85p to 2p.

Last year's £82m takeover of Finanzauto, which is the Caterpillar dealer in Spain and Portugal, was the main factor.

As the Spanish economy slid into recession, Finanzauto's deficit hit £7m which could not be offset against Bibby's other profit for tax purposes. This pushed the tax charge up from 33% to 50%.

High Spanish interest rates also quadrupled Bibby's charges to £8.2m. Among Bibby's other businesses

JOHN CAVILL and
MARCIA KLEIN

the devaluation of the pound increased raw material costs in the agricultural division where profit dropped by £1.9m to £2.5m.

But recovery and expansion in the US saw Bibby's Hyster material handling operation return earnings up 22% to £7.3m.

Barlow Rand Industrial division chairman Clive Parker said yesterday that the number of units of construction equipment sold in Spain had dropped by more than 50% during the year, after remaining fairly constant over the previous three years.

Although the group had expected a small decline in units sold, the market had collapsed in the past year.

In the six months since Bibby assumed control, it had put new management information systems into place and significantly reduced staff and management numbers. Stocks have been reduced by about 40% and

costs by about 20%. Finanzauto had increased market share to about 25%.

All of these measures meant the capital equipment division did not require a lot of activity to show an improvement, and it could be profitable by September at current levels.

The division needed to reduce debtors, the major debtor being the Spanish government, which owed contractors the equivalent of R22bn. The division was looking at placing some of its debtors' books with banks.

Parker said the EC Cohesion Fund would spend £7.5bn over the next four years to provide a transport infrastructure for Trans-European networks. The funding would be made available to common market countries whose GDP was below 75% of the community average, and this included Spain.

He said the group hoped the division would make a significant contribution in the next financial year. This would be dependent to some extent on when Spain started to spend on construction.

Fenner feels *Star 18/15/93* trading pinch

By Stephen Cranston

Earnings from valve, pump and power transmission equipment manufacturer Fenner fell by 23,9 percent to 24,2c a share in the six months to February

The interim dividend has been cut by 20 percent to 6c (189c)

Chairman Bob Arthur says the effect of poor economic conditions on results have been exacerbated by the completion of major projects

More replacement business is being found, but the nature of the company's activities, which are concentrated on medium-to-long-term projects, make it unlikely that the benefits will be felt this financial year.

Turnover increased by 1,8 percent to R115,7 million, but operating profit fell by 27 percent to R9,84 million.

Margins were under pressure, although the growth in overheads was held below inflation

ADE launches Reef company

MARC HASENFUSS, Business Staff

ATLANTIS Diesel Engines (ADE) has launched a new distribution company on the Reef to handle distribution of its engines used in the loose-engine and industrial markets.

The new distribution company — Powerhouse Engineering — will be based in Jan Smuts Park, Jet Park, in the same premises as ADE's regional office

An ADE spokesman said Powerhouse Engineering would handle all existing industrial own equipment manufacturers and regional distribution

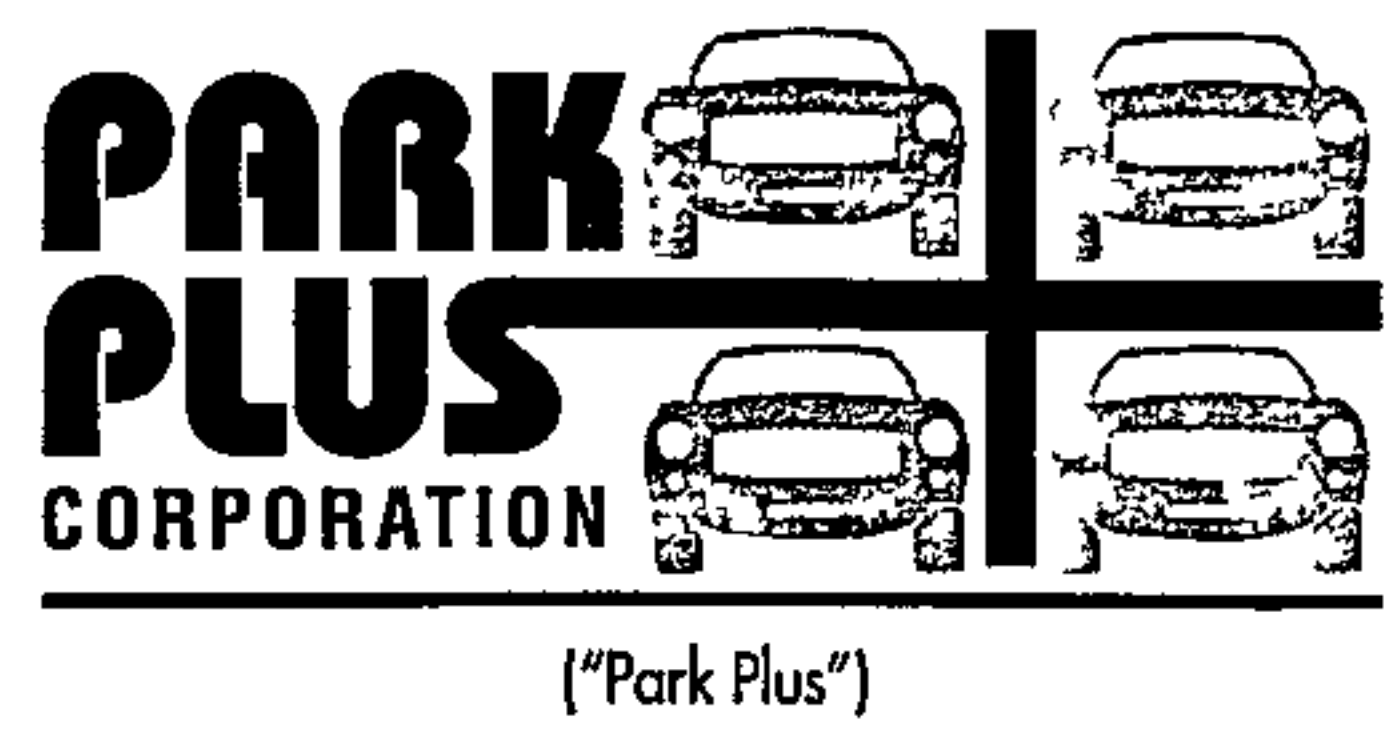
■ ADE also has assembled its 1 000 th tractor since starting production in May 1991

Managing director Mr Fritz Korte said the tractor line, which was set up to assemble Massey Ferguson 20 and 300 series tractors for Boeresake, reflected the group's flexibility

"Diversification is the cornerstone of ADE's existence at present"

ADE has embarked on a new business development programme involving exports and potential acquisitions of companies involved in light or automotive engineering

189C FM 2/7/93



Acquisition of a 50% interest in Park Plus

Introduction

Further to the cautionary announcement published in the press on Thursday, 29 April 1993, Simpson McKie Inc is authorised to announce that Park Plus SA (Proprietary) Limited, a wholly-owned subsidiary of Toco, has, with effect from 15 March 1993, acquired 100% of the issued share capital of Space Maker Holdings Limited ("Space Maker"), an offshore company which owns 50% of the trading operations of Park Plus, for a consideration of \$8 850 000, including interest ("the acquisition")

The consideration

In settlement of the acquisition consideration, Space Maker has issued promissory notes totalling \$8 850 000, to be redeemed in 10 equal annual payments commencing 1 April 1994. Due to South African Reserve Bank regulations regarding the remittance of funds abroad, the acquisition has had to be self funding. Accordingly, settlement of the acquisition consideration does not require any remittance of funds from South Africa now or in the future, nor any guarantees from South Africa. Thus, the acquisition agreement envisages that the amounts payable in terms of each note will be covered by dividends received by Space Maker from the trading activities of its subsidiaries. If excess dividends are received, Space Maker is entitled to redeem any of the promissory notes early, in which event a rebate of 7,5% of the unexpired portion of the promissory note, from the date of repayment to the due date, becomes effective.

Rationale for the acquisition

- The acquisition of Space Maker has given Toco a 50% stake in
- the patents, copyrights and technological know-how on parking systems that have been developed by Park Plus since its establishment in 1969,
 - the installation and maintenance activities of Park Plus in North America, and
 - the agreements concluded with distributors in 26 centres throughout the Americas, Europe and the Pacific Rim
- The directors of Toco are of the opinion that the acquisition will have the following strategic advantages for Toco
- secure the long-term future of the existing manufacturing contract with its current export advantages,
 - provide South Africa with the potential to become the global manufacturing centre for the entire Park Plus range, with positive implications for both profits and the creation of employment, and
 - create the opportunity to introduce other Toco-manufactured products to the well-established Park Plus distribution network

Financial effects

Based on Toco's consolidated audited financial results for the year ended 31 March 1993 and the directors' estimation of the profitability of Space Maker, the acquisition, assuming that it had been effective from 1 April 1992, would have increased earnings per share by 9%, from 21,7 cents to 23,7 cents. There would have been no impact on the dividend declared as the earnings from Space Maker would have been utilised to repay the promissory notes.

As the consideration for the acquisition reflects the net value of the assets acquired, the acquisition would not have had any impact on net asset value had it been effective on 31 March 1993.

Condition precedent

A general meeting of the company will be convened to approve the acquisition in accordance with the requirements of the Johannesburg Stock Exchange.

Documentation

A circular to shareholders giving full details of the acquisition and convening the general meeting of shareholders is in the process of preparation and will be mailed to shareholders in due course.

By order of the board
Toco Holdings Limited

Johannesburg
30 June 1993

Toco Holdings Limited (Registration number 87/01894/06)
(Incorporated in the Republic of South Africa)

Sponsoring Broker



SIMPSON McKIE Inc
(Registration number 84/01736/21)
(Member of The Johannesburg Stock Exchange)

ADPLAN INTERNATIONAL

FM 217193

189C

finance was arranged

An important additional source of financing the export expansion is internally generated funds, and your directors therefore intend to suspend the payment of cash dividends until such payments are consistent with the group's ability to finance its continued profitable expansion

5 To reward shareholders for foregoing cash dividends, your directors intend to issue bonus shares once a year, at the time when the final dividend would otherwise have been paid

Special arrangements are being made with the company's stock-brokers to assist shareholders to dispose, if they wish, of 'odd lots' (blocks of less than 100 shares) arising from the issue of bonus shares

6 Your directors, who together with associates own 35% of Toco's shares, are unanimously convinced of the wisdom of both the Park Plus transaction and of the funding decisions set out above

As set out in the Summary above, cash dividends have been suspended in favour of bonus shares. A notice for the issuing of four new shares for each 100 existing Toco ordinary shares held is published today

Subject to the approval of the JSE, the bonus shares will be listed with effect from 27 August 1993. The special arrangements for disposal of odd lots will be detailed with the share certificates for the bonus shares

4 Net cash flow generated in the year under review improved to R16m (R10,3m, in the prior year)

5 The balance sheet at 31 March 1993 reflects
- the Park Plus acquisition, which was effected two weeks earlier
- writing off all goodwill, which stood at R26,2m at 31 March 1992. There was no goodwill element in the Park Plus acquisition
- revaluation of assets by independent valuers, which disclosed a surplus of R26m over book values. This revaluation has been taken into the balance sheet

6 Year-end gearing was 56%, below our self-imposed ceiling of 60%. Our Financial policy states "In order to make a strategically-important investment or acquisition, a higher level of gearing may be temporarily acceptable, but only if a clear plan exists to reduce gearing below 60% within a reasonable time"

The strategic acquisition of Park Plus will not take gearing above 60%, but financing a growing volume of exports might well do so

When assessing the acceptable rate for expansion of export activities, notice will be taken of interest cover and of cash flows in order to maintain a prudent balance to Toco's overall business portfolio and to maintain the integrity of the balance sheet

RESULTS TO 31 MARCH 1993

1 All five divisions contributed to profits in the year, with continued strong performances from the Lifting, the Gaskets and Metal Pressings, and the Automotive Refinishing divisions

The Special Steels division remained below budget, but continues to improve its internal efficiencies and to outperform its major competitors

Building Supplies was buoyant, thanks to its burgeoning export activities, which amply compensated for the lack of business in South Africa

2 The 25% increase in turnover during the year was consistent with the 24% gain of the first half, while margins improved somewhat in the second half

The increase in interest paid reflects the build up of funding required to fulfill the building division's exports, but interest cover at 5,3 times is considered to be more than adequate

The decline in the level of taxation is also a reflection of the on-going export programmes. The effective rate of taxation is expected to remain below 20% in future years

Attributable profits have grown at a compound average of 30% a year since the company's listing on The Johannesburg Stock Exchange in August 1987, compared with the 26,5% growth rate for turnover - an indication that the operating teams are keeping a tight control on costs as their activities expand

3 Earnings per share rose by 12,4% for the full year, compared with 11% for the first half

Taking a longer-term view, earnings per share have risen at a compound average of 13,5% a year since the company's listing. Inflation over this period averaged 11,5% a year, so Toco has achieved its stated objective of providing real growth for investors

PROSPECTS

The Park Plus transaction is expected to have a material and beneficial impact on the building products division. With the continued growth of our other divisions, the directors are confident that Toco will continue to increase earnings per share at a rate that, on average, provides real growth for investors

ISSUE OF BONUS SHARES

Notice is hereby given that the directors intend to issue bonus shares in the ratio of four fully-paid new shares for each 100 existing ordinary shares held as at the close of business on Friday 13 August 1993

Subject to approval of the JSE, the bonus shares will be listed with effect from the opening of business on Friday 27 August 1993

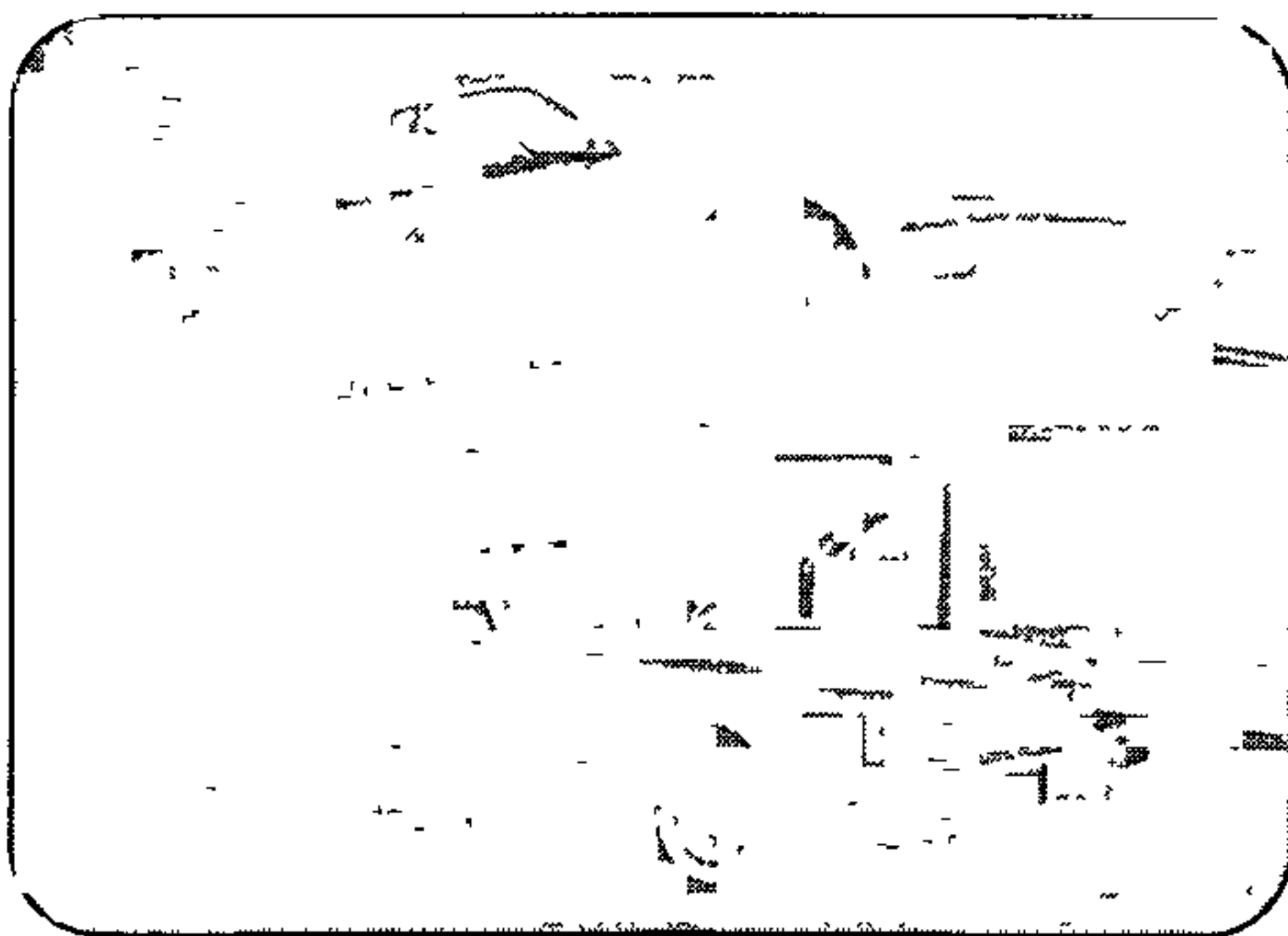
By order of the board

Paul Todd
Chairman

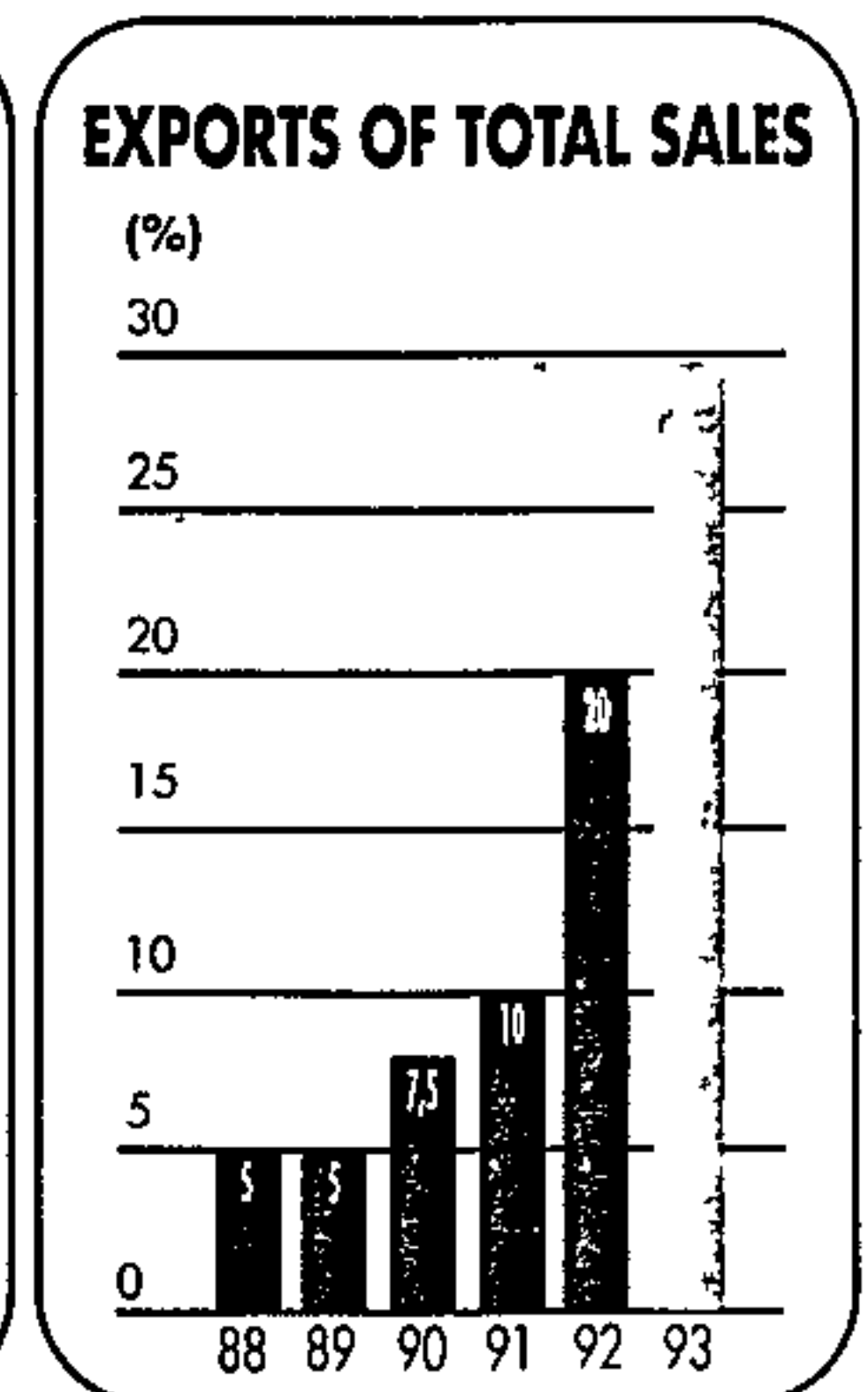
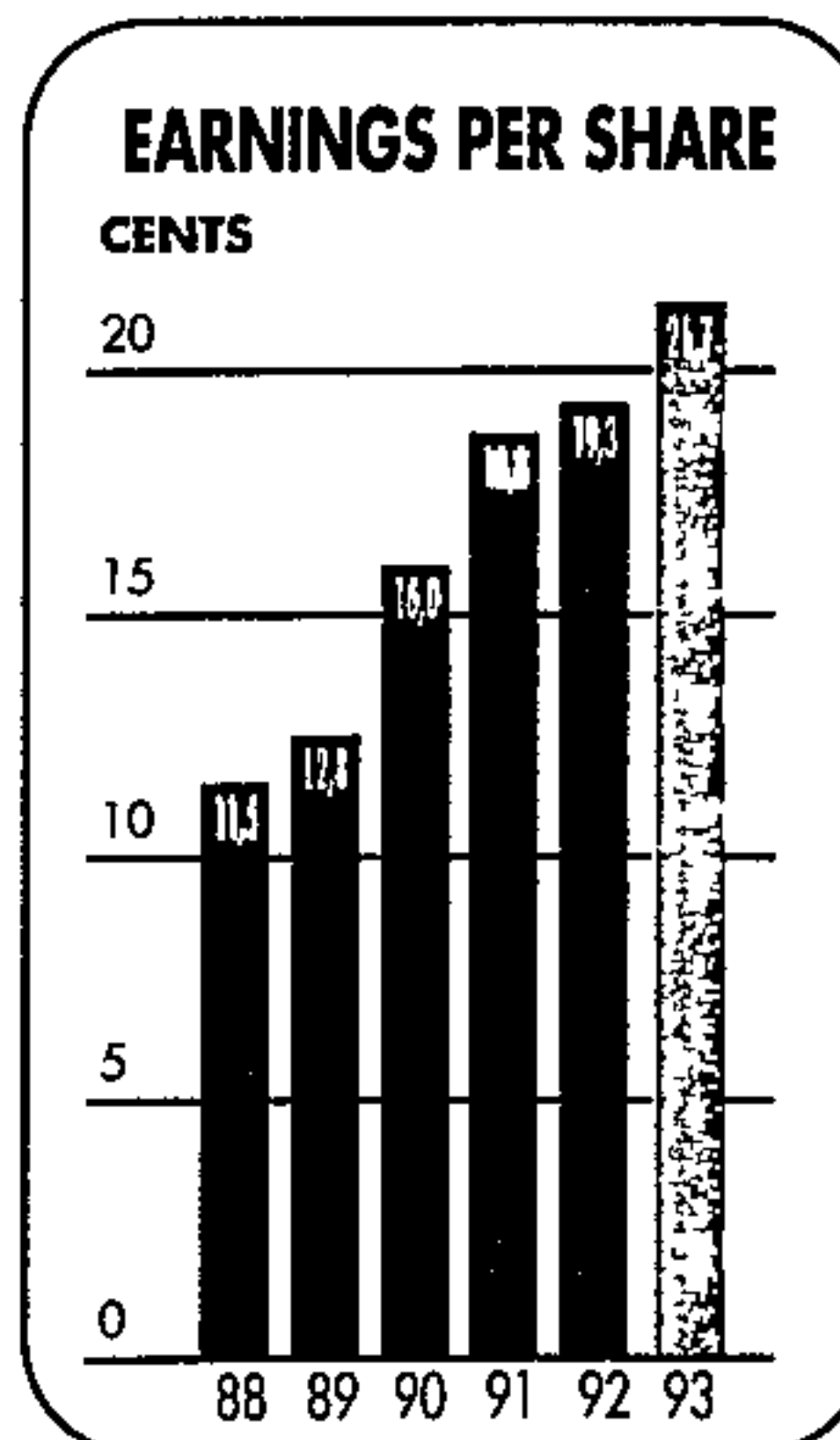
Adrian Goodman
Managing Director

Germiston

30 June 1993



Park Plus equipment in action



Toco Holdings Limited. Registration number 87/01894/06

Directors: P M Todd (chairman), A L Goodman (managing director), R M Bluen (financial director), C A C Hobbs, R Lurie, E Mayer, M M Todd, R Wesek

Registered office: 6th floor, Himont House, 80 Jonissen Street, Braamfontein 2001

Transfer secretaries: Mercantile Registrars, P O Box 1053, Johannesburg 2000

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FM 2/7/93

The purchase price of US\$8,85m will be in 10 equal annual instalments, starting next April. Toco's half share of Plus Park International's profit is R3m. This will go to finance the purchase.

Toco has suspended all dividend payments to help it finance the international acquisition and a significant export expansion. Meanwhile shareholders will receive bonus shares instead of a cash dividend.

The acquisition, from March 15, is fully consolidated and significantly affects the balance sheet. Total assets have risen 83%, after writing off all goodwill. Park Plus International has a small cash balance.

Toco's results were good given difficult operating conditions. Turnover increased 25% but operating profit was up 16%. Margins fell from 13,4% to 12,5%. The five divisions — steel, lifting equipment, automotive, building and, of course, gaskets — were profitable. The steel division saw sales fall about 12%, but all others had 20% increases in sales. EPS rose 12%.

At 180c, the share has almost doubled since October 1992. On a P/E of 8,3, there must still be some mileage in the price, assuming Geis subsidies in 1994 aren't curbed. It almost sounds too good to be true.

Louise Randell

TOCO FM 2/7/93

(189C)

Buying into subsidies

The head office, Versatile Gasket Building, creates a misleading impression of a group either single-minded about gaskets or afflicted with a serious deficiency of imagination. But Toco is neither of these.

Its acquisition of 50% in Park Plus International — which patents and distributes raised-level car parking equipment — outshone good annual results. Synergies are clear. Park Plus International is one of Toco's major international customers and will provide access to distribution centres in 16 countries.

Toco CE Adrian Goodman is excited about the deal, which could bring significantly greater size and profitability.

Park Plus International's unaudited turnover and net profits are around R130m and R6m respectively. Goodman estimates Toco's sales at R360m in 1994 — double its 1993 sales — taking into account Park Plus International's R130m contribution and about R40m of increased export sales.

But this isn't why Goodman is so excited. The beauty of the deal is that it will increase exports qualifying for General Export Incentive Scheme (Geis). According to Goodman, about R100m of exports could be eligible for subsidies. The high local input of the exports qualifies for a 20% tax-free subsidy — or R20m — that goes straight to the bottom line. This compares to 1993's attributable

VERSATILE

Year to	Mar 31 '92	Mar 31 '93
Turnover (Rm)	153,6	191,2
Operating income (Rm)	20,6	23,9
Attributable (Rm)	14,4	16,3
Earnings (c)	19,3	21,7
Dividends (c)	7,75	3,0*

* Final dividend passed

net income of R16,3m. Goodman expects this increase in profitability to take about two years.

The quality of such an earnings rise can be debated, since it hinges on very generous Geis subsidies being continued. Taxpayers should buy the shares.

189C ~~189D~~

Restoring profitability

FW 16/7/93

Activities: Supplies bearings and transmission products, makes and imports sports balls and runs marine repair business in Cape Town

Control: Directors 52%

Chairman: D L McCay, MD M Rose-Innes

Capital structure: 47m ords Market capitalisation R28m

Share market: Price 60c Yields 3,3% on earnings, p e ratio, 30 12-month high, 70c, low, 50c Trading volume last quarter, 3,3m shares

Year to December 31	'91	'91	'92
ST debt (Rm)	14,7	9,6	11,6
LT debt (Rm)	15,9	6,1	1,3
Debt equity ratio	4,1	0,88	0,69
Shareholders interest	0,12	0,32	0,37
Int & leasing cover	1,0	1,4	1,5
Return on cap (%)	5,0	8,9	11,8
Turnover (Rm)	n/a	n/a	n/a
Pre-int profit (Rm)	3,1	4,9	6,0
Earnings (c)	(19,3)	2,4†	2,0
Dividends (c)	nil	nil	nil
Tangible NAV (c)	(4,5)	4,9	7,3

* Year to March 1991
 † Attributable profit divided by weighted average number of shares and annualised.

COMPANIES FW 16/7/93

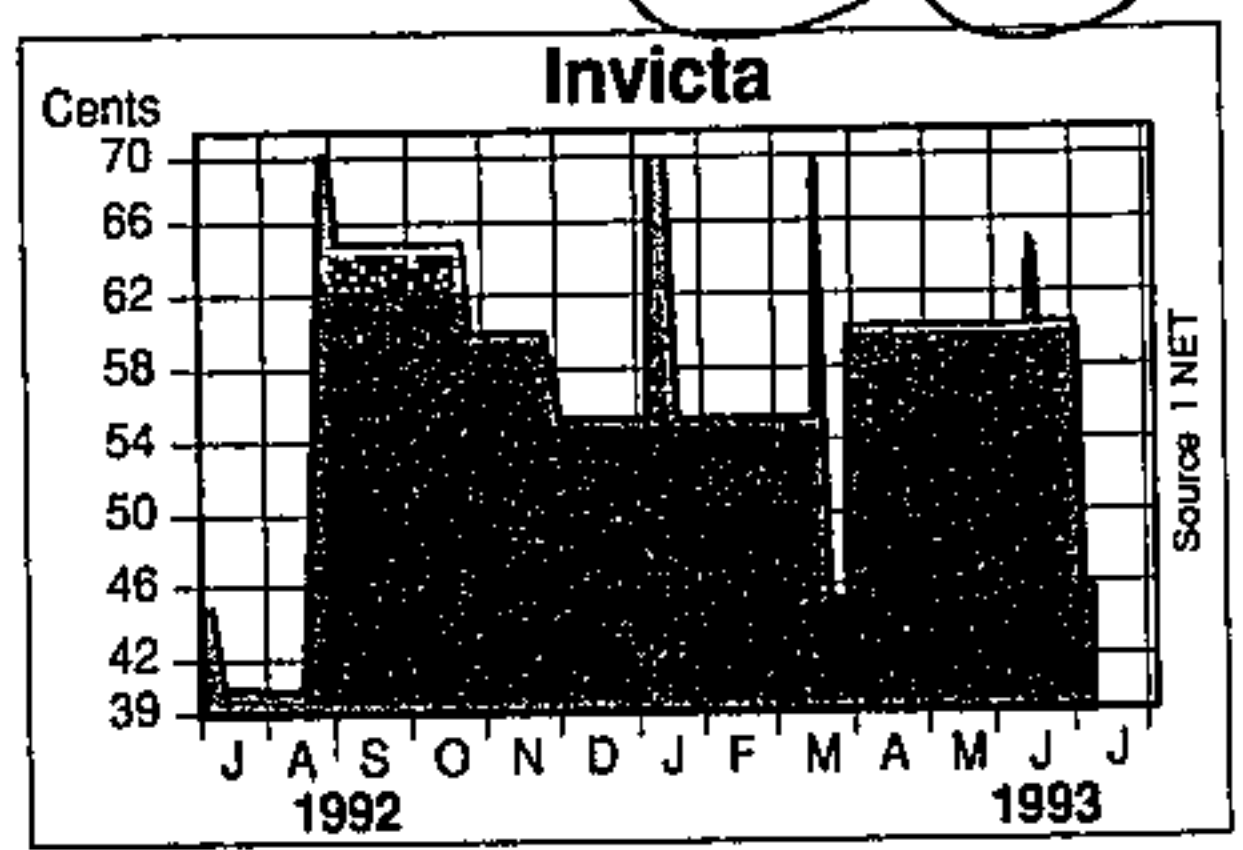
After the losses incurred in 1990 and 1991 because of a foray into light engineering, new MD Mike Rose-Innes and his team are steadily restoring profitability

The business is being refocused on its original strengths and is shedding extraneous diversifications Table Bay Holdings, the subsidiary in which the losses occurred, is selling its Sports Balls subsidiary, which makes Mitre rugby and soccer balls, and its Atlas Marine engineering division About R3m should be realised

As one of SA's main suppliers of bearings and transmission products and the sole local distributor for Japan's NTN Corp, a world leader in bearing technology, Invicta's performance has been affected by the shrinking demand for bearings

It was caught with excessive stock and reduction of this is being hampered by the slowdown in mining

189C ~~189D~~



The Japanese-sourced stock holding has a hidden benefit though As the rand has depreciated against the yen, the value of local stock has increased Group financial director Arnold Goldstone wants to cut stock by about R5m over the next two years Increased liquidity is sorely needed if the interest burden is to be lightened Stock reduction, with proceeds from businesses sold, will help to achieve this

Goldstone believes the group will be in better shape than ever after the sales The 23% increase in pre-interest profit and the 59% jump (off a small base) in after-tax profit, despite a slight rise in interest paid, is signalling renovations are succeeding Continuation of this performance — as should happen when the economy improves because an increase in fixed investment must stimulate demand for bearings — will help to restore confidence in this DCM-listed company

Perhaps the market is already inferring the share is worth a punt That could be why more than 3m shares changed hands in March and April But the p e of 30 is high if no more than a pedestrian performance is likely

Gerald Hirshon

Reinsurers lead premium climb

STimes (Buss)

18/7/93

By TERRY BETTY

COMMERCIAL and industrial premiums will rise by between 15% and 40% in the next year because the cost of reinsurance has doubled.

Personal lines premiums should remain stable in spite the Western Cape floods, which are not expected to be a catastrophe for insurers

Munich Reinsurance chief executive Clem Booth says the SA commercial and industrial market needs a 30% to 40% increase in premiums for sound business.

"For the past three years, reinsurers have been incurring losses and claims have far outstripped premium income."

"Reinsurers will have to increase premiums to build up reserves and recoup losses as well as to give them a margin to make the business worth their while"

Mr Booth says reinsurance premiums are too low because in the past there was excess capacity — too many reinsurers competing for the same business.

Reinsurers were not always aware of the extent to which they were exposed in particular risks or the potential size of claims.

However, severe losses — national and international — in the past three years have shaken the market. Several reinsurers have closed and others have hardened their rates

"It is not unusual now to pay two to three times more for the same cover as before," says Mr Booth.

The most notable reinsurer to close and start running down its books is NW Re of Britain

Central RE was the SA arm of NW Re. Although it ran at a profit, it has been forced to close

Hurricane Andrew in the United States

set the insurance and reinsurance business back \$17.5-billion last year.

Even though the major world losses are not specifically the result of SA claims, reinsurance is international and there is an element of cross-subsidisation among countries.

Swiss SA Reinsurance managing director Lenz Keel says this country has a good record it is still possible to obtain reinsurance. However, the price has soared.

Reinsurers are accepting less business and have become more selective

Mr Keel says "The general perception is that exposure to and frequency of natural catastrophes are higher than thought in the past."

Mutual & Federal managing director Ken Siggers says M&F has concluded its reinsurance arrangements and their cost has increased.

He will not say by how much M&F rates will rise, but the increased cost of reinsurance will ultimately have to borne by the insured.

Mr Siggers says personal lines insurance premiums are likely to remain stable.

Although the Cape floods were a disaster, they were not a catastrophe in insurance terms.

Insurers are unsure what the floods will cost them. Many people are still mopping up and not all claims have been reported

M&F's Cape Town offices have received about 500 claims totalling more than R3-million.

Mr Siggers says the biggest flood toll was on farms where much topsoil was washed away

Made in SA, copied in Japan

STimes (Buss)

18/7/93

BY DON ROBERTSON

IT would appear that some Japanese manufacturers have not lost the ability, developed many years ago, of copying internationally known products.

Gary Bell, managing director of the Richards Bay earth moving group Bell Equipment, discovered this on a recent visit to Japan where he attended a machinery exhibition

To his surprise a timber logger, an exact replica of the machine developed by Bell and the only one of its type in the world, was on show

Over the past two years, Bell has exported its own logging equipment to Japan.

"The machine is an exact duplicate of our equipment, down to the last millimeter. It even uses the same engine"

Mr Bell says the machinery was initially covered by worldwide patents, but these have

expired. As a result, no action will be taken against the copy-cat company

Bell, winners of the State President's export award two years ago, produces about 50 loggers a month, most of which are exported to countries such as Malaysia, Singapore, Australia and Pacific Rim countries

"Because of their proximity to these countries, this development could take market share away from us, although we are prepared to take them on," Bell says

The 25-year old Bell Equipment group has adopted plans to substantially increase exports and by the year 2000 hopes to sell about 80% of its output on overseas markets

PARTNER

Absa gets a lift from

Servgro shines despite poor trading conditions

B. Dewey 19/7/93

MARCIA KLEIN

DIVERSIFIED leisure and services group Servgro International, had seen a deterioration in trading conditions since it listed in August last year.

Executive chairman Peet van der Walt said in his annual review that this had resulted in severe competition and pressure on margins. Nevertheless, the group had exceeded its prospectus forecast and increased attributable income by 20% to R50,8m on a 14% turnover rise to R921,4m in the 12 months to end-March

Since year-end, there had been a further deterioration in the business environment, he said, and poor trading conditions were expected to continue for most of financial 1994. Management was taking steps to minimise the effect on trading results.

Servgro would nevertheless achieve earnings growth on the back of its strong brands, market shares and sound management, Van der Walt said. It was also well-positioned in the services sector with its strong leisure component, and should benefit from economic recovery.

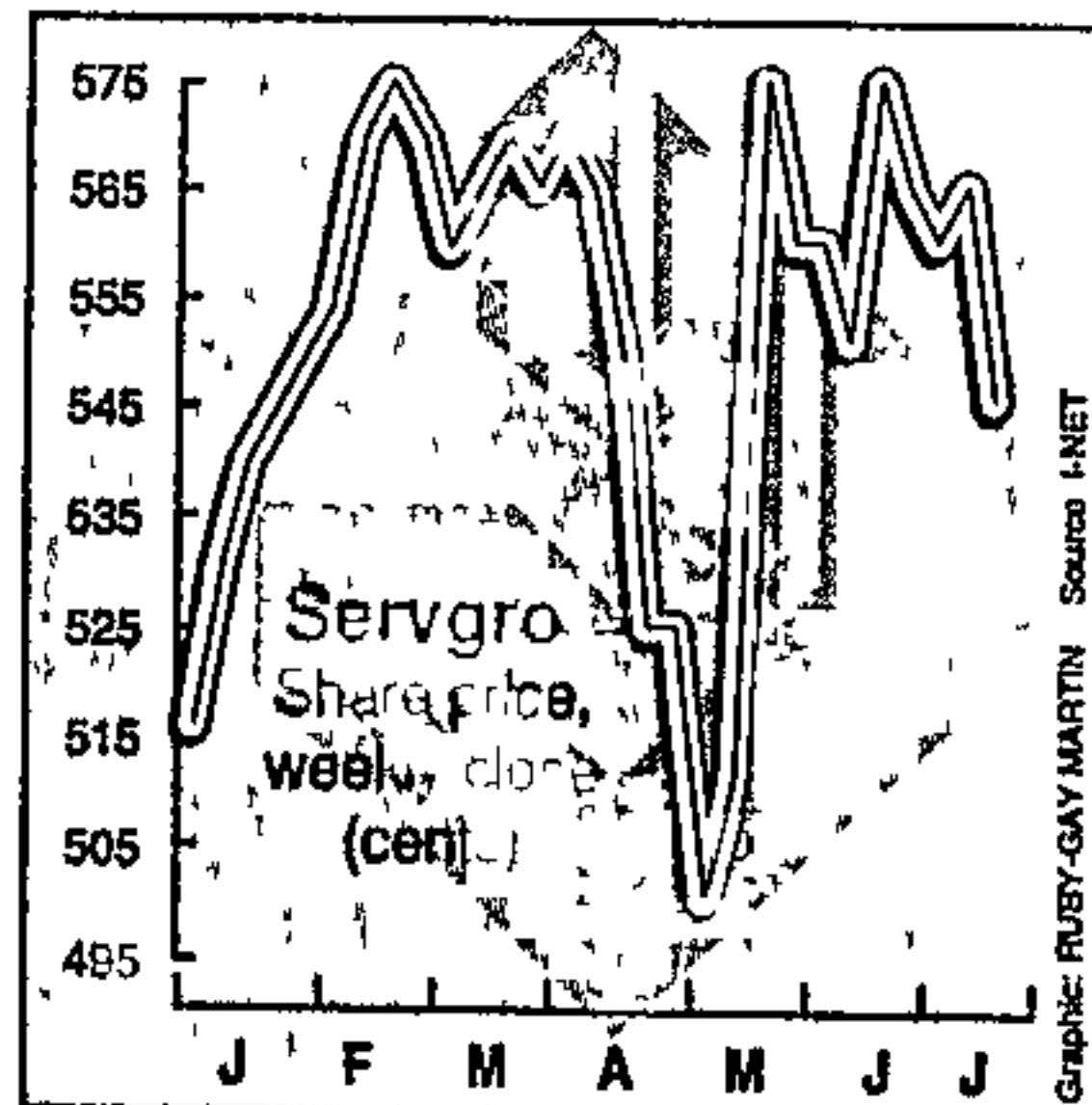
Van der Walt said Avis, Fedics, Interpark and the Price Forbes group achieved particularly good results. Interleisure's results were lower, and Teljoy maintained profit levels.

Income at holding company level increased on the back of investment income from surplus funds.

Price Forbes acquired the Willis Faber Enthoven group, Fedics continued its in-flight modernisation and expansion programme, and Interleisure's Ster-Kinekor added 29 screens. Avis implemented its Wizard reservation system, and Teljoy was considering becoming a service provider for cellular telephones.

Some activities were rationalised or disposed of, resulting in extraordinary losses of R3,9m. About R45m of liquid funds was available for new investment opportunities, which would preferably be absorbed into existing operating companies.

Avis increased turnover marginally to R109m, but showed a substantial increase in attributable income through effective asset management, increased productivity



and focused marketing. Avis businesses were expected to maintain their market positions and their contributions.

Fedics had a strong year, with turnover rising 10% to R480m and attributable income showing substantial growth. Group MD David Wigley said this reflected the higher number of foreign airlines landing in SA as well as improved and enlarged facilities at airports.

Interleisure's retail outlets and cinema, restaurant and amusement centre attendances were affected by the escalation of political unrest. But the core businesses of Ster-Kinekor and the services division had performed well. Attributable income was 9% down at the December interim stage.

The group had become more focused on its traditional entertainment market after selling several sport wholesaling brands and expanding the entertainment centre concept.

Interpark increased turnover 11% to R78m, and attributable income increased, albeit at a slower pace than the past three years. New parking contracts, the privatisation of municipal parking facilities and the commercialisation of state airports offered growth possibilities.

Price Forbes' turnover rose to R360m, with real growth in attributable income.

Teljoy experienced difficult trading conditions and its earnings were in line with the previous year. It expected a modest increase in the coming year.

Charter hunts for likely prospects

CHARTER was looking for a number of businesses it believed would benefit from the group's strong balance sheet and disciplined industrial management, chairman Michael Edwardes said in the 1993 annual report.

Edwardes said Charter was actively considering several prospects where it could add significant value.

But vigorous efforts were being made to invest resources prudently, always resisting pressure for short-term actions.

He said the group was now in the middle of a most important period of restructuring. In March, Charter had sold its stake in Johnson Matthey. Since the year-end, it had agreed to put proposals to shareholders for its restructuring so that Minorco would cease to be a shareholder.

Edwardes said Charter's challenge was to continue to develop its strong operating businesses so that they could grow worldwide while continuing the search for opportunities to reinvest the proceeds from the restructuring.

DUMA GOUBULE

Charter's objective was to assemble a group of industrial businesses each with strong management and leading market positions.

The group would continue to be based in the UK with its activities spread around the world.

London and JSE-listed Charter's operating companies increased their profit by 11% to £31,3m.

Edwardes said Charter was ahead in all its business sectors. Building products and services company Cape had reported a slightly higher profit of £11,9m.

Pandrol, the group's rail track equipment company, had continued to advance, earning £12,5m, up from £11,6m.

The improved performance was once again due mainly to the group's ability to give close attention to costs, while at the same time making the necessary investments to allow the business to grow, Edwardes said.

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Factory gets order against 400 strikers

Star 20/7/93

By Abdul Milazi
Labour Reporter

The German-owned Brits auto parts manufacturer, Robert Bosch, has obtained a court interdict preventing striking workers from intimidating casual labour and damaging property.

The interdict was granted by a Pretoria industrial court on Friday after the strikers, all members of the National Union of Metalworkers of SA (Numsa), had allegedly slashed tyres in the car park and blockaded the entrance, preventing casual workers and vehicles from entering.

About 400 of the company's 520 workforce went on strike on July 8.

They are refusing to discuss with management a proposal to eliminate up to 30 jobs. Instead they demand that the company negotiate retrenchments with the union.

Robert Bosch has re-

jected this demand and brought in casual workers to help keep the factory going.

Bosch human resources director Bert Badenhorst yesterday said that the situation was quiet but strikers were still standing outside the gates shouting abuse at casual workers, in an attempt to intimidate them.

Badenhorst said the company would go ahead with the retrenchments despite the strike.

Letters had been sent to 20 workers notifying them of the company's intention to terminate their employment.

Badenhorst said his company was not prepared to negotiate with Numsa until the strikers returned to work.

Numsa spokesman David Modimoeng replied that Bosch would "make matters worse" if it continued retrenching without negotiating with the union.

CHARTER FwM 23/7/93 (189C)
Unique rand hedge

"What" is meant, asks an intrigued observer, "by the word chutzpah?" Trying to find an answer to a query loaded with complex-

Activities: Makes rail track and mining equipment, conducts quarrying and coal mining, supplies building products and services

Control: Minorco †36%

Chairman: Sir Michael Edwardes, MD JW Herbert

Capital structure: 106m ords Market capitalisation R4,8bn

Share market: Price 4 500c Yields 2,4% on dividend, 26,9% on earnings, p e ratio, 3,7, cover, 11 12-month high, 5 200c, low, 3 435c Trading volume last quarter, 1,1m shares

Year to March 31	'90	'91	'92	**93
ST debt (£m)	38,5	25,6	24,9	83,8
LT debt (£m)	56,7	48,9	65,1	30,7
Debt equity ratio	n/a	n/a	n/a	n/a
Shareholders interest	67,6	70,3	70,2	69,3
Int & leasing cover	4,2	4,0	4,4	n/a
Return on cap (%)	10,9	11,3	9,6	34,4
Turnover (£m)	957	1 035	1 055	1 205
Pre-int profit (£m)	75,8	79,9	73,8	300,8
Pre-int margin (%)	7,9	7,7	7,0	24,9
Earnings (p)	43,6	44,6	42,5	242,9
Dividends (p)	19,5	21,0	21,5	22,0
Tangible NAV (p)	475	488	519	558

* Figures distorted by extraordinary item
 † Subject to shareholder and court approval to buy-back

ities, his host chooses an analogy.

Pleading in mitigation after being found guilty of murdering his parents, a boy asks the court to take into account that he is now orphaned. That, says the host, covers some of the aspects of the word.

Still fresh from his exploits and excited by freedom, the latest self-induced orphan, Charter CE Jeffrey Herbert last week smiled his way through cocktail parties and presentations in Johannesburg and Cape Town. He was showing the flag to a substantial body of shareholders — 14% of Charter's shareholders are on the Johannesburg register and that will rise to 20% when Charter commits the strange act of buying back the 36% of its own shares owned by Minorco.

Herbert is unrepentant about the move to turn Charter into an "independent international industrial company." With Minorco out of the way, biggest remaining shareholders are UK unit trust group M&G (8,6%) and investment bank Schroders (7,4%).

The key to the Anglo American group's continued involvement and interest undoubtedly lay in the 38% holding in platinum refiner and marketer Johnson Matthey (JM). But it was a dormant interest, Charter (and by extension Herbert) played no role in JM's operations and being forced to sit impotent on the sidelines doesn't fit well with Herbert's hands-on, get-involved style.

If you say something often enough, it must have some effect. The argument Herbert painstakingly built — that it was nonsense for Charter to sit on its hands while its largest single asset was in place only because it met the needs of a large shareholder — eventually became accepted wisdom.

The sale of the JM holding, besides realising £330m (a profit of £217,8m), inexorably called into question the continuing role of Minorco (as proxy for Anglo). Charter is no longer the animal designed by the 1965



Charters' Herbert confidence in our own ability

merger of Cecil Rhodes's British SA Co, Consolidated Mines Selection and Central Mining. It was meant to be the international arm of the Anglo group, a series of mining investment disasters led it to concentrate instead on engineering and related activities.

Minorco has taken over most of Anglo's mining-related international ambitions. Differences between Minorco and Charter are more than skin deep. Charter is an earnings driven, industrial company. Minorco is involved in natural resources and asset driven. So it was probably with a sense of relief accompanied by nostalgia that Minorco agreed to the buy-back, to which Herbert is committing £237m of Charter's nest egg.

That raises another issue. Is it wise to apply cash to reducing shares in issue? Herbert is adamant he has done the right thing. "It's a vote of confidence in our own ability." One effect is automatically to raise EPS.

All these to-ings and fro-ings played havoc with results, which must be read, for valid comparison, without the confusion of the sale of the JM shares. On that basis, turnover grew modestly to £1,2bn and operating profit to £60,1m. Tax was sharply up at £27,4m. After interest earnings of £11,6m, annual profit was £44,3m. Restating 1992 results similarly gives £51m.

Not much to write home about, though chairman Sir Michael Edwardes boasts of an 11% profit gain at the operating companies.

The final outcome, on my arithmetic, is EPS of 41,8p compared with 1992's 48,2p. This is not to say Charter didn't do tolerably well in the difficult trading environment, but it puts matters in perspective.

Where will Herbert take Charter from here? It now has four legs: mining equipment, which contributed 22% of turnover in 1993 and 15% of profit, rail track equipment (22% of turnover, 40% of profit), building products and services (45% of turnover and 35% of profit), and quarrying and mining (11% of turnover and 10% of profit).

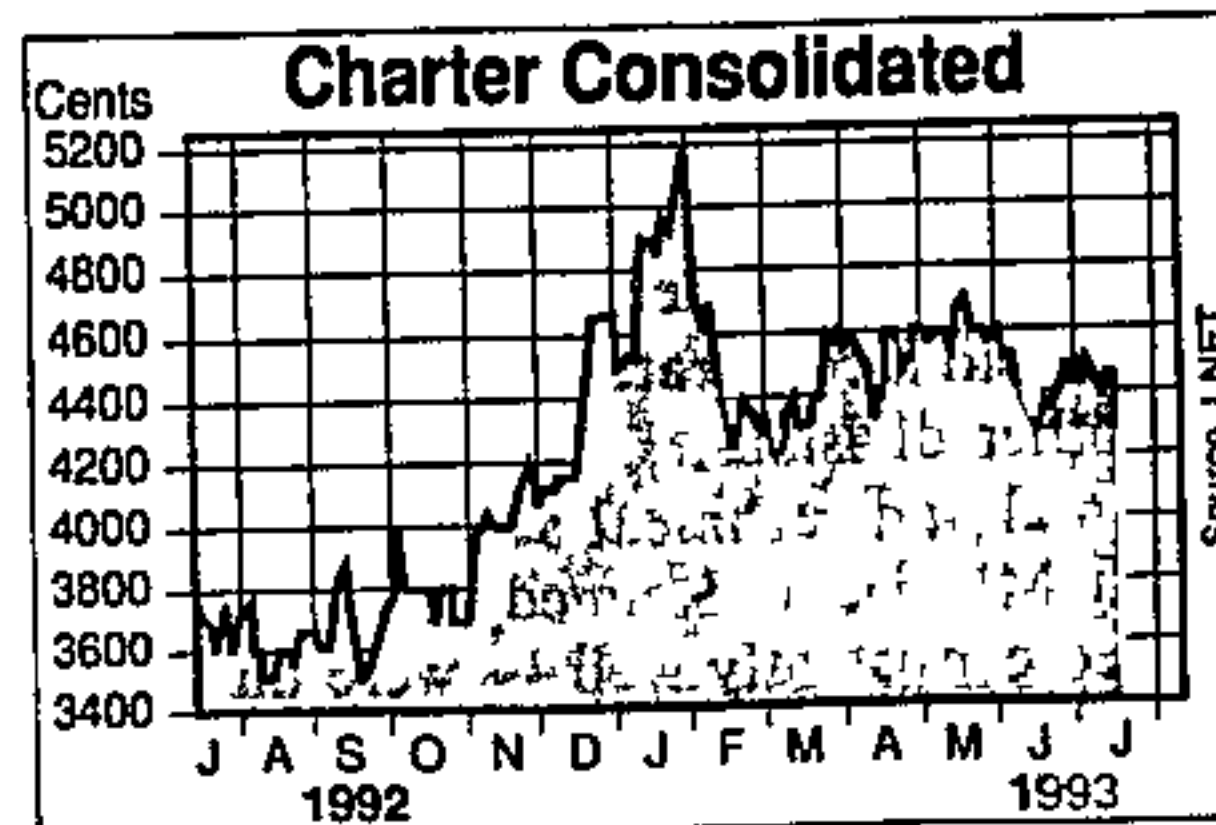
"It's my intention," Herbert says, "that in two years Charter will have six legs. We are looking to invest in businesses to which Charter can add value. They must be market leaders and fit in our common theme, which is that they should have industrial customers. We aren't into retailing."

All this makes Charter a special rand hedge stock. Nearest rivals are Minorco, Lonrho, Richemont and De Beers Centenary, but Charter is unique because it no longer has any parental connection with SA nor any investments in Africa. It is a UK company with a spread of industrial investments in the UK (40% of turnover), US (30%), Europe (15%) and the Far East (15%).

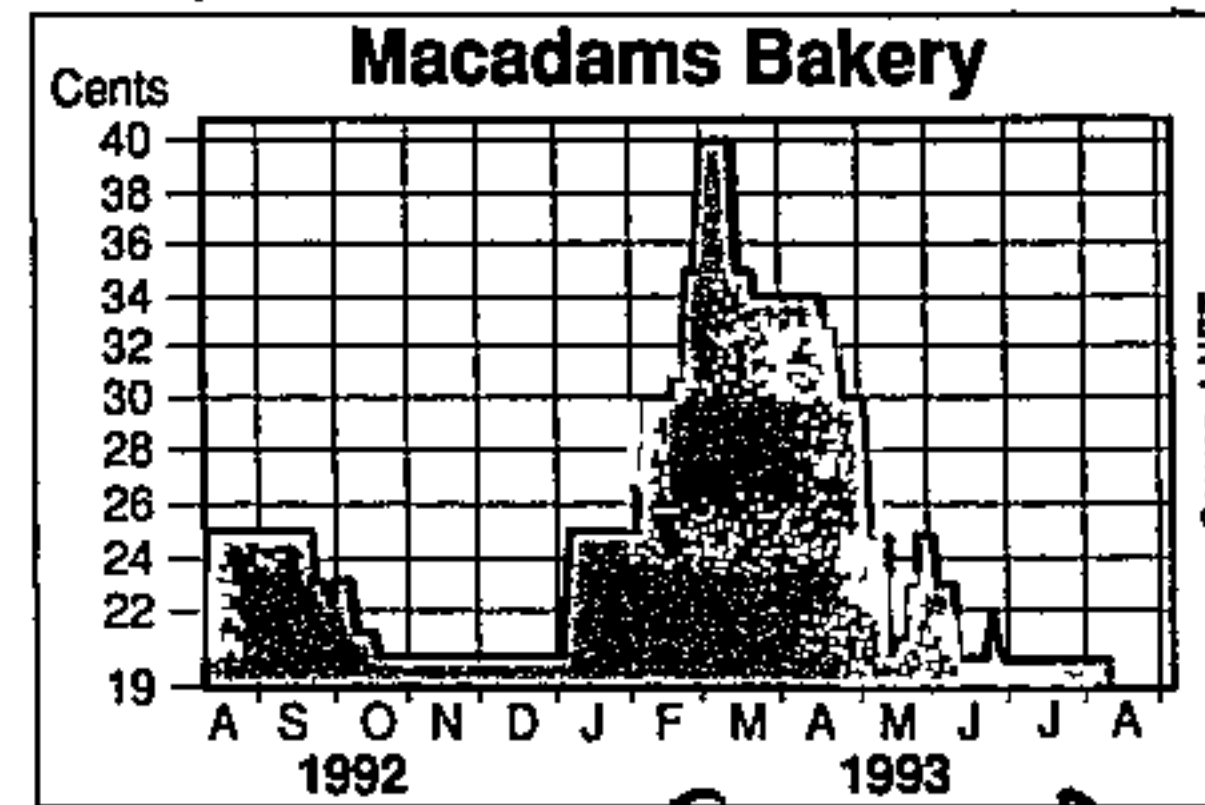
Herbert won't give an earnings forecast — not for the usual reasons but because he dare not do so. UK insider trading regulations have given company directors a severe case of caution. The range of forecasts from London brokers is 1994 EPS of 36p-40p, implying an expectation of marking time rather than any profound steps forward.

How easy will life really be without big daddy?

David Gleason



Fm 20/8/93



(189C)

has been four years since shareholders last received a dividend

Pouliart points out that the balance sheet is strong Shareholders' funds increased 14% to R9,4m, return on capital has remained above 11% for the past five years and the NAV is almost 10% more than last year

The dormant subsidiary Shelvrite Catering Equipment was deregistered and the trading division of Portofino Ice Cream Parlours was acquired Shares were issued to finance this acquisition Capex of R800 000 has been budgeted for this year, mostly to buy new machinery

Management's objective of maintaining turnover could prove difficult, especially if local sales do not improve Though well positioned to make the most of developing urban areas, benefits will take years to come Macadams now exports 45% of its products and management hopes to increase this during the 1994 year Facilities continue to be upgraded and efforts are being directed at eastern Europe and Africa

The share looks undervalued on a p e of 3,2 and at a 64% discount to NAV But the failure to pay a dividend and the short-term prospects for earnings growth will weigh heavily on the price

Marylou Greig

MACADAMS
Fm 20/8/93
Relying on exports (189C)

Activities: Manufactures and installs bakery equipment

Control: Directors 43%

MD: R J Pouliart

Capital structure: 16,6m ords Market capitalisation R3,3m

Share market: Price 20c Yields 31,0% on earnings, p e ratio, 3,2 12-month high, 40c, low, 20c Trading volume last quarter, 253 000 shares

Year to February 28	'90	'91	'92	'93
ST debt (Rm)	7,5	4,1	4,1	4,7
LT debt (Rm)	3,9	1,0	0,7	0,5
Debt equity ratio	2,55	0,73	0,58	0,55
Shareholders interest	0,18	0,40	0,41	0,43
Int & leasing cover	1,37	1,21	1,63	1,71
Return on cap (%)	11,1	11,7	12,7	11,2
Turnover (Rm)	38	29	34	37
Pre-int profit (Rm)	2,7	2,0	2,5	2,4
Pre-int margin (%)	7,1	7,0	7,4	6,6
Earnings (c)	5,7	2,8	7,6	6,2
Dividends (c)	—	—	—	—
Tangible NAV (c)	29	45	51	56

Like many listed companies, bakery and confectionery equipment company Macadams looked to exports for its earnings growth in the year to February 1993 Though export turnover increased an impressive 112%, it was not enough to prevent a 16% decline in earnings from R1,2m to R1m

Poor trading conditions in the company's target markets — newly urbanised and rural areas — were worsened by political violence Local sales, which declined 20% in the first six months, were better in the second half, resulting in a slight improvement in sales for the year

With margins squeezed, operating income was maintained at R2,5m MD Raimund Pouliart attributes the 9% rise in finance charges — to R1,4m — to the higher export turnover which, he says, needs longer financing periods A tax charge of just R13 000 helped the bottom line

Gearing was marginally lower at 55% but remains above the targeted 50% Company policy is not to declare a dividend until gearing is at or below the target Even then, the board might give priority to retiring debt It

T & N lifts earnings by 15,7%

AUTOMOTIVE component manufacturer T & N Holdings lifted earnings by 15,7% in the six months to end-June 1993 compared with 28,1c a share profit made over the same period last year *Biday*
CE Bill Cooper said margins were under pressure

EDWARD WEST

due mainly to substantial losses at BIP Moulding Powders and the inclusion of Dancor — previously an associate — for the period. The remaining 64,2% stake in Dancor was bought in January *(189C)*

The rationalisation of Dancor was expected to take about 18 months

The acquisition of a 70% stake in Fabflex last year was bearing fruit and further rationalisation to reduce costs in the industrial products division would continue to improve profitability. An unchanged interim dividend of 11c was declared *24/8/93*

The BIP Moulding Powders plant was closed, but a R1,6m extraordinary profit was made on the sale of its assets, land and buildings in Pinetown, near Durban

Cooper said the group remained cautious on its prospects for the year

Cullinan tips back into the black

JOHANNESBURG — Industrial ceramics and electrical power products group Cullinan Holdings has reported a net profit for the year to June 30 and a reduction in borrowings after restructuring

Although turnover from continuing operations reduced to R430,2m (R462,2m), operating income improved by 226% to R15,3m (R4,7m)

Net attributable income was R136 000 against last year's loss of R33,5m. Earnings per share improved to 0,9c (loss 230,4c). A dividend of 10c per share would be paid.

Chairman Alan Clark said he was satisfied with the group's performance, especially as Cullinan's market deteriorated off an already low base during the year.

"All divisions are better focused on their markets. Training and incentive programmes, as well as performance assessment are in place. Stringent asset management continues.

"This, together with the R15m preference share issue which was negotiated in January this year, resulted in the reduction of group borrowings from R95,5m to R67,2m at year end. Gearing reduced from 68,5% to 44,7%," Clark said — Sapa

TV duty may be slashed

Own Correspondent

JOHANNESBURG — The import duty on television sets is likely to be slashed to 5% from 30% as a temporary measure to enable local assemblers to compete with duty-evading grey goods importers, industry sources said at the weekend

Local manufacturing sources said prices of premium branded products were expected to drop by as much as R150 a set. But the price of cheaper TV sets would probably remain the same, they said

However, an industry source said lower duties would not necessarily result in reduced retail prices. Many manufacturers were selling their goods at below cost, he said, and they would use the relief to improve margins

It is not known if, or when, the lower tariffs will be gazetted. But some manufacturers are confident they will come into effect by the end of this month and will remain until the end of the year

189

185

CT 13/9/93

Bateman engineering group lifts its earnings

B/Day 14/9/93

EDWARD WEST

ENGINEERING contracting and equipment supply group Edward L Bateman beat interim forecasts of lower profit and lifted earnings a share slightly to 92c (88,1c) in the year to end-June

Group turnover climbed 5,3% to R667,5m, but because of the nature of the contracts reflected in the figure there was not necessarily a direct correlation between turnover and profit, chairman Bill Bateman said

Operating profit climbed 4,5% to R38,6m (R36,9m) and lower interest payments of R3,8m (R5,1m) and tax charges led to taxed income improving by a tenth to R33,9m (R30,6m)

Foreign income, exempt income and incentive allowances had a favourable impact on the 3% tax rate. The R896 000 (R1,3m) tax paid included secondary tax on companies and reversal of deferred tax provisions. A final dividend of 23,75c (22,25c) raised the annual dividend to 32c (30,5c)

The group's equipment arm Bateman Industrial Holdings made several acquisitions which contributed to sales, profit and an increase in shareholders' interests

Action was taken to dispose of certain loss-making non-core operations in engineering division Batepro, and full provision of R13,5m was made under extraordinary items for possible losses on disposal, said Bateman

Losses ascribed to these operations reduced Batepro's attributable income by R5,2m, he said (189c)

The equipment and engineering divisions' contributions to group attributable profit was slightly lower, but this was offset by higher contributions from the group's property, investment and services division

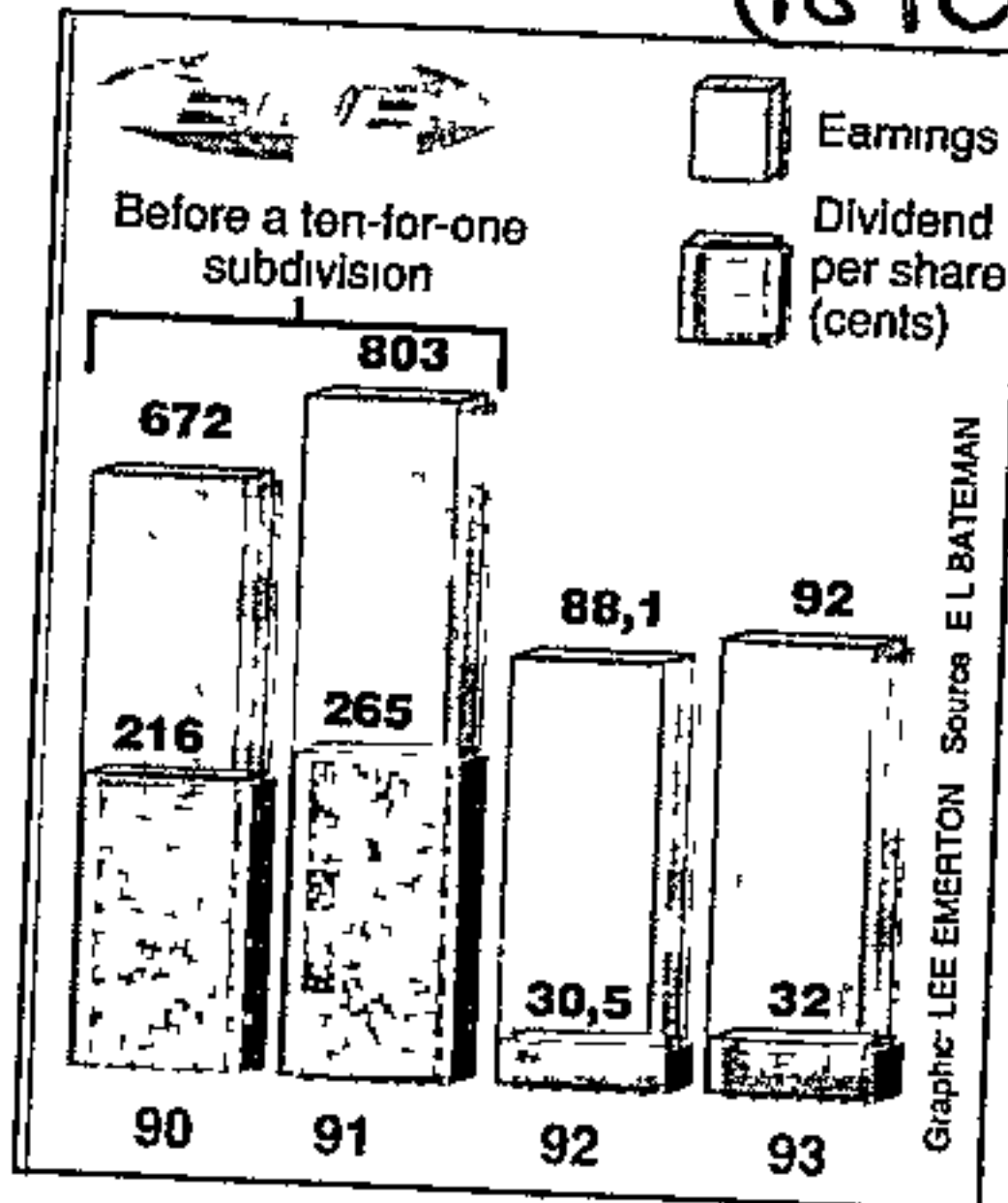
Equipment division joint MD Peter Brereton said while traditional mining markets remained depressed, diversification into the information technology was successful, accounting for over 30% turnover growth

Batepro opened two more international offices bringing the total to 10. Modest earnings growth was expected by the division this year. Income from many new projects would accrue only in future years

The settlement of an outstanding claim was expected to boost results of the division

Engineering joint MD John Herselman said the division secured a \$200m contract for a metallic magnesium plant in Israel. The division was also awarded a contract for Newmont Mining USA's gold project in Uzbekistan

Bateman said group earnings growth would be modest this year



NEI Africa's R42m deal

ENGINEERING group NEI Africa has sold its Propower and AG Walker operations for R42m to a management consortium and a group of institutional investors led by FirstCorp Merchant bank, it was announced yesterday

Shareholder approval was expected to be a formality as the ultimate holding company Rolls-Royce of the UK, and NEI Africa Holdings — which owns 53% of NEI Africa — were in favour of the deal

NEI Africa chairman Peter Joubert said the sale would considerably improve the debt profile and prospects of the group, which recently reported a taxed loss of R4m for the six months to end-June 1993

Group debt of R120m at June 1993 would be reduced by the R40m, lowering finance charges Gearing would fall to 76,6% from 122,3% at June

The divestments were part of a strategy to concentrate on industrial and packaged boiler manufacture and related mechanical and electri-

EDWARD WEST

cal engineering, he said. *B/D 07*

NEI Africa's activities now fitted more closely with the industrial power operations of its parent Rolls-Royce, which focused on the aerospace and power generation industries, said Joubert. *14/9/93*

FirstCorp Merchant Bank vice-president Garry Boyd said FirstCorp structured the deal to offer investor groups returns it believed would outperform the JSE. Large corporations increasingly needed to focus on a single core business to become globally competitive, he said. *(189C)*

Propower is the SA distributor of Cummins diesel engines and spares, Navistar truck parts and Fleetguard filters, while AG Walker manufactures, installs and maintains service station petrol pumps and related forecourt equipment.

Management consortium leader and Propower MD Mike de Beer said the initial focus of the two companies would be to expand operations

BEARING MAN
FM 24/9/93
Still offering value

Activities: Imports and distributes a wide range of engineering consumable products

Control: AVI (51%)

Chairman: D Royston, MD G J Till

Capital structure: 9,4m ords Market capitalisation: R78m

Share market: Price 825c Yields 4,8% on dividend, 13,5% on earnings, p e ratio, 7,4, cover, 2,8 12-month high, 825c, low, 300c

Trading volume last quarter, 8 886 shares

Year to June 30	*'90	*'91	†'92	'93
ST debt (Rm)	22,9	20,6	16,4	11,9
LT debt (Rm)	3,8	6,0	4,9	0,9
Debt equity ratio	1,41	1,23	0,50	0,26
Shareholders' interest	0,30	0,34	0,43	0,45
Int & leasing cover	5,02	2,40	3,01	7,36
Return on cap (%)	26,0	25,6	14,0	18,4
Turnover (Rm)	86,4	96,0	118,6	154,9
Pre-int profit (Rm)	16,4	16,2	13,9	19,9
Pre-int margin (%)	19,0	16,9	11,7	12,8
Earnings (c)	132,2	94,9	68,3	111,2
Dividends (c)	40	30	22,5	40
Tangible NAV (c)	385	443	458	519

* Year to February 28

† 16 months annualised where necessary

The 90% share price improvement over the past year is all the proof needed that investors are satisfied with the way the revamped Bearing Man is settling down

Initial response to the September 1991 merger of Bearing Man with the related activities of Steelmetals — actually a reverse takeover which saw Bearing Man become part of Anglovaal — was, to say the least, subdued. This, as the *FM* pointed out in its review of the 1992 annual report, partly reflected the fact that first results from the merged entity provided few tangible benefits for Bearing Man minorities

EPS, for instance (using the *FM's* standard proportionate annualisation of the 16-month accounting period), had dropped 28% from the 1991 figure, closely matching the diluting effect inherent in the deal which appeared to favour Anglovaal because of the less profitable nature of the assets injected

FM 24/9/93

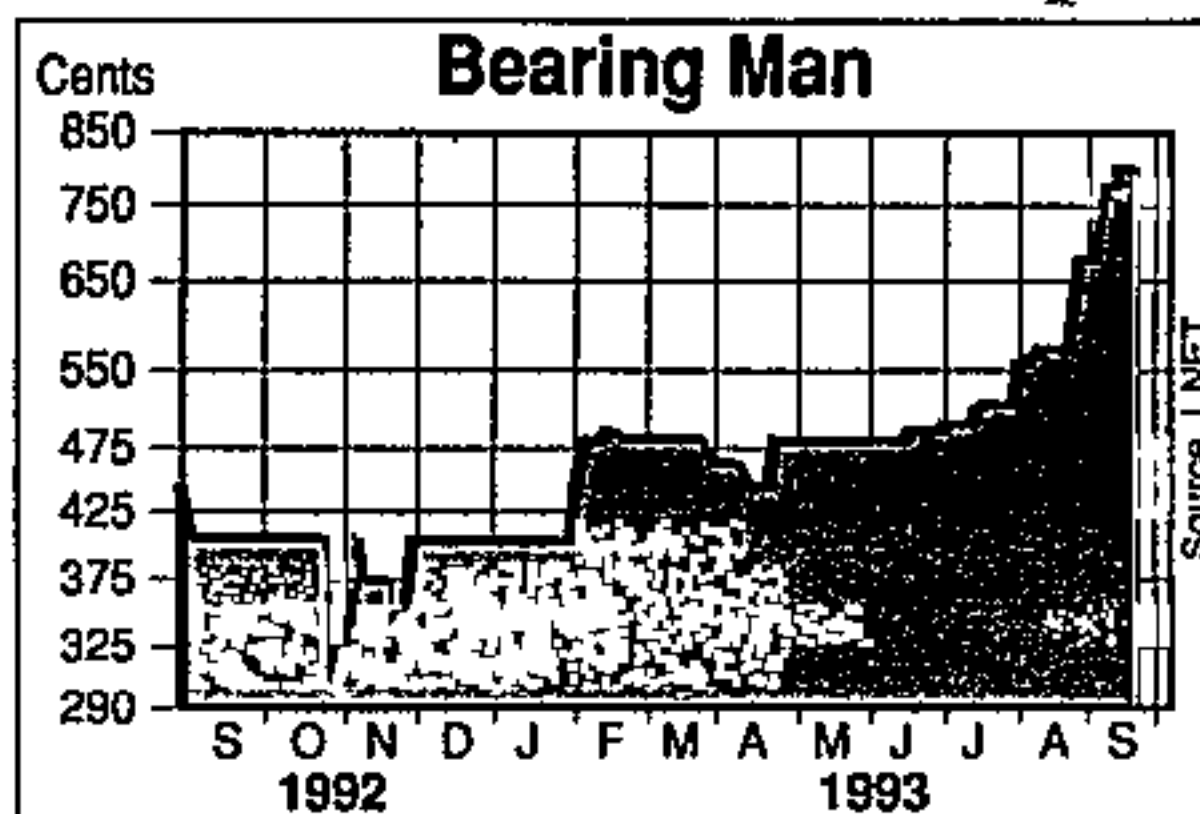
into Bearing Man

There was the added problem of no reliable data available applicable to the immediate post-merger period. So the best that could be said then was that the enlarged group appeared to be showing improved resilience in that it had maintained earnings amid worsening trading conditions

The market's continued scepticism was shown in the share price for much of the year. From 435c last October, it had improved only modestly to 480c by the June 30 year-end, despite reasonably buoyant interim results. By end-July, when the annual results were announced, it had risen a further 50c to 530c. Everything changed once investors had digested the progress of the past year. In two months the price had reached a record high of 825c

What went right? Just about everything, it seems, the slump notwithstanding

Benefits of the merger became clear during the second half, with improved efficiencies and economies of scale helping to boost full-year earnings by 63% (again using the annualised 68,3c for 1992 as a base) after a 15% gain at the interim stage. The 111c for 1993 was by no means a record — EPS were 132c in 1990 — but a much stronger balance sheet enabled the dividend to be restored to its 40c peak. To that extent, the recovery after two lean years can be said to be complete



Improved profits were reflected in a commensurate improvement in cash flow and Anglovaal conservatism is reflected in that 85% of cash flow was devoted to strengthening the balance sheet. Interest-bearing debt was chopped from R21,3m to R12,8m, a further R3m was used to repay part of an interest-free loan from holding company Aveng

Gearing (calculated only on interest-bearing debt) fell to 0,26 and interest cover has expanded to 7,4. On both counts, Bearing Man is now under-gearred (as it should be at this stage of the business cycle). Before the merger, debt equity was 1,23 (this peaked at 1,4 in 1990) and interest cover only 2,4

The firm base now established should stand the group in good stead this year. Chairman David Royston says a further improvement in earnings depends largely on a better political and economic environment. But, with Bearing Man in a strong cash-generating phase, finance charges could fall again, helping to underpin results. There could also be benefits from a continuing

(189C) 9/10/93
 stream of minor acquisitions which, if nothing else, must help to counter competitive pressures at a time of limited opportunity for organic turnover growth and could contribute to holding down operating costs

Though this financial year is likely to be dull compared with 1993, the 4,8% dividend yield at the enhanced share price still offers fair value

Brian Thompson

COMPANIES

ADE drives into export market

CAPE TOWN — Engine and component manufacturer Atlantis Diesel Engines (ADE) was expecting profits to fall in the current year to end-June 1994 because of its self-imposed price freeze, MD Fritz Körte said yesterday. **BIDAY**

Turnover was forecast to remain at about last year's R453m and profit would probably halve to R10m. Körte said ADE had held back on price increases to become more internationally competitive. Prices had increased by only about 7% over the past three years. **6/10/93**

Exports were expected to reach the R60m mark by the end of June 1994. ADE recently won a contract for engine blocks from South Korea and hoped, also, to get orders from the US for crankshafts.

ADE was exporting spare parts to the

LINDA ENSOR

UK for its licensor Perkins, to Mercedes in Germany, Argentina and Brazil and to France. Körte said ADE hoped to increase exports so that they represented 25% of turnover by 1996.

Körte believed long-term growth in the market for truck and industrial engines was limited in SA and ADE had embarked on a campaign to sell more engines in southern Africa.

However, growth in the after-sales market was 25% ahead of budget. **(1890)**

Another key element of its strategy was to diversify into other activities to cut its overhead costs. It was, for instance, installing diesel engines in minibuses. Many other projects were being investigated.

Star 13/10/93

Standard Engineering lifts earnings, dividend (189c)

BY STEPHEN CRANSTON

Despite a sharp fall in rolling stock exports from its Union Carriage subsidiary, Standard Engineering raised attributable earnings 12,3 percent to 136,4c a share in the year to August.

The dividend has been lifted 11,9 percent to 47c

CE Terry Davidson says the highlight of the year was the greatly improved performance of the automotive division, in which AS Transmissions and Steerings (Astas) is the most significant asset

It lifted its share of attributable earnings from 12 percent to 25 percent.

Astas had been burdened by an inventory overhang in its market in the two previous years.

This has been eliminated, while productivity improvements and tight expense control improved performance, although it is still working to just 40 percent of capacity.

It was a mixed year for the Hall Longmore pipe operation. It won the 120 km Columbus gas pipeline contract, but came out empty-handed from the tenders for large-diameter pipe for the Rand Water Board.

Union Carriage's most notable order was one to produce coaches in knockdown form for the Channel Tunnel

Union Carriage will be a sub-contractor, subject to certain conditions in a R1,3 billion Taiwanese contract awarded to Siemens in Germany.

Group turnover rose 15,5 percent to R794,4 million. Standard Engineering used up the last of its tax losses and expects its tax rate to increase from 15,8 percent to about 30 percent next year.

Davidson says that while there should be a further real rise in operating profit, the higher tax charge will make it difficult to achieve an attributable earnings increase.

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KNJ group still making losses

BY JOHN SPIRA

The heavily restructured KNJ group was unable to generate profit on turnover that was up 40 percent to R341 million in the year to June

Although the 1991-92 operating loss of R754 000 was transformed into a R496 000 profit, a huge interest bill and losses from discontinued operations lifted the previous year's attributable loss of R11,6 million to R16,4 million

After extraordinary items, the loss was an unchanged R21 million

Following the merger with Sukhulu in 1992, KNJ is involved in the distribution of white goods, building materials, tools and hardware, power tools, generators and compressors, machine tools, sporting goods and motorcycles

It also has interests in shipping and forwarding

Executive deputy chairman Louis Ichikowitz blames the poor performance on a steep fall in demand, but is confident KNJ is over the worst

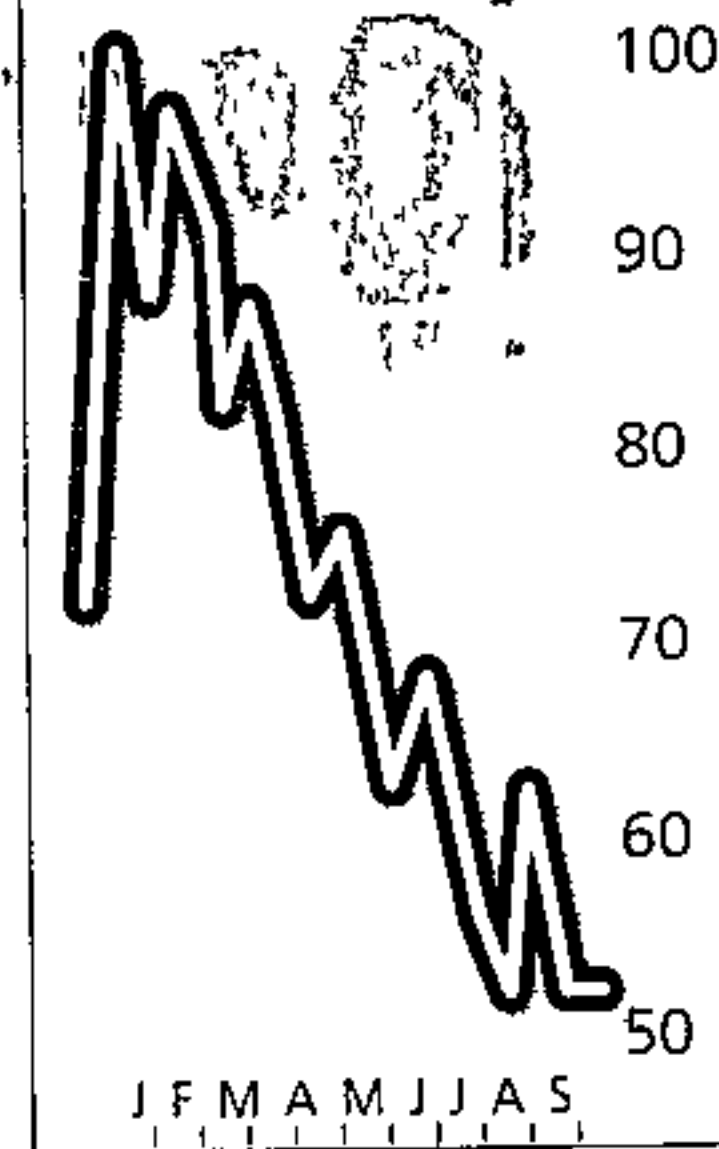
"The results for the first three months of the current financial year are significantly better, thanks to a programme aimed at bringing down stock levels and a rationalisation strategy aimed at lowering costs

"In addition, a number of retail outlets and warehouses have been closed and several operations sold"

Also benefiting KNJ, says Ichikowitz, is the manner in which it has beefed up its management structure

Charles Jacobs, formerly a senior executive with Allied Electronics,

KNJ share price



becomes executive director

Attorney Gerald Stein is the new chairman, and former Eskom finance director Mick Davis has joined the board

The shares have been a thin market, fluctuating between a high of 105c and a low of 35c in the past 12 months

At the ruling 50c, they are in the lower segment of their trading range

Assessment hinges on whether the improved trend in profitability is extended well into the future

Voltex holds dividend despite earnings drop

CABLE manufacturer Voltex, the main profit contributor to the Berzack group of companies, has paid an unchanged dividend of 6,75c a share in the year to end-June in spite of a 14,8% dip in earnings to 15,03c (17,75c) a share

Last week Voltex sold loss-making UK subsidiary Bennet & Fountain. Had Bennet's results been incorporated, Berzack's results would have been much worse, with 1993 earnings 4,16c a share lower and 1,86c less in 1992

The loss on the Bennet sale was reported as an R86,3m extraordinary item and written off the share premium account, which fell to R687,7m (R758,3m). A large portion of short-term debt was converted into long-term debt, which was reflected in the current ratio improvement to 2,31 (1,681). Gearing was 35%

Joint chairman Myron Berzack said the results were acceptable given the continuing political and socio-economic disruption. Having survived the Bennet experience, Voltex was now able to focus entirely on core activities in SA.

Turnover climbed 9% to R1bn (R923,2m) and operating income was slightly lower at R95,2m (R98,9m).

Voltex was well placed to play a leading role in the national policy of providing housing and electricity. Berzack said he anticipated a favourable impact on capital spending by the mining industry if the gold price improved.

The group's other local operation Sanlic Hardware experienced further difficulties

EDWARD WEST

and a cautionary announcement indicated negotiations were underway to find a solution, Berzack said. (189c)

Sanlic's turnover rose 9% to R52,9m (R48,6m), but operating income was almost 70% down at R672 000 (R2,2m). This translated into a 4c (2,5c) loss a share.

Elcentre, with 51,4% and 81,4% holdings in Voltex and Sanlic respectively, was largely dependent on the two companies for its performance. Its earnings were down at 38,6c (42,6c) a share with the dividend lower at 6,25c (10c).

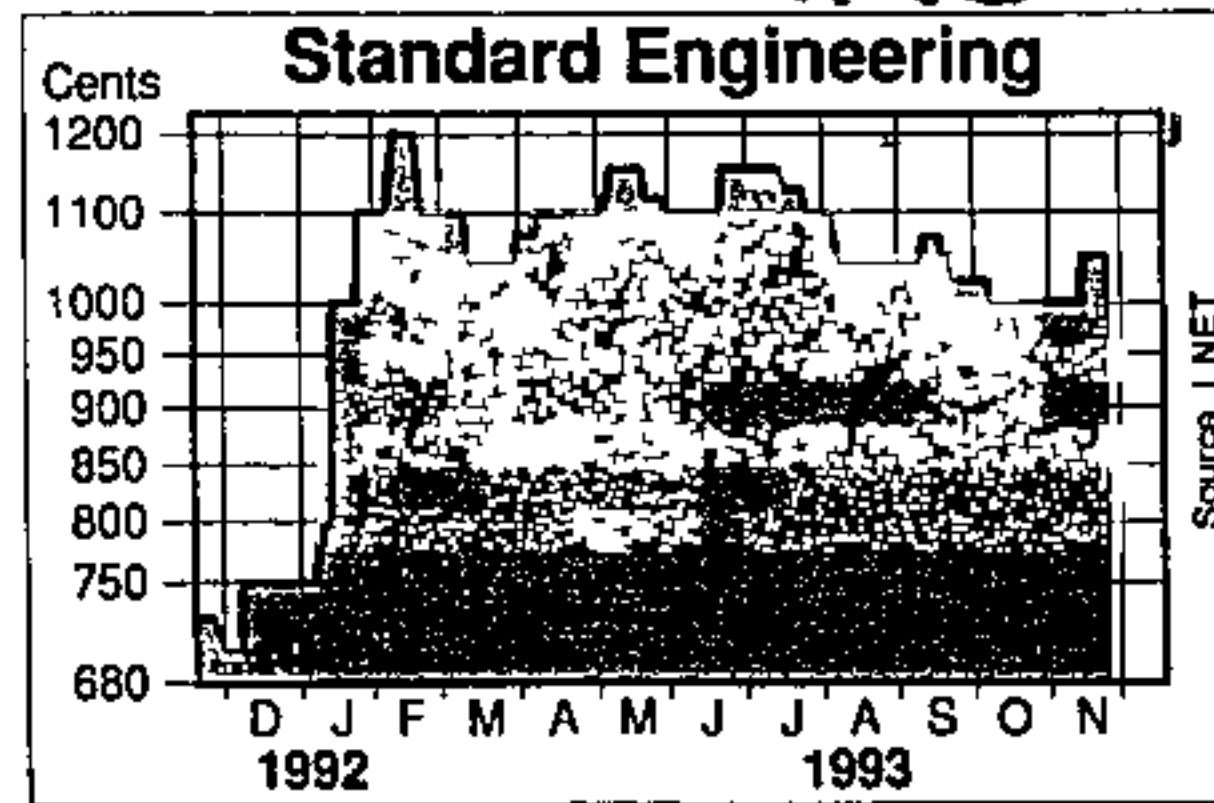
Elcentre's parent, Berzack Brothers Holdings, was largely reliant on Voltex for its income, but has direct trading operations of its own.

Taxed income rose 27,1% to R17,5m, but attributable income from associated companies fell 17,8% to R16,9m, leaving attributable income 19,3% lower at R23,05m. The annual dividend was 18,8% lower at 32,5c a share.

The final pyramid Berzack-Ilman Investment Corporation, with a 51% stake in Berzacks, largely mirrored the company's results. Earnings a share fell 19,4% to 61,5c a share and the dividend was reduced by 17,9% to 23c a share.

The group has given the JSE an undertaking to simplify its structure by eliminating one of the pyramid companies and an announcement was expected to be made before the end of 1993, Berzack said.

Fun 26/11/93



(189C)

and expand into Europe

Recession in Europe has resulted in practically no export orders during the year for automotive springs. National Spring has installed a cathodic paint plant for R2m and is re-establishing exports to Europe. A new market has been developed for Autoflug exports of seat belts to the US.

Gearing dropped to 11% owing to tight working capital management and control of expenses. Net working capital declined R6,4m. Net cash retained at year-end was a healthy R32m (1992 R8,5m).

STANDARD ENGINEERING
Fun 26/11/93
Facing tax surge

Five years ago Standard Engineering was Standard Brass, a foundry and engineering company with losses of more than R4,6m. Now it boasts attributable profit of R48m — and four years of consistent earnings growth.

The most notable improvement last year was achieved by the automotive division, which benefited from stock reduction. CE Terry Davidson says deliveries are in line with demand for heavy commercial and passenger vehicles.

Other highlights include the 120 km Columbus gas pipeline contract won by subsidiary Hall Longmore, which also secured two Zambian projects worth R4,2m just before year-end, AS Transmission & Steerings' ac-



Standard Engineering's Brink
continued progress with exports

Activities: Makes truck components, fluid handling systems, metal pressings, steel pipes and railway rolling stock

Control: Murray & Roberts 76%

Chairman: D C Brink, MD R T Davidson

Capital structure: 35,4m ords Market capitalisation R372m

Share market: Price 1 050c Yields 4,5% on dividend, 13,0% on earnings, p/e ratio, 7,7, cover, 2,9 12-month high, 1 200c, low, 700c

Trading volume last quarter, 375 000 shares

Year to August 31	'90	'91	'92	'93
ST debt (Rm)	57,1	77,0	60,9	22,5
LT debt (Rm)	9,1	5,8	0,9	10,6
Debt equity ratio	0,30	0,35	0,24	0,11
Shareholders interest	0,50	0,52	0,56	0,56
Int & leasing cover	5,6	4,7	5,5	8,8
Return on cap (%)	18,2	15,9	15,2	15,6
Turnover (Rm)	691	639	688	795
Pre-int profit (Rm)	74,8	70,4	67,5	78,4
Pre-int margin (%)	10,8	11,0	9,8	9,9
Earnings (c)	95,2	120,9	121,5	136,4
Dividends (c)	32	40	42	47
Tangible NAV (c)	488	553	589	675

quisition of the Rockwell (US) licence for transmissions, and Union Carriage's R20m two-year order for body shells to be supplied to the Channel Tunnel project, as well as a large order for electric multiple unit train sets for the Far East (subject to final negotiations).

All these point to improved turnover and pre-tax profit — something investors have come to expect from Standard Engineering since Malbak transformed the group into its engineering vehicle in 1989. Control has since passed to Murray & Roberts.

Until now, earnings growth has been derived primarily from good management rather than growth in activities. But how much scope is there for more of the same? Recent acquisitions were comparatively small. These include minority interests in Drill Steels (42%) for R4,2m and Binteck Mining, which provides blasting accessories to the mines, for R900 000.

Chairman Dave Brink says there has been continued progress in the export drive. "Though Union Carriage did not achieve the same export turnover as prior years, large export tenders which were bid some years ago are still awaiting award." Hall Longmore continued its export drive and entered new markets, even though world steel prices have been low due to world over-supply.

A number of companies in the metal pressing division increased their exports substantially. Harvey Roofing Products bought its distributor in the UK and, though small, provides Harvey with a solid base to grow

DIVISIONAL MIX

Operating profit (Rm)

	1992	1993
Automotive	18,3	28,0
Fluid handling & measurement	12,4	11,9
Metal pressings	16,0	16,1
Pipe	13,9	14,7
Rolling stock	10,2	7,8
Total	70,8	78,5

Davidson says EPS probably won't improve this year. Tax losses have been exhausted and financial 1994's effective rate will be about 30% against 1993's 15,8%.

At 1 050c, the shares stand 150c off their annual high and at a 56% premium to NAV. The 4,5% dividend yield is above the engineering average of 4%, probably because of unexciting growth prospects and the counter's limited tradeability. *Kate Rushton*

Appliance sales at R10bn by '98

Own Correspondent

JOHANNESBURG. — Sales of household electrical goods are expected to rocket to R10bn a year in 1998, from R4,1bn in 1992, as the Eskom-led national electrification programme brings electricity to 800 000 new homes over the next five years.

Eskom executive director Jan de Beer said yesterday that in 1991 and 1992 demand for goods from newly electrified households and small business added R77m and R354m to sales, with a R719m boost expected this year, and a R2,7bn increase in 1998 when sales would exceed R10bn.

Industry research shows the compound growth rate in the next five years could reach 17% a year — turning the sector into a high-growth business.

The experience in newly electrified townships showed that demand for electrical goods rose sharply once a household was connected, with the major portion of spending on appliances taking place in the first two years. The surge in demand for irons, hot plates, TVs and fridges promises lucrative business for retailers.

It is also likely to lead to a shake-up of appliance manufac-

CT26/11/93
... as more
homes get
electricity

ture in SA, which is tariff protected, highly competitive, and buffered by declining real sales in its underlying market. The main manufacturers are Barlow Rand, TEK, Tedelex and Powertech subsidiary Gentech.

Gentech MD Simon Nash said electrification offered "attractive opportunities for the bigger players willing to invest in upgrading their manufacturing plant".

Electrification could provide the platform for an internationally competitive regional appliance manufacturing industry if tariffs on goods and input materials like plastic and steel were dropped to GATT levels, he said.

However, physical constraints to the electrification programme, because of violence in unelectrified areas, the issue of non-payment, and general pressure on consumer spending, might upset what he considered ambitious forecasts.

Increased electricity use, as households buy electrical goods,

is essential if Eskom and municipal suppliers are to recoup the cost of electrification which, while absorbing a small fraction of Eskom's generating capacity, is expected to cost R830m a year to the year 2005 in nominal terms.

De Beer was commenting on a research report by stockbrokers Edey Rogers which represents the first detailed attempt to quantify the impact electrification will have on the appliance/TV market.

Analyst Franco Busetti said "To make electrification financially viable for Eskom and other suppliers, electricity consumption will have to be reinforced by the marketing of white goods and appliances."

An Anglo American Industrial Corporation spokesman said research showed households tended to buy TVs first once electrified. Newly electrified homes would be responsible for a quarter to a third of colour TV sales, worth about R750m this year and more than R1,25bn in 1998. Amic recently tied in with Korean conglomerate Daewoo to manufacture colour TV tubes.

Busetti said new sales of TVs could amount to R2,2bn in 1998, with R3,1bn for stoves and R2,7bn for fridges, accounting for 80% of the total because of high demand and their above-average prices.

189c

BERZACK/VOLTEx
FM 10/12/93
Shaking off B&F saga

Berzack

Activities: Controls Voltex Other interests include distribution of machinery, equipment and supplies to the clothing industry

Control: Bivec 50,3%

Chairman: M C Berzack Joint MDs M C Berzack & S H Illman

Capital structure: 26,5m ords Market capitalisation R152,4m

Share market: Price 575c Yields 5,7% on dividend, 15,1% on earnings, p e ratio, 6,6, cover, 2,7 12-month high, 900c, low, 410c Trading volume last quarter, 269 000 shares
 Year to June 93 '90 '91 '92 '93*

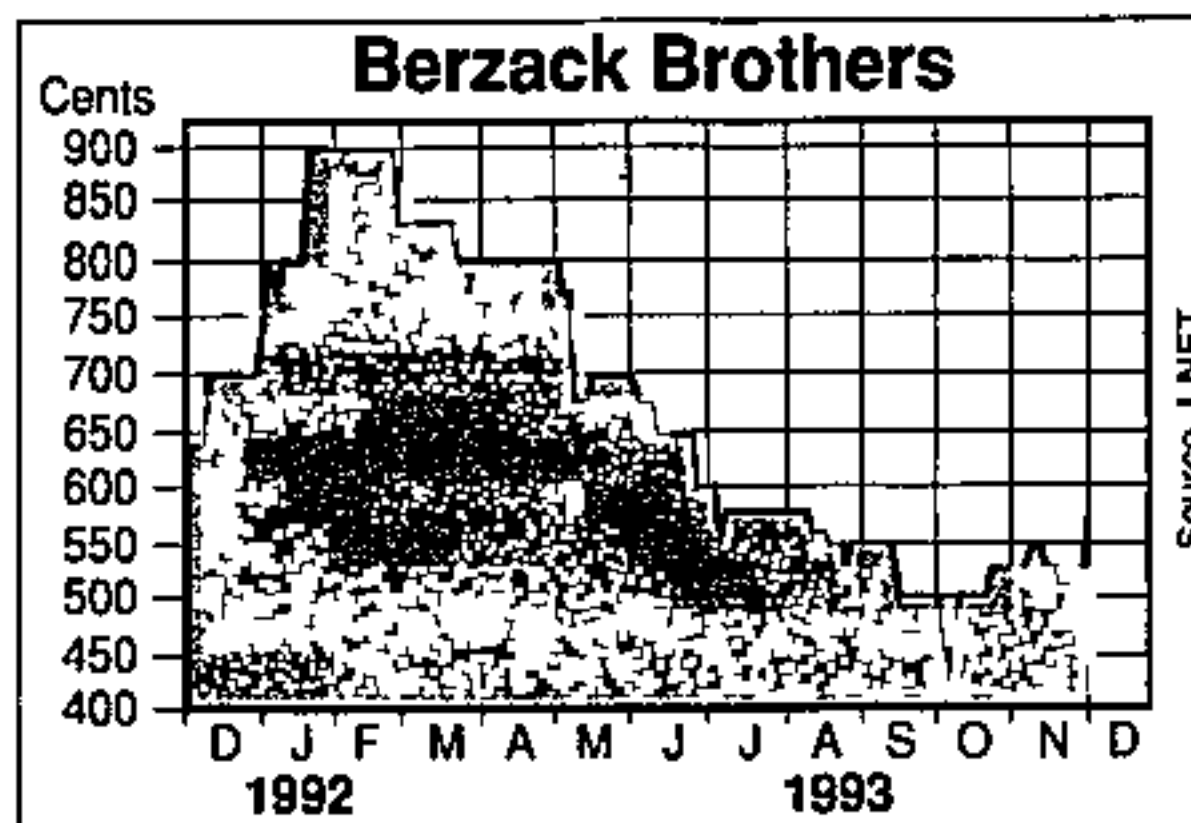
ST debt (Rm)	9,0	18,7	15,0	12,0
LT debt (Rm)	11,5	9,6	56,1	53,8
Debt equity ratio	0,06	0,08	0,15	0,14
Shareholders' interest	0,83	0,83	0,77	0,79
Int & leasing cover	4,7	154,4	5,0	3,8
Return on equity (%)	15,2	13,7	14,9	10,1
Turnover (Rm)	108	100	109	113
Pre-int profit (Rm)	10,7	9,3	21,7	28,3
Pre-int margin (%)	9,9	9,2	20	25
Earnings (c)	166	139	108	87
Dividends (c)	52	55	40	32,5
Tangible NAV (c)	1 095	1 012	724	862

* Voltex accounts not consolidated to take in UK subsidiary These figures have not been re-calculated by FM

Looking at last year's appraisal of these two companies which, between them, form the core of the Berzack family business, I have to note that my expectations simply weren't achieved The 1993 annual reports reflect a pretty dreadful year

It all has its roots in the disastrous purchase in 1990 of Bennet & Fountain (B&F), the LSE-listed UK company which distributes cable, electrical, lighting & electronic products The purchase price was about R144m for about 60% of B&F, remitted through the financial rand The company has now been sold for £1,3m or about R8m Any investor will be taken aback by that extraordinary reduction in shareholder wealth

When Berzack chairman and Voltex joint-CE Myron Berzack first reported this transaction through the preliminary audited pro-



Berzack's Berzack a stroke

FM 10/12/93
 of the (red) pen
 attacked Elcentre's dominance or it did a deal

Part of the arrangement extended to the purchase of an offshore investment The present directors of Berzack and Voltex cannot now pretend innocence of the B&F deal if they went along with it at the time This is what director responsibility is all about and the FM hopes shareholders will robustly re-

Voltex:

Activities: Manufactures and distributes electrical equipment

Control: Berzack Brothers

Joint chairmen: M C Berzack and S H Illman

Capital structure: 300m ords Market capitalisation R375m

Share market: Price 125c Yields 5,4% on dividend, 8,14% on earnings, p e ratio, 12,3, cover, 1,5 12-month high, 140c, low, 80c

Trading volume last quarter, 10,8m shares

Year to June 30	'92†	'92*	'93†	'93*
ST debt (Rm)	45,3	125,0	4,8	97,1
LT debt (Rm)	86,8	94,3	120,7	128,2
Debt equity ratio	0,24	0,47	0,23	0,40
Shareholders' interest	0,61	0,49	0,58	0,46
Int & leasing cover	4,0	1,9	4,1	1,6
Return on cap (%)	13,6	11,0	14,3	9,1
Turnover (Rm)	923,2	1 227	1 006	1 346
Pre-int profit (Rm)	98,9	91,8	95,2	76,2
Pre-int margin (%)	10,7	7,5	9,5	5,7
Earnings (c)	17,65	12,7	15,03	10,18
Dividends (c)	6,75	6,75	6,75	6,75
Tangible NAV (c)	78,4	85	84,6	86,1

* Re-calculated by FM to include UK subsidiary and to deduct from EPS interest on debentures (and STC for 1993)

† As reported in 1993 annual report

mind their boards accordingly

Those things said, the accounts of the two principal companies in the pyramid reflect the obvious desire of directors to shake off the last two years and concentrate on the immediate future Berzack largely reflects Voltex's performance, it holds other assets but these are not especially significant

Borrowings have been reduced marginal-

FM 10/12/93

fit figures, the FM protested (Leaders October 29) that Voltex's accounts had not been consolidated to take in its UK subsidiary Berzack's position, on the advice he says of his attorneys and auditors, was that B&F's results should be excluded from the financial statements

B&F lost R29,1m over the year, Berzack says attempts to restructure the balance sheet with UK bankers failed and he sold the ailing operation after Voltex's balance sheet date This is a lesson I hope other SA companies will not be tempted to follow It seems the philosophy is that if a subsidiary performs really badly, you sell it and then pretend it didn't exist Hey, presto — a shake of the (red) pen and it's gone

Berzack has achieved this remarkable position by applying sections of the Companies Act, with the consent of the Registrar (and the role of the Registrar in company surveillance is an area the FM intends examining in some detail in the new year)

Shareholder wealth has been diminished through the reduction of Voltex's so-called "permanent capital" This action will be submitted to shareholders for approval at the AGM on December 13 I hope at least one shareholder will ask some penetrating questions about how the B&F debacle was permitted to develop and, particularly, about the unusual reporting techniques now applied

B&F was bought after the 1988 merger with the Mowszowski family's Elcentre Less than two-and-a-half years later, the families agreed to part company, with Berzack acquiring control of Elgro and Elcentre The reason for the Berzack involvement with Elcentre was perfectly straightforward Elcentre controlled the distribution of Berzack's wares and products, either Berzack

ly, debt equity, at 0,14, is comfortable The balance sheet is strong, notwithstanding the fall in EPS and the dividend cut of 19%.

Voltex is the key to the Berzack group and the FM felt it appropriate to re-calculate its published balance sheet so as to consolidate B&F The result is contained in the table, with 1993's figures re-stated These reflect the differences between the FM's approach and those of Berzack, particularly in the EPS, which the FM calculates after deducting the interest on debentures and providing for STC as 10,18c compared with the company's 15,03c This is a difference large enough to require shareholder attention

Culture of gloom

The future is what it's all about Voltex and Berzack are strategically well placed when it comes to giving effect to nationally stated objectives of providing electricity to all "The culture of gloom," says Berzack, "which has strangled fixed investment in recent years, could swing quite dramatically the other way upon even a modest improvement in political outlook" That is nicely said and, on current climate changes, looks as though Berzack's fervent wishes are about to be met — at least in part

Both share prices have strengthened in recent weeks, probably reflecting relief that the B&F saga is over 1994 should be the year in which the potential finally shows signs of being realised

David Gleason

FENNER FM 24/12/93

Problematic division (189C)

Activities: Manufactures and distributes power transmission equipment, conveyor belts, pumps, valves, iron castings and industrial rubber products

Control: Fenner Plc (UK) 50%

Chairman: R A Arthur, MD J J Biehler

Capital structure: 15m ords Market capitalisation R48m

Share market: Price 320c Yields 5,3% on dividend, 14,8% on earnings, p e ratio, 6,8, cover, 2,8 12-month high, 425c, low, 290c Trading volume last quarter, 33 250 shares

Year to Aug 31	'90	'91	'92	'93
ST debt (Rm)	21,1	14,6	5,1	12,6
LT debt (Rm)	0,4	0,4	0,2	0,3
Debt equity ratio	0,40	0,12	(0,10)	(0,04)
Shareholders' interest	0,40	0,50	0,54	0,56
Int & leasing cover	7,1	6,7	12,4	10,3
Return on cap (%)	20,0	23,8	23,2	13,9
Turnover (Rm)	207	245,8	233,0	241,0
Pre-int profit (Rm)	24,7	27,8	28,7	18,8
Pre-int margin (%)	11,8	11,3	12,3	7,8
Earnings (c)	60,7	66,4	73,1	47,4
Dividends (c)	20,3	22	23	17
Tangible NAV (c)	283	326	370	412

Fenner's 1993 setback wiped out four years of growth and reduced EPS to their lowest since 1988. To an outsider, this could seem odd as the problem appears to have been confined to a single division while the rest performed adequately in the economic circumstances.

The division in question was the power transmission product business. Managers have traditionally played their cards close to their chests and there is no meaningful comment in the annual report as to why the wheels came off. All that can be discerned is that the structure of this division was proving inadequate to cope with business conditions and rationalisation, restructuring and a new computer system costs — which chairman Bob Arthur describes as substantial — were behind the poor results.

For the rest, the 17% increase in the minorities charge against profit indicates KSB Pumps and Fenner Fluid Power (the only partly owned subsidiaries) continued to do well, even though the picture in terms of their contribution to the bottom line is distorted by the sale of an additional 10% of Fenner Fluid Power.

Elsewhere, the operations review is peppered with comments like "particularly successful" and "most encouraging" in describing the performance of the various parts of the business. The only noteworthy exception was Trellex (rubber wear protection, screening and dust sealing products) which increased its attributable loss from R247 000 to R352 000 — another area said to be the subject of rigorous management attention.

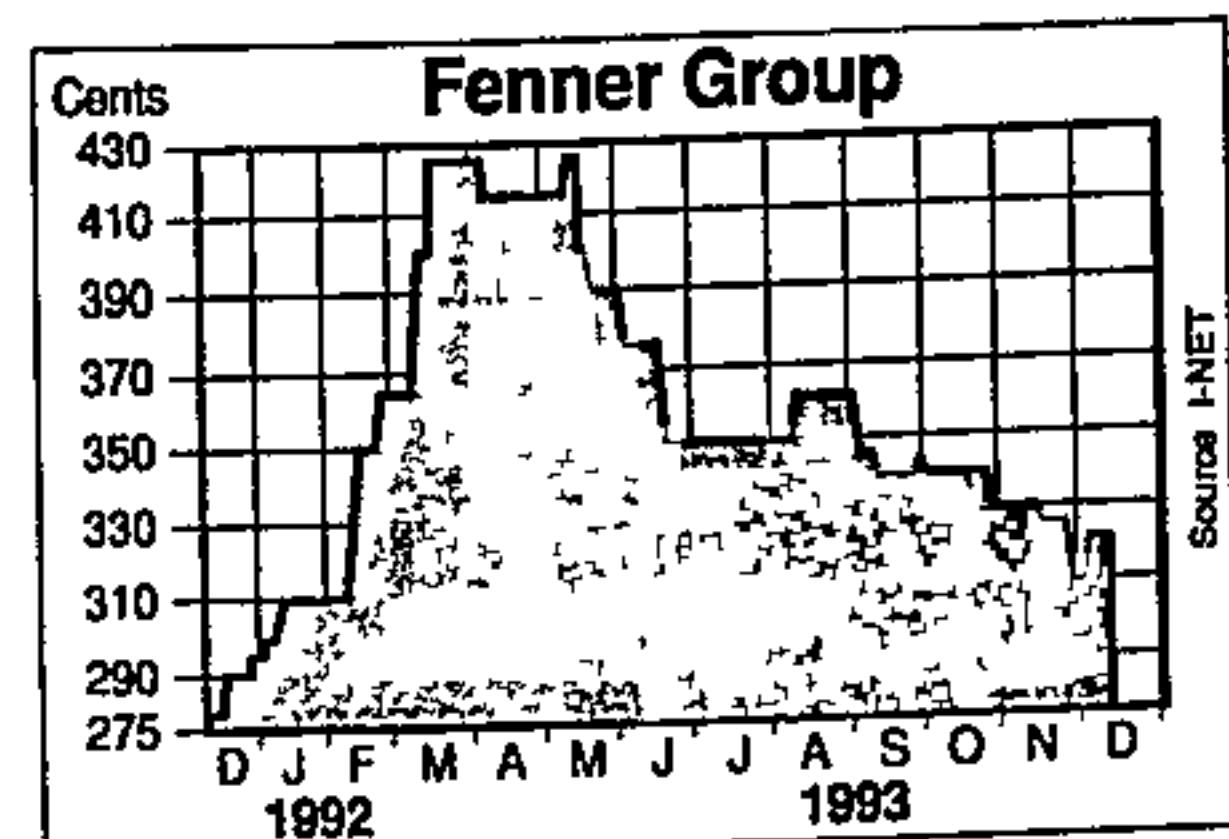
FM 24/12/93

The earnings reduction and consequent contraction of cash flow has not made much difference to the balance sheet, which remained cash-positive though net cash resources fell from 1992's R6,6m to R3,3m.

The financial structure depicted at the August 31 year-end does not appear to be typical of the average throughout the year. This is because, despite being cash-positive, Fenner incurred net finance charges of R1,8m in 1993. Total interest paid of R4,5m suggests average borrowings of around R30m, compared with R12,8m at year-end, which, after taking into account cash, would give debt equity of around 0,18 instead of the cash equity ratio of 0,04 at August 31.

There is nothing unusual about this — most companies, given the choice, will prepare their financial statements at the most favourable time of year. All it says is that the group may be less liquid than is suggested by the financial statements (189C).

A related point is that, to the extent that swings in borrowings during the year can be attributed to Fenner's working capital requirements, the year-end ratio of net working capital to turnover of 21% may be flattering. Adding R17m (the difference between year-end debt and the apparent average) to year-end net working capital would increase the ratio to a far less satisfactory 28%, though an improvement is expected once the new computer system is fully operational.



Last year's setback has had no effect on the share price which, since the FM reviewed the 1992 annual report, has risen from 264c to 320c. Two reasons for this are, as noted at the time, that the year-ago share price (based on the then-known factors) looked grossly undervalued and the limited marketability of this tightly held group.

Yields continue to price Fenner at a discount to the engineering sector and the industrial market, suggesting there is still upward potential if 1994 provides evidence that action taken to correct whatever went wrong has been effective.

Brian Thompson