MANUFACTURING - ~~RUBBER PRODUCTS~~ PAPER & PRODUCTS

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Business Report. ... not 2 million as reported, and the ...00

Sappi shares rise to R56,50

CT(BR) 8/1/96

(194)

FROM REUTER

Johannesburg — Paper and packaging group Sappi's shares climbed 50c to end at R56,50 in busy trade on the Johannesburg Stock Exchange yesterday.

"There has been a great deal of interest in Sappi shares today," said one local trader

Volumes traded were high at 281 525 and the percentage price change was 0,89 percent, compared with an increase in the industrial index of 0,22 percent "It's based on speculation about the commodity cycle again. I am unaware of anything else happening," an analyst said.

He added that, like other commodity stocks, Sappi shares had been "to-ing and fro-ing" for the last 11 months on mood swings as to whether the upturn in the commodity cycle was coming to an end

Sappi shares had recently been trading within a R52 to R56 range, and this morning had risen above it, indicating optimism about the lifespan of the cycle

Sappi has no plans to extend forestry project

(194)

Michael Moon

BD 12/1/96

SAPPI had no plans to extend its operations in southern Mozambique beyond its planned 30 000 hectare afforestation project in Maputaland, the company said yesterday

However, it was investigating other possible ventures in the southern Africa region, including projects in northern Mozambique and Angola, Sappi Southern Africa MD Ian Heron said

Heron said that the controversial Mosa Florestal forestry project would be "viable as it stands" and expansion into areas such as pulp milling was not needed

Wood would be exported to SA via an existing railway line

The project has come under fire from environmentalists who charge that eucalyptus cultivation would suck the Maputaland area dry, would diminish the area's ecotourism potential, would damage an internationally important area of biodiversity and would interfere with plans for a trans-frontier wildlife sanctuary linking the Maputaland Elephant Reserve and the Ndumu Game Reserve in SA

Sappi environmental manager John Scotcher said he believed the forests would diminish the area's water resources by only between 5% and 8%, and that the effect could be further reduced by staggering planting.

There was "no way" the surrounding grasslands would be sucked dry

Research had shown that no species that was rare or endangered, or that did not occur elsewhere in Maputaland, was contained in the forestry area

Scotcher said the company had "no problem" with a planned ecotourism venture covering most of the remaining part of Maputaland, but it appeared that the tourism developer, US entrepreneur James Blanchard, had objected to the afforestation

Scotcher said forestry currently accounted for 5% of land use in Maputaland and the Mosa Florestal project would increase this to only 6%

Sappi has a 40% interest in the proposed project, with the Mozambique government holding a 10% stake and Mozambican companies 50%.

Capital expenditure will be R178m over 16 years, much of it in the form of wages, and Mozambique will collect revenue of R80m a year About 1 200 direct jobs would be created

An environmental impact assessment, commissioned by Sappi and conducted by the Institute of Natural Resources at Natal University, will be presented to the Mozambican government on January 25, after which it will decide whether to go ahead with the project

Commodity cycle peak sees Sappi shares fall

BD 2/2/96 (194)

Adrienne Giliomee

SHARES for pulp and paper manufacturer Sappi slumped to a fresh annual low of R47,50 yesterday, with analysts warning of further losses now that the commodity cycle had peaked

The counter ditched 75c or 1,5% from Wednesday's R48,25 close, having traded as high as R72 in October.

Dealers said news that the week-long stayaway in Swaziland had cost the group's Usutu pulp factory R10m had contributed to the fall.

Sappi executive chairman Eugene van As said the R10m loss was due mainly to fixed costs incurred while the factory was closed. It was expected to reopen at the weekend

A paper and packaging analyst said pulp prices had fallen 10%-12% since December, further evidence that the commodity cycle had peaked. Coated paper prices had also weakened, judging by November and December levels

He said that he was not optimistic the cycle would bottom out in a hurry. "The fundamentals do not point to a quick turnaround of the market"

But Van As said the market would recover once there was a supply correction. "There will not be huge overproduction over the next two years, as some people are predicting."

Demand for coated wood-free paper had improved significantly and was expected to strengthen by the second quarter of the year, he said.

However, there was likely to be an oversupply of magazine paper for at least the first half.

"The world economy continues to grow and worldwide consumption demand for paper products usually grows faster than the economy."

The counter is currently trading at a price earnings ratio of 4,61. There is no comparable listed company on the JSE, but Van As said the share was cheap relative to similarly structured companies in the US "We are also trading just above our net asset value per share, which is around R44"

Sappi reported net income of R964m for the seven months to end-September compared with R562m for the year to February The group recently changed its financial year-end to September.

lt to R270,0 million. Q Data DynamiQue and Knowledge "lion from R10 million at the 1994

Demand for paper products will continue to grow – Sappi

(194) CT(BR) 5|2|96

By Llewellyn Jones

Johannesburg — Consumption of most paper products would continue to grow and should show little change from the rate of growth experienced in recent years, said Eugene van As, the chairman of Sappi, in the latest annual report

"Many people have concluded that the paper cycle has run its course, is now in a cyclical downswing and that prices will decline for the next few years. I think this is unlikely to be the case," Van As said

"The real price of most paper grades in September last year was still below the equivalent in the late 1980s, and that is true for pulp as well"

He said that the hiatus over the past four months in the demand for wood-free, coated paper products and pulp had been caused by an inventory correction.

Deliveries for 1994 and early last year had outstripped the real growth in demand which had led to consumers building up stock in anticipation of further price rises.

"Orders dropped off sharply in the second quarter but mill deliveries continued at a high level because of significant backlogs," Van As said

As consumers reduced their stocks, orders fell and the mills either accumulated stock or took downtime.

"Despite this apparent decline in demand, I would expect to see the total deliveries for most paper products last year to be similar to what they were in 1994 By early this year, most paper consumers will have reached below the inventory levels which they reached at the bottom of the previous cycle"

He expected orders at mills to rise and to at least match the growth in end-user consumption this year, which should be at least 4 percent to 5 percent The exception to this would be coated mechanical papers which were not products manufactured by Sappi

Expert predicts increase in VAT

Sappi baffled by reports of shelved project

BD 12/2/96 (194)

Business Day Reporter

SAPPI was baffled by reports suggesting its planned forestry project in Mozambique, worth about R200m, had been scrapped, chairman Eugene van As said yesterday.

Responding to reports that Mozambique Prime Minister Pascoal Mocumbi had said the plan was cancelled, Van As said Sappi had tried but failed to contact government officials to clarify the situation.

He declined to say what action Sappi could take if the project had been dumped. But he said the R13,2bn-a-year group would "not take kindly" to the project being scrapped without good reason. "As far as we're concerned the project is a good one — it's been welcomed by the local community.

"If there is not a good reason why it has been halted, we'll look at it in the context of that."

The company already has a written undertaking from the Mozambican government — the main partner in the Mosa Florestal project — that the scheme will go ahead, subject to an environmental report which has said it should be scaled back. Sappi is due to make its final presentation to the Mozambican government on February 20.

But Reuter reported on Friday that Mocumbi said on radio the project was off. Socimo — a local company involved in the scheme — told a newspaper the cancellation was "a disaster".

The project has raised environmental concerns, and an alternative eco-tourism plan for the area has been tabled by US entrepreneur James Blanchard.

Van As said it would be "helpful" if Sappi could contact government officials this week to clarify matters.

The company had already spent roughly R1m on studies for the project.

Blanchard unveils resort plans on Sappi site

(194) BD 14/2/96

Amanda Vermeulen

SAPPI's rival for the Mozambican government's favour, US entrepreneur James Ulysses Blanchard III, unveiled plans yesterday to build an $800m residential and leisure complex on the site where Sappi had planned a forestry plantation

The SA group, which was unable to contact Mozambican government officials over the past week, has been called to a meeting tomorrow

Blanchard told a Sandton news conference the Mozambican government would take a stake in the project He declined to give the amount Blanchard Mozambique Enterprises's project would consist of a $650m residential development, with the balance invested in ecotourism facilities and casinos.

His project would put up $20m to bring wildlife into the planned game reserve He said he had lined up US corporations and individual investors to buy into the scheme but refused to name them Sappi's scheme would be relocated, he said

Sappi — which had proposed a R200m forestry scheme on the site — read media reports at the weekend that its plan had been canned Commercial manager Dave Wood said Mozambique Agriculture Minister Carlos do Rosario would not confirm that the project had been cancelled or relocated He said the project's nature meant it could not be shifted to another site

It is understood Do Rosario asked Sappi's negotiators to bring two bottles of anti-dandruff shampoo with them to tomorrow's meeting

Blanchard said the government had ditched Sappi's project to protect the biodiversity area His project manager John Perrott said the development was one of 10 high risk speculative schemes around the world in which Blanchard and nine others had invested

Picture: Page 3

Nampak and unions face future together

(194) ET(BR) 15/2/96

By Ann Crotty

Johannesburg — Nampak is one of the very few South African companies that looks as though it will have no difficulty adhering to the requirements of the new Labour Relations Act.

This is largely the result of a revolutionary, world-class manufacturing agreement that brings Nampak management and trade unions together in an ongoing restructuring process.

The agreement, which has been five years in the making, will be put to the test in coming months as both sides prepare for this year's round of wage negotiations

The agreement Nampak has just signed with its three major unions — Numsa, the Mineworkers' Union and the Paper, Printing, Wood and Allied Workers' Union (Ppwawu) — makes provision for education and training in the workplace, as well as for the establishment of national consultative committees and workplace consultative committees.

It covers operational issues, issues relating to information disclosure, affirmative action and grading structures. In many instances it takes Nampak beyond the requirements set out by the Labour Relations Act.

A key aspect of the agreement is the introduction of full-time shop stewards who will be elected by the workers for a two-year stint and will be paid by management.

A Numsa negotiator said the strain of wage negotiations was certainly not expected to cripple implementation of the agreement, but said "there will be some stumbling blocks"

He said the need to apply the grading structure was central to the agreement. This would have cost implications for management during wage negotiations and would be likely to test management's resolve

It was possible that this year's wage negotiations would prompt some changes to the agreement. This was to be expected, he said "We will always be adding and changing on the basis of experience, massaging the agreement to make it supple"

The full-time shop stewards would be involved in implementing productivity improvements Neil Cumming, the director of Nampak, said "They won't just be dealing with the traditional issues related to worker grievances, they will be trained in the processes and techniques of world-class manufacturing and will be involved with management in its implementation at plant level"

All of which seems a far cry from the situation that faced Nampak and its workforce in the early 1990s Sluggish economic activity was holding back volumes as well as squeezing margins Management was in an all-out battle with the unions In 1990 the group lost 91 000 man-days as a result of stayaways and disputes over central bargaining In 1991 it lost about 150 000 man-days Both sides seemed prepared to fight to the death.

The agreement takes Nampak beyond the requirements of the Labour Relations Act

Nampak's new agreement, therefore, suggests that it must be possible for almost any company to cope with the new demands by South African labour, the bad news is that there is no set formula for coping with this process of change "We got into the pool and learnt a lot by swimming," said Cumming

For Nampak management, the first push towards the new process was not political, but a matter of business survival in an environment open to foreign competition. In 1991 it introduced the People Driven Growth change programme to address social investment, black advancement, training and development

Management very quickly came up against the unions, who saw this unilateral approach to change as no different from the previous heavy-handed management style. Of particular concern was the number of retrenchments required by the restructuring plan.

A former Ppwawu official said "Management realised that to integrate the company into the world economy it would have to change its style of management, but it did this unilaterally. Workers were expected to run with management's vision. It might have been a good plan, but it was not presented to us well."

The unions remained outside the process and a strong undertone of friction remained, aggravated by the fact that union leaders were drawn in to help in the initial phase.

Five years on, Cumming admits to a gung-ho element in his style then. "In the early days we had to talk it up to play down the difficulties and encourage as much support as possible from our managers."

At the same time, continuous efforts were being made to bring the unions into the process, including providing the resources for research on a national and international level. Also important was management's undertaking that it would involve the workers in any retrenchment decisions

A significant clause in the agreement states: "One of the main functions of the national and workplace consultative committees' process is to ensure that all parties have a role in planning for new technology by involving all parties in the work organisation technology interface The need for retrenchment should be substantially avoided through planning and joint implementation."

As with much of the agreement, this clause has major implications not only for management's prerogative but also for the unions.

On the factory floor, where management tends to be more conservative than head office would have the world believe, the change process can be threatening; likewise for the unions, where rank and file members may be less than enthusiastic over what often looks like co-option.

Mutual trust and, more tangibly, the benefits of buying into the process become crucial A Ppwawu official involved in the process is confident that, despite the initial acrimony, management is sincere, but stressed that the unions faced the major challenge of monitoring the process to ensure their members were part of the decision-making process and were controlling their own destiny. "Management cannot do this on its own, but if the unions aren't aggressively managing the process they will be undermined."

Implicit in world-class manufacturing is ongoing productivity improvement — a process about which unions have traditionally been suspicious, believing that it merely involves more work for less money. The national and plant-based forums have the task of developing performance measurements and guidelines for productivity payment, which will ensure the support of employees

The quality of information disclosure will be critical for making credible and effective decisions on this front. Profit-sharing schemes in other industries have generally failed because workers did not trust the information which determined the level of profits and the extent of their share

The next few months will be critical. The determined individuals who championed the process at union and management level have much at stake, but the rewards could be substantial

SAPPI

ANALYSTS TURN BEARISH

(194) FM 16/2/96

- **ACTIVITIES** *Makes and markets pulp, paper and wood products*
- **CONTROL** *Sanlam 24%*
- **CHAIRMAN** *E van As MD I Heron*
- **CAPITAL STRUCTURE** *151,4m ords Market capitalisation R6,51bn*
- **SHARE MARKET.** *Price R43 Yields 4,8% on dividend, 23,9% on earnings, p e ratio, 4,2, cover, 7,5 12-month high, R76,50, low, R42 Trading volume last quarter, 5,2m shares*

Year to	Feb 28 '93	Feb 28 '94	Feb 28 '95	Sep 30 *'95
ST debt (Rm)	833	822	902	1 100
LT debt (Rm)	1 539	1 946	7 318	7 221
Debt equity ratio	0,42	0,25	1,19	0,97
Shareholders' interest	0,61	0,60	0,39	0,41
Int & leasing cover	6,9	4,3	4,2	4,0
Return on cap (%)	5,0	2,0	4,8	n/a
Turnover (Rbn)	4,68	5,54	7,80	9,29
Pre-int profit (Rm)	445	192	821	1 666
Pre-int margin (%)	9,5	3,5	10,5	17,9
Earnings (c)	262	90	352	600
Dividends (c)	160	nil	120	120
Tangible NAV (c)	3 408	3 482	3 761	4 260

* Most figures for seven months, unadjusted

Since chairman Eugene van As signed off his statement on January 22 the share has lost about R10 At R43, Sappi is a touch off its 12-month low and a long way from its April high of R76,50

In the current buoyant market where value is difficult to identify, and on an apparently ridiculously low p e of 4,2, it looks a steal, even for a cyclical counter But that's not the view the market and a number of analysts seem to be taking

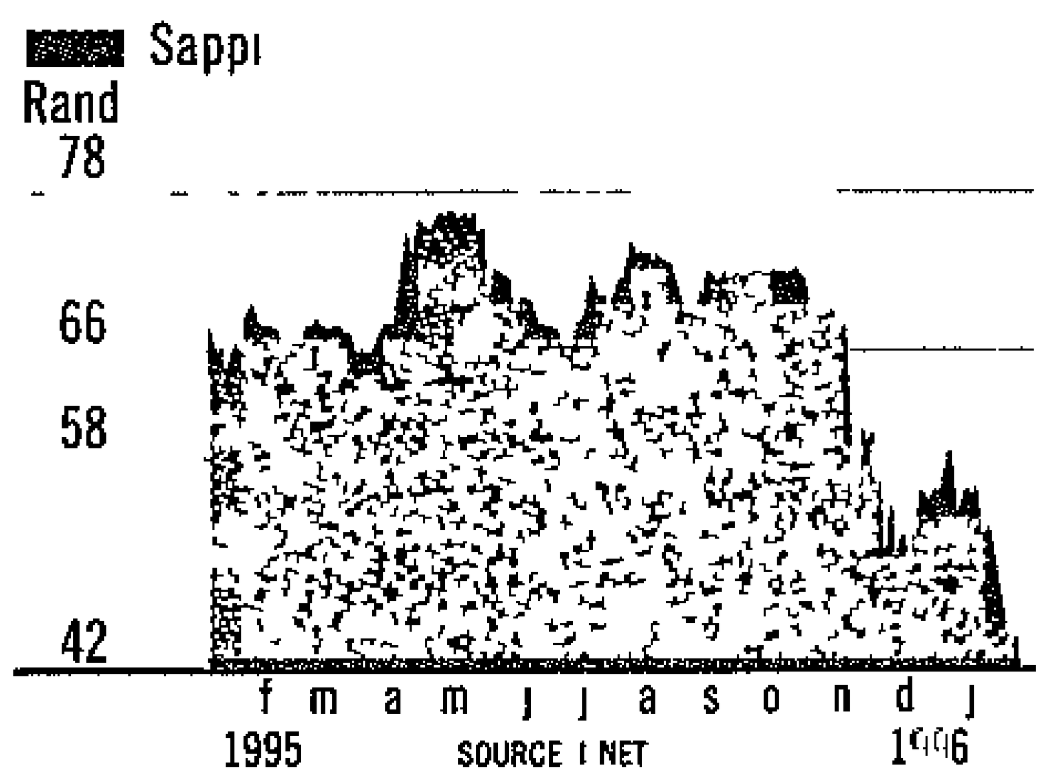
At bottom, an evaluation of the share depends on one's view of the pulp and paper cycle

Has it peaked and entered a structural downturn? Or is this a mid-term correction? It boils down to Van As vs the analysts

If anything, the report should add credibility to the R70+ the share traded at for much of calendar 1995 Though comparisons are distorted by a switch to a September year-end to bring companies in line, the seven months set a number of records, including highest increase in annualised EPS (140%) and record operating profit from southern Africa (R926m)

The period excludes much of the discounting and general price softening which started to set in towards the end of 1995 But Van As argues cogently that Sappi is looking towards a satisfactory, if not spectacular, financial 1996

Briefly, he says apparent demand for paper grew faster than real consumption in the first half of 1995 as merchants and users — rightly — built up inventories in anticipation of spiralling prices Pulp, for example, firmed by 33% in less than six months, touching an unsustainable US$1 000/t by October



This in turn led to destocking, first in the European summer and then in the US As discounting began, Van As says producers, including Sappi, began to take downtime and cut back on output rather than maintain production into a weakening market

"Production curtailment in this industry has traditionally been taken only when inventory levels were high and after prices had collapsed This time it was done before prices collapsed "

Van As believes therefore that declining prices are mainly the result of inventory correction "Many have concluded that the paper cycle has run its course, is now in a cyclical downswing, and that prices will decline for the next few years I think this is unlikely Consumption of most products continues to grow and shows very little change from the rate of growth in the last couple of years "

He believes the downturn will start only in late 1997 or early 1998, important because Sappi plans nearly R2bn capex this year If Van As is wrong, this could put further strain on the already heavily geared balance sheet, mainly from the $1,6bn acquisition of SD Warren

The recent sharp decline in share price does not seem to support Van As's view, and analysts also have some doubts

One believes pulp and paper prices have peaked, though he expects the decline to be more gentle and shallow than in previous downturns

Another doubts the discipline of the industry to uniformly cut back on production and protect prices, saying one or two mavericks will always discount

The view from London is similar An investment bank says there is no doubt the cycle has peaked, at least in the short term, and that international producers like Sappi will have to trim output further, to around 80% of capacity from the average mid- to high-eighties

The outlook for prices is not too bright After touching $1 000/t last year, benchmark NBSK pulp is $725/t this week Merrill Lynch forecasts an average of $575/t for 1997

But should Sappi's price be so low? This is important for the group, which hopes to reduce Warren's debt through a global placing but will find it prohibitive at current levels

Fundamentals would suggest the price has bottomed, but two points should be noted Sappi is an international group, and should be compared to other international forest products producers On that basis the p e is not that far out of line, particularly as it must carry some risk premium with the high borrowings

The fact that the share is now trading close to NAV also does not automatically indicate value In earlier downturns, like 1993, the price drifted some way further below the value of assets

A second-half firming of commodity prices cannot be ruled out, but that seems little incentive to get into the share now The price could remain at this level some time or even decline further

Investors need either a clear view on the pulp and paper cycle or absolute faith in Van As's optimistic view of industry conditions to consider buying now
Shaun Harris

PUTCO PROPERTIES

TAX BOOST

The fortunes of Putco Properties (Putprop) have been unaffected by tenant Putco's troubled latest six months The latter's problems stem from the Department of Transport's decision not to raise subsidies to commuter bus operators for the 1995-1996 year

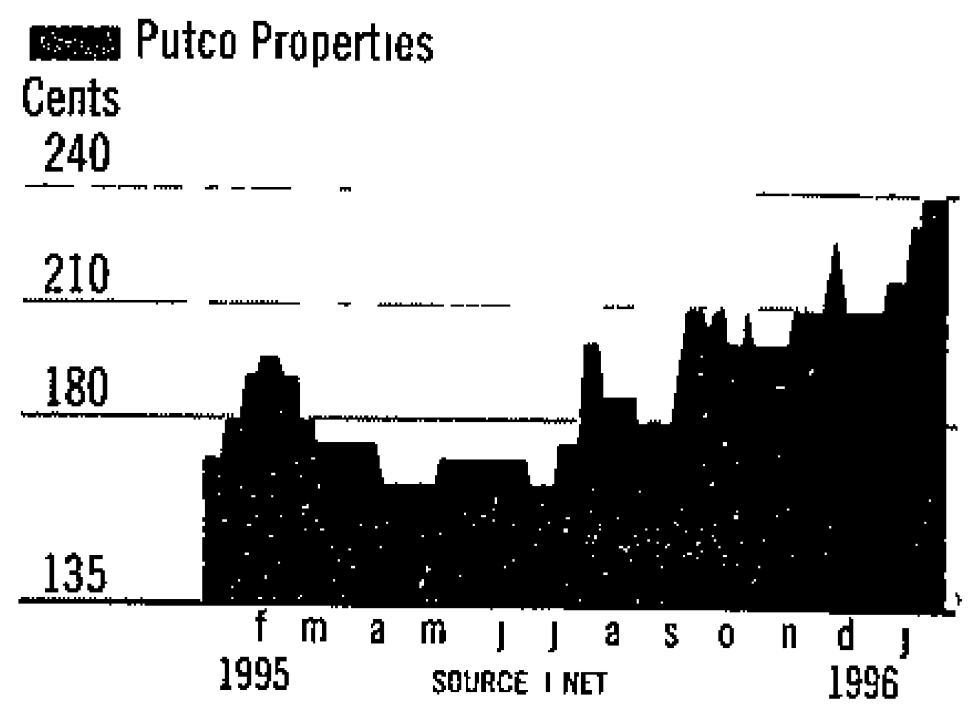
Putprop, which owns the properties used by the bus transport company, had another uneventful year of moderate profit growth Pre-interest profit rose slightly faster than turnover, which increased 9%

Chairman Albino Carleo is satisfied with these figures, and expects similar growth in the medium term based on a fixed 9% annual rent escalation until 1998 Then the annual increase will be re-evaluated for the next five years

❑ **ACTIVITIES** *Owns properties, mostly occupied by Putco*
❑ **CONTROL** *Carleo family 52,5%*
❑ **CHAIRMAN** *A Carleo MD J A Visser*
❑ **CAPITAL STRUCTURE** *26,4m ords Market capitalisation R63,4m*
❑ **SHARE MARKET.** *Price 240c Yields 7,3% on dividend, 11,3% on earnings, p e ratio, 8,8, cover, 13,7 12-month high, 240c, low, 165c Trading volume last quarter, 785 000 shares*

Year to June 30	'92	'93	'94	'95
ST debt (Rm)	1,6	1,2	1,2	1,2
LT debt (Rm)	43,6	41,8	40,5	39,3
Debt equity ratio	0,60	0,56	0,51	0,42
Shareholders' interest	0,59	0,61	0,63	0,66
Int & leasing cover	1,52	1,96	2,46	2,67
Return on cap (%)	11,2	12,1	12,9	13,9
Turnover (Rm)	12,8	14,1	15,5	16,9
Pre-int profit (Rm)	13,8	14,9	16,0	17 7
Earnings (c)	11,4	17,0	20,6	27,2
Dividends (c)	8,0	10,0	12,0	17,5
Tangible NAV (c)	278	285	296	316

Pre-tax profit for the year to June 30 1995 was marginally higher than in the previous year But net profit was boosted by a lower effective tax rate, which resulted mainly from a capitalisation issue in lieu of dividends



The issue, accepted by 89% of shareholders, led to the tax rate falling from 41% in financial 1994 to 34% last year Surplus cash available after the capitalisation issue will be used to reduce the Syfrets loan The lower tax charge was the main factor behind the 32% jump in EPS Dividends increased 46%

The share is thinly traded — about 87% of the equity is held by the Carleo family, directors, banks and institutions The counter rose steadily throughout the past 12 months to its current 240c, where the dividend yield is 7,3%

It may still have some attractions for smaller investors who are more interested in income than capital gains
Michelle Joubert

RESULTS AND DIVIDENDS

		Pre-tax profit Rm		%	Earned cents per share		Paid			Dividends		
		1994	1995	change	1994	1995	1994	1995	Sector	Amount cents	Register by	Payable about
Anglo-Alpha	P	259,9	323,6	+24	556	773	205	260	Building	†180,00	Recommended	
AT Collieries	D	—	—	—	—	—	216	175	Coal	*175,00	23 2 96	15 3 96
Barnex	I	(1,1)	(2,5)	—	(5)	(10)	#	#	Min Exploration	—	—	—
Bidcorp	I	§41,7	§53,7	+29	●29	37	10,4	§§13,5	Ind Hold	§§*13,50	23 2 96	29 2 96
Bidvest	I	77,7	103,9	+34	●54	●71	20	§§27,1	Ind Hold	§§*27,10	23 2 96	29 2 96
Capital	P	§38,1	§38,4	+0,7	♥27	♥27	♥27,19	♥27,07	Prop Trust	♥†13,93	23 2 96	29 2 96
Cenprop	P	§39,2	§40 8	+4	♥24	♥25	♥23,96	♥24,98	Prop Trust	♥†12,71	23 2 96	29 2 96
Control	I	5,6	10,7	+89	●7	●11	2	♠	Electronics	♠	—	—
Freddev	I	0,16	0,08	-48	0,7	0,4	#	#	Min Exploration	—	—	—
Genbel	I	528,0	263,0	-50	118	59	12	15	Invest Trusts	*15,00	1 3 96	22 3 96
GF Property	P	17,2	13,2	-23	127	89	60	60	Property	†40,00	23 2 96	13 3 96
Haggie	P	87,6	109,4	+25	●312	●344	150	165	Engineering	†110 00	1 3 96	—
Ingwe Coal	I	335,6	379,6	+13	▲95	▲106	□	35	Coal	*35,00	23 2 96	15 3 96
Interleisure	I	31 1	36 6	+18	▲10	▲12	5,25	♠	Beverages	♠	—	—
Italtile	I	7,5	10,0	+32	●29	●36	5	6	Stores	*6,00	23 2 96	6 3 96
Klipton	I	0 39	3 0	+677	▲2	▲20	—	—	Ind Hold	—	—	—
Kolosus	I	23,5	22,5	-4	▲50	▲(6)	—	11	Food	*11 00	23 2 96	8 3 96
McCarthy Retail	I	187 2	242,0	+29	59	77	12,5	16	Stores	*16,00	1 3 96	11 3 96
NK Properties	I	5,1	5 4	+5	♣30	♣31	♣30,3	♣30,88	Prop Loan Stock	♣*30,88	23 2 96	15 3,96
Persetel	I	33,0	38,5	+17	●16	●19	7	8	Electronics	*8,00	23 2 96	10 3,96
Prima	I	§4 9	§5,3	+8	♥4	♥4	♥3,69	♥4	Prop Trust	♥*4,00	23 2 96	8 3,96
Randex	I	§0 9	§2,7	+193	1	3	#	#	Min Exploration	—	—	—
Rand Mines	D	—	—	—	—	—	#	10	Min Houses	*10,00	23 2 96	22 3 96
Rembrandt Beh	D	—	—	—	—	—	36,99	46,24	Ind Hold	†28,10	23 2 96	29 2 96
Remgro	D	—	—	—	—	—	49,96	62,45	Ind Hold	†37 95	23 2 96	29 2 96
Richway Retail	I	8,1	11 0	+36	♣20	♣24	♣20	■♣20	Prop Loan Stock	—	—	—
SA Eagle	P	8,3	213,3	+2480	309	1511	200	250	Insurance	†170,00	15 3 96	22 3 96
Samancor	I	229,5	417 7	+82	●▲79	●▲201	30	60	Manganese	*60,00	8 3 96	22 3 96
Seartec	I	8,8	9,9	+13	9	11	—	▼2 5	Stores	▼*2,50	29 6 96	—
SFW	D	—	—	—	—	—	4	6	Beverages	*6,00	23 2 96	29 2 96
Siltek	I	41 6	45,9	+10	▲35	▲72	14	16	Electronics	*16,00	Recommended	
Target	I	3 0	5 2	+76	5	8	—	—	Min Exploration	—	—	—
Tegkor	D	—	—	—	—	—	32,46	40,58	Ind Hold	†24,66	23 2 96	29 2 96
TIB	D	—	—	—	—	—	34,41	43,02	Ind Hold	†26 14	23 2 96	29 2.96
Trans-Natal	I	117,8	379,8	+222	●▲51	●▲113	25,4	37,3	Coal	*37,30	23 2 96	15 3 96
Vogelstruisbult	P	12,7	16 2	+27	67	88	40	55	Min Hold	†35 00	23 2 96	13 3 96
Zandpan	I	13 7	6 7	51	11	5	10,3	5	Klerksdorp	—	—	—

P = Preliminary † = Final D = Dividend * = Interim dividend I = Interim # = Dividend passed § = Net attributable profit ● = Weighted earnings per share §§ = Includes capitalisation award at market value ♥ = Per unit ♠ = Dividend postponed ▲ = After exceptional items □ = Not comparable ♣ = Per linked unit ■ = 5 months ▼ = Capitalisation award option

(194)

Sappi earnings forecast lower after price fall

CT(BR) 27/2/96

By Ann Crotty

Johannesburg — Pulp and paper group Sappi warned yesterday that it had revised its earnings prospects downwards for the six months to last March because of the recent decline in prices

At the company's annual general meeting yesterday, chairman Eugene van As said the damage to earnings was expected to continue throughout this financial year as the rapid deterioration in pulp prices would see earnings for the six months to this September lower than last year.

He said results for the current six months would be below the previous seven months because of the amount of downtime the forest products division was forced to take because of weak prices

Van As said the pulp and paper markets continued to be confused

"This situation has been aggravated in the past three weeks by the sharp decline in pulp prices Particularly badly hit have been pulp prices in southeast Asia and the prices for southern softwood and hardwood pulp emanating from North America"

Last year producers worldwide, including Sappi, opted for downtime and production cutbacks to protect prices.

Pulp price fall may hurt Sappi's profit

(194) BD 27/2/96

Edward West

PAPER and pulp producer Sappi's earnings in the first half of the financial year could fall below those of the previous seven months after a sharp decline in prices, chairman Eugene van As said yesterday

He told the group's annual meeting pulp prices were expected to remain under pressure in the second half of the year, but were expected to start rising towards the end of the calendar year. But most of this benefit would fall outside the group's financial year

"In view of the recent rapid deterioration of pulp prices, we now expect second-half earnings to be lower than for the same period last year, although the group should be back to operating at full capacity and earnings should be better than in the first half," he said.

JSE analysts forecast Sappi's full-year earnings to September would be the equivalent of 800c-900c a share. A 5% depreciation of the rand could boost earnings 7%-8%, but this would not be enough to offset the effect of weak prices and down time, they said.

In the seven months to September net income came in at R964m against a net income of R562m for the 12 months to February Van As said paper prices were also weakening, but not to the same extent as pulp prices "Paper demand continues to be firm at the end-user level, but paper converters and merchants have been delaying orders in anticipation of the lower prices. Inventories are therefore, generally low."

Kohler to clean up with waste paper

(194) CT(BR) 8/3/96

FROM SAPA

Johannesburg — Kohler and a partner, the international tissue and consumer products company Kimberley Clark, are investing R137 million in a new paper recycling plant that will allow Carlton Paper to use low-cost wastepaper to produce premium products

Richard Bruyns, Kohler's chief executive and Carlton Paper's chairman, said the sophisticated process had evolved from three years of Kimberley Clark research It used the latest technologies developed within the tissue giant's worldwide operations

"Kimberley Clark is one of the most environmentally aware corporations in the world and its researchers have been working on a process to produce a fibre from waste paper which generates better quality tissue than that currently manufactured," he said

"This technology is now with us Results from test trials using South African wastepaper in Kimberley Clark's Mexican mill demonstrated that the tissue produced is generally of a better quality than that currently available"

He said the processed waste paper was far cheaper than the virgin pulp now being used

"When this equipment is installed, Carlton Paper will have a source of low cost-fibre secured in the South African market"

COMPA

Plans costly for packaging firms

(194) CT (BR) 12/3/96.

BY CHARLOTTE MATHEWS

Johannesburg — Capital investment by several companies in the packaging sector is speeding ahead but it is not all good news

For some companies the burden of financing the expansion is taking its toll on the bottom line. The initial plans for this expansion were generally made at least a year ago, when hopes for growth in consumer spending were more optimistic than the recent realities.

Fewer jobs than expected have been created Out of total investment of almost R2 billion for the listed companies alone, only a few hundred jobs are likely to emerge

Among the listed companies that are well advanced on their capital spending programmes are Consol, Nampak and Kohler

A few years ago, Consol announced it would be spending R650 million over three years, mainly upgrading and expanding its glass operations Nampak has budgeted R650 million to spend on growth and modernisation. Kohler, formerly Holdains, plans to spend R230 million this year.

Among the smaller listings, Alex White has spent R16,5 million in the past few months on new technology while Cape-based Bowler Metcalf has spent about R24 million on new buildings and equipment.

An industry analyst said the increased capital spending was intended to upgrade technologies in an effort to make South African packaging companies more competitive against imported materials.

Consol's spending on new technology is being accompanied by a re-engineering programme that will make about 1 000 jobs in the glass division redundant.

Nampak plans to spend about R2 billion over four years,

About R650 million is expected to be spent this year

Peter Campbell, the deputy chairman of Nampak, said international trends over the past ten years had shown that the manufacturing industry was no longer creating jobs.

"We are faced with the task of being world class now that the economy has opened up We have to compete with products being imported into this country and with businesses setting up in this country, unencumbered by the costs we have had to carry in the past."

Patrick Kane, the financial director of Alex White Holdings, said seven jobs had been created from the R16,5 million investment in new technology.

Michael Brain, the financial director of Bowler Metcalf, said its investment had created about 30 jobs in Cape Town and 30 in Johannesburg

The effect of heavy investment is evident on several company balance sheets. Consol's debt at the end of December was about R500 million, which compares with ordinary shareholders' capital of about R867,5 million. Alex White's long-term borrowings of R14,2 million compare with shareholders funds of R29,4 million The expansion was financed by a fixed-interest loan from the Industrial Development Corporation.

Bowler Metcalf's gearing rose to about 70 percent last year because of its investment but this is expected to fall to about 65 percent by the end of this year

However, Nampak's R310,2 million of interest-bearing debt at the end of September was negligible compared with its total shareholders' funds of R2,1 billion and Kohler's interest-bearing debt at the end of August was only R162,1 million compared with R775 million of shareholders' funds

Tea company tackles minister on import law

Susan Russell BD 13/3/96 (194) TEA

A TEA packaging company went to the Constitutional Court yesterday to challenge a law empowering Trade and Industry Minister Trevor Manuel to prescribe what kind of goods may be imported into SA and to impose conditions on the issue of import permits.

Ynuico Limited is challenging the constitutionality of section 2 (1) (b) of the Import and Export Control Act which it contends unlawfully gives the minister powers which should rest with Parliament, and which in turn infringe its constitutional right to freely engage in economic activity.

Ynuico, which blends and packages its product under the name Red Label Tea, initially went to the Supreme Court for an interdict against the minister after it was refused a permit to import tea unless it also purchased a prescribed quota of locally grown tea

Although the company had asked the Supreme Court for an interdict setting aside the minister's refusal to grant a permit on these grounds, the matter was referred to the Constitutional Court for a decision on the constitutional issues raised in the matter.

Counsel for Ynuico, N Singh SC, argued yesterday that section 2 (1) (b) amounted to an abrogation of parliamentary power to the minister.

Singh submitted section 2 (1) (b) of the Act enabled the minister to exercise policy-making powers which the constitution had vested in Parliament

By empowering the minister to determine policy the legislature was unconstitutionally abdicating its own policy-making power, he said.

Opposing Ynuico's application, it was argued on behalf of the minister and government that although the powers conferred on him in terms of the Act were very wide, his decisions had to be guided by the criteria of what was "necessary or expedient in the public interest".

Although section 26 (1) of the constitution guaranteed the right to freely engage in economic activity, this was subject to section 26 (2) which provided for measures "designed to promote the protection or the improvement of quality of life, human development ...".

Provisions of the Act empowering the minister to regulate import/export by way of permits was a measure envisaged by section 26 (2) of the constitution, it was submitted.

According to written submissions on behalf of the minister, Ynuico was informed when it began business in 1989 that permits for tea imports were granted only on condition that a company purchased a quota of the locally grown product.

Sappi sets up shop in East Africa

(194) CT (BR) 15/3/96

By Joe Khamisi

Nairobi — Sappi's entry into the East African market is expected to trigger fierce competition among paper importers and end frequent shortages that have threatened to strangle the printing business

The South African paper giant's executives were in Nairobi last week to open the first foreign paper warehouse

The warehouse is to be used by Kensia, Sappi's local agents, to store different types of paper from Sappi's 16 mills world-wide

Until now, Sappi's involvement in East Africa had been on an ad hoc basis, filling orders as they arrived

However, with the new warehouse, Sappi would be able to store large quantities of paper and offer a more dependable service

Vaughan Basset, the general manager of Sappi Trading Africa, said if the venture proved successful it would be introduced in other countries.

Most of Sappi's business is done outside South Africa

Local paper users said the move is likely to end the frequent shortages of paper, especially newsprint.

Paper companies have been unable to meet demands for newsprint because of the frequent breakdown of equipment and the shortage of raw materials.

During the past few years, escalating world paper prices have adversely affected East African printing, publishing and packaging companies.

For the first time in 66 years, Tanzania's state-run Daily News and its sister publication, the Sunday News, had to shut down operations for several consecutive days early this month because of a severe newsprint shortage in the country.

This happened even after the paper had reduced its print order by almost 10 000 copies — Independent Foreign Service.

Lower debt burden contributes to improved results

Kohler lifts earnings 25% to R64,1m

(194) CT (BR) 26/3/96.

By Charlotte Mathews

Johannesburg — Kohler, the packaging group formerly known as Holdains, lifted attributable earnings before abnormal items by 25 percent to R64,1 million in the six months to February compared with the same period last year

The results were achieved on a lower debt burden and strong demand from customers for most of the period

Richard Bruyns, the chief executive, said order intake declined in January and February as customers reduced stocks and consumer demand declined

Kohler's most important market is the agricultural industry and many crops have been damaged by last year's drought or by this year's rains

Group turnover declined by 17 percent to R1,2 billion, reflecting the disposals of Graphtec and Kohler Sacks Operating income rose by 8 percent to R100,3 million on operating margins at 8,4 percent from 6,5 percent

The interest bill dropped to R4 million from R17 million on positive cash flow of R94,8 million arising from Kohler's own operations and the proceeds of the sale of its two divisions This brought net gearing down to 2,3 percent

A positive abnormal item of R1,1 million was made on a profit on the sale of Graphtec and Kohler Sacks after provision for warranty claims less a charge for discontinued operations and the scrapping of equipment

Earnings a share were 21,2c (17,4c) before abnormal items and 22,1c (17,1c) after

The dividend was raised by 12 percent to 6,4c a share

Kohler spent R58,7 million on capital replacement and expansion in the past six months, and plans to spend another R270 million over the next two years

Bruyns said the core packaging business contributed 80 percent of turnover and 90 percent of operating income, while tissue and consumer products accounted for the remainder

Within packaging, the paper and board operations generated a satisfactory profit and Kohler Plastics showed further improvements Metal packaging results were disappointing

Sales were strong but profitability declined after recent investments in beverage can lines, high scrap rates and costly machine rebuilds that lasted longer than expected.

Operating income and earnings declined in the tissue and consumer division, mainly because Carlton Paper, the tissue business, experienced intense competition after Proctor and Gamble, the tissue group based in the United States, emerged as a major force in the local market.

Bruyns said Carlton Paper had lost some market share but had taken steps to improve efficiency and better earnings were expected in the second half

The trend of weaker consumer demand had continued and the outlook for the industry was less certain than it had been

This was compounded by the declining international prices of raw materials, which caused customers to expect a price cut

"However, the group is well structured to manage these challenges and we anticipate reporting real growth for the remainder of the financial year, but at a lower rate," he said

Mondi holds back on upgrade plans

BD 28/3/96 (194)

Amanda Vermeulen

PAPER and packaging group Mondi is reconsidering capital expenditure plans of more than R500m following the downturn in the market.

The unlisted group, owned by Anglo American Industrial Corporation, said yesterday that its hand had also been stayed by continuing uncertainty over tariffs and poor customs and excise controls.

Mondi threatened last year to scrap a three-year capex programme worth R1bn unless government gave clear guidance on tariffs. But a spokesman said yesterday that the recent rapid decline in prices had put the handbrake on various upgrade plans.

Pulp prices, which peaked at about $955 a ton in November, have slipped to trade in a range between $525 and $600 a ton.

Analysts said some transactions were taking place below the $525 mark, and that there was evidence that the price would weaken from this level.

Mondi had earmarked about R500m for quality upgrades, the spokesman said, and a further R1bn for long-term improvements, some of which have been committed. But a significant proportion was still under consideration.

New investments the group unveiled last year included expanding Mondi Kraft's Piet Retief linerboard mill and Mondi Paper's Merebank mill — plans together costing R268m.

Mondi more than doubled its income to R501m in the year to December, but Amic chairman Leslie Boyd has previously warned the operation was budgeting for lower growth this year.

Mondi's listed rival Sappi said yesterday its R1bn expansion and upgrade programme was going ahead, although chairman Eugene van As conceded the company's timing had been poor.

He said prices had fallen below industry estimates, but that Sappi hoped to complete its capex plans by September, before the downswing in prices took hold.

In the seven months to September, Sappi reported earnings a share of 600c, compared to 353c a share reported for the year to February 1995. Softer prices have been reflected in its share price, which hit a year low at R42 last month against R76,50 last May. It closed 50c ahead yesterday at R55.

Coal upgrade 'has market'

BD 28/3/96

David McKay

AN UPGRADE of the Richards Bay Coal Terminal's (RBCT's) capacity to a proposed 69-million tons a year would be supported by growth in the international market, Ingwe Coal Corporation MD Dave Murray said yesterday

The market had rumoured RBCT shareholders — among them SA's largest coal producers — had proposed an additional 9-million tons a year nominal capacity expansion from the current 60-million tons a year. A decision on this expansion would be made within the next few months, he said

Shareholders were likely to press ahead with equipment upgrades and modifications to the terminal as part of the proposed upgrade.

Other factors such as coal storage capacity, the number of grades stored and loaded and the addition of a shiploader would have an effect on the final throughput of the terminal, Murray said. These factors would be considered before shareholders could finally rubber-stamp plans to upgrade the facility.

Meanwhile, Mineral and Energy Affairs Minister Pik Botha said a multimillion-rand harbour development at Richards Bay, enabling small coal mining companies to export coal without paying a levy, had been mooted by a major foreign investor.

QUESTIONS

†Indicates translated version

For written reply

Liability of directors/managers of companies

28 Prof B TUROK asked the Minister of Trade and Industry

(1) Whether existing legislation relating to the personal liability or direct or indirect involvement or engagement in financial services of directors, officers and managers of companies which have been dishonestly or culpably mismanaged adequately protects investors in such companies, if not, why not, if so, what are the relevant details,

(2) whether he intends introducing legislation aimed at amending present legislation on the listing of preferential creditors of the free residue of a bankrupt company, if not, why not, if so, what are the relevant details?

N73E

The MINISTRY OF TRADE AND INDUSTRY

(1) Section 424 of the Companies Act, 1973 (Act 61 of 1973) stipulates that when it appears, whether it be in a winding-up, judicial management or otherwise, that any business of the company was or is being carried on recklessly or with intent to defraud creditors of the company or creditors of any other person or for any fraudulent purpose, the Court may, on the application of the Master, the liquidator, the judicial manager, any creditor or member or contributory of the company, declare that any person who was knowingly a party to the carrying on of the business in the manner aforesaid, shall be personally responsible, without any limitation of liability, for all or any of the debts or other liabilities of the company as the Court may direct

It appears that this section is not in all respects effective as successful applications to Court appear to be few The matter has therefore been referred to the Standing Advisory Committee on Company Law for further consideration

(2) This question appears to relate to a matter dealt with in the Office of the Master of the Supreme Court in connection with the winding-up of companies and should therefore be directed to the Minister of Justice

Sugar/cement/paper pulp cartels

125 Dr K RAJOO asked the Minister of Trade and Industry

194

(1) Whether any monopolistic cartels exist in respect of the (a) sugar, (b) cement and (c) paper pulp industries, if not, what is the position in this regard, if so, what are the relevant details,

(2) whether he will consider taking any steps aimed at breaking up such cartels so as to enable small South African businesses to trade in these commodities with overseas entrepreneurs, if not, why not, if so, what steps?

N235E

The MINISTER OF TRADE AND INDUSTRY

(1) "Cartel" is a term that is used to describe a collusive agreement, arrangement or understanding among enterprises to fix prices, to share markets, or to supply commodities only on particular conditions or terms Such conduct is illegal in terms of Government Notice 801 of 2 May 1986 Exemptions from that prohibition may be granted by the Minister of Trade and Industry acting on a recommendation by the Competition Board Certain cartels are permitted in terms of specific legislation

It could be said that there is a cartel in the sugar industry This cartel is authorised by the Sugar Act, 1978 (Act No 9 of 1978) The cement cartel which existed for many years is at present being dismantled The process will be completed by September 1996 The duopolistic paper pulp industry sometimes evinces the characteristics of a cartel However, no substantive evidence has yet been uncovered which would warrant prosecuting the parties concerned for operating a cartel

(2) Since cartels, apart from those created or authorised in terms of legislation, are already unlawful, there is no basis or need to take steps to break them up It would be prudent for businesses wishing to trade in sugar, cement or paper pulp with overseas entrepreneurs to liaise with the relevant manufacturers on the availability of such products

SA universities: botanists graduating

132 Mr M F CASSIM asked the Minister of Environmental Affairs and Tourism

Whether a sufficient number of botanists are graduating from South African universities each year, if not, why not, if so, what are the relevant details?

N242E

The MINISTER OF ENVIRONMENTAL AFFAIRS AND TOURISM

During a Manpower Survey by the Central Statistical Service of South Africa it has been determined that 315 posts in the open labour market have been identified for persons with a botanical or related qualification 300 of these posts are filled and 15 are vacant

The National Botanical Institute has recently advertised six posts where a qualification in botany was required 120 applications were received of whom 50 applicants were in possession of a BSc (or higher) qualification

These statistics do not on face value reflect a shortage of qualified people in this field

Criminal Record Centre: persons wanted

141 Mr D H M GIBSON asked the Minister for Safety and Security

How many persons were endorsed as wanted by the Criminal Record Centre in each of the provinces in (a) 1993, (b) 1994 and (c) during the period 1 January 1995 up to the latest specified date for which information is available?

N282E

The MINISTER FOR SAFETY AND SECURITY

Provinces	*(a) 1993*	*(b) 1994*	*(c) 1995*
Western Cape	22 191	29 133	39 055
Western Transvaal	5 204	6 467	16 196
Witwatersrand	54 014	65 965	68 674
Eastern Transvaal	10 470	12 528	16 166
Far Northern Transvaal	3 391	4 194	13 653
Natal	32 437	38 829	46 210
Northern Transvaal	11 667	14 515	14 652
Northern Cape	3 687	4 642	4 963
Free State	16 224	18 486	21 307
Eastern Cape	20 226	25 387	33 476
Former TBVC states	25 107	28 244	*

*Included in above regions

(c) Latest specified date 1 January 1995 to 13 March 1996

GS

(a)

Sappi's earnings unlikely to suffer from breakdown

BD 11/4/96 (194)

Amanda Vermeulen

SAPPI's earnings were likely to escape major damage from the breakdown which put one of its main production lines out of action for three months, the paper and pulp producer said yesterday.

The group's southern Africa MD Ian Forbes said Sappi was covered for any losses by insurance, and although it had been forced to buy pulp to meet customer requirements, current low prices had cushioned the blow.

He declined to detail the extent of the insurance claim, but said repair costs would be about R35m

The main recovery boiler at the group's Ngodwana plant in Mpumalanga broke down last month during a start-up due to instrument failure

It operates one of the plant's two pulp lines which together produce 450 000 tons a year The line put out of action produces 300 000 tons of pulp a year — a fifth of Sappi's total annual output.

Analysts said yesterday recent fluctuations in the company's share price reflected investor concerns about the breakdown and the group's results.

Sappi indicated last month that it would make an official statement on the effect of the breakdown, but has so far refrained from doing so Forbes said the insurance assessors had completed their investigation, and the insurance covered "sudden and unforseen" events.

Forbes said the boiler problem would not affect paper output, only pulp, and the group had provided enough pulp for its customers' needs.

He said the effect on Sappi could have been vastly different if the pulp market, which has slumped in recent months, had been near its peak Sappi had been able to buy in pulp at the current low world prices of around the $500 a ton mark

The group reported net income of R561,7m on sales of R7,8bn for the 12 months to February last year, while earnings for the seven months to September hit R964m. However chairman Eugene van As warned in February sharply declining prices were likely to leave the group's earnings for the six months to March below those of the previous seven months.

About R2,4m of Sappi shares traded on the JSE yesterday, shedding 275c to close at R51, off its year high in May of R76,50, but still up on its annual low of R42.

Slump in pulp prices 'to hurt SA producers'

(194) BD 15/4/96

Amanda Vermeulen

DISMAL profit forecasts from some of the world's largest paper and pulp producers could be echoed in the results of SA producers, but the rand's fall had provided short-term relief, industry sources said at the weekend.

The Financial Times reported last week that two of the world's largest producers would show drastically reduced profits for the current financial year because of the slump in pulp prices to $500 a ton from more than $900 in the past three months, poor demand and overstocking

Irish company Jefferson Smurfit said all the world's paper mills would need to shut down for a month to clear excess stocks Its earnings could drop 40% this year The largest producer, International Paper, recently saw a 50% drop in first-quarter profit

Sappi and unlisted Mondi have warned that earnings this year are likely to be well below last year's showing, with analysts expecting the pulp price to drop as low as $400 a ton next year.

Sappi Southern Africa MD Ian Forbes said he believed the pulp price would start bottoming out within about six to eight weeks "We should see a firming in the price by the third quarter"

But analysts said Sappi should be on track to maintain earnings a share of 600c to 700c.

It reported share earnings of 352c for the year to February 1995 and 600c in the seven months to September

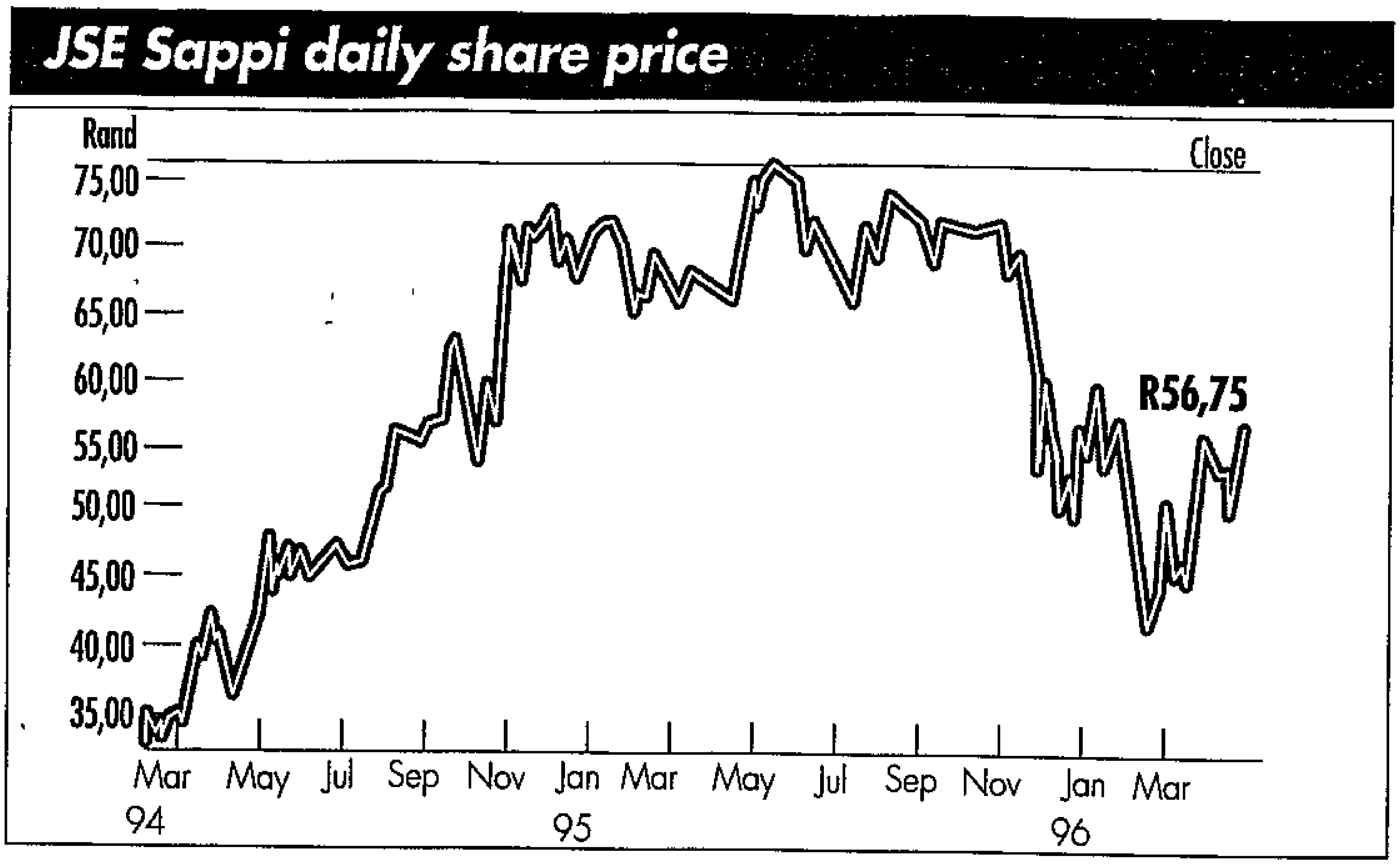
It has warned profits for the six months to March will be lower.

The company has been partly saved by the fall in the rand and demand for its coated woodfree products in the US. Sappi is the world's largest producer of coated woodfree paper.

Analysts said about 40% of Sappi's earnings were from outside the country. The slump in the rand had led to higher rand receipts.

Mondi is a lesser-known quantity It has put its listing plans on hold, though some analysts suggest it may want to increase its holding of 5% in Mondi Europe — which may have to be completed through a listing

Analysts said Mondi might be able to weather the pulp price problems better than Sappi, because it relied heavily on the domestic market, where the demand was locked in and customers were loyal to suppliers.



Pulp fiction

(194) CT (BR) 23/4/96

Ann Crotty

Investors do not like unpleasant surprises, particularly those of the magnitude that have rocked Sappi in the early months of this year

From a list price of $925 a ton late last year, pulp fell to $875 in the second half of January Over the next two months it plummeted, hitting $520 on April 1 As expected, Sappi's share price took a knock.

Of course the big question, as always, is where will Sappi's share price go from here? At R55 it is well off the high of R76 reached in the middle of last year, but it has also pulled up significantly from the low of R42 that it hit in February.

Given that share prices tend to anticipate good and bad developments, the tumble in the share price halted while the pulp price was still in free-fall Though the list price for pulp is down to $520, the market price is significantly below this level What investors now have to work out is whether recent signs of firming pulp demand will be sustained and substantial enough to produce some price recovery.

There is disagreement Some analysts believe it is the beginning of a sustainable recovery and therefore that the Sappi share price is undervalued Others argue that it is merely a rally that offers scope for trading profit and in the long term, the share will weaken

Certainly it seems that in the past six months Sappi has fallen out of favour with investors. While major international pulp and paper companies saw their share prices down around 25 percent as pulp prices dropped, the Sappi share price dropped 40 percent The subsequent recovery in United States share prices has certainly not been matched by Sappi

On the basis of price-to-earnings ratings, Sappi also seems to have fallen further out of favour compared with other commodity stocks such as Iscor, Samancor, Highveld and Amic. In the past six months the relative price-to-earnings rating between Sappi and these counters has reflected a weakness in the market's perception of Sappi

Between now and the release of the interim results next month, the share price is in dangerous territory Though analysts have lowered their forecasts for this financial year from initial estimates of about 1200c, some still appear to be too optimistic Increasingly it is looking as though full-year earnings are unlikely to be more than 600c

Only a sustained weakness in the rand for the remainder of this financial year could support the more bullish revised earnings estimates of around 800c for the year And few foreign-exchange dealers would be prepared to bet on that scenario, though the rand's decline in the six months ending March will help to soften the effects of the plummeting pulp price

For Eugene van As, Sappi's chairman, it was an unhappy irony that shortly after reporting an excellent set of figures for the seven months ending September, the share price dropped as investors got wind of weaknesses in the international paper and pulp market.

Van As believes the pulp price has bottomed out, and that the recovery from here will not be quick "The pulp industry needs to take about three weeks of downtime to clear the excess stocks, just as players in the paper industry did last year"

He expects an improvement in the last quarter of this calendar year with a reasonable prognosis for the next few years The only major cause of disruption would be the introduction of new pulp capacity As there is no sign of any significant new construction under way, he does not believe there will be significant new capacity within the next few years Some analysts disagree and say studies show there will be over-capacity in the industry for some time

Van As admits to being confused by the mixed market signals Despite improved demand for coated paper in the US, the price is still under pressure and despite a rise in end-user demand in Europe, an attempted price increase failed

Analysts say this is because a recent improvement of stock levels is temporary and the effect of over-capacity will soon be felt again

Another negative consideration is the breakdown affecting one of the lines at the Ngodwana plant Van As says the plant is fully insured, so the break in production will not affect earnings Analysts refer to Iscor's recent difficulties with its insurers

"There is always the possibility of difficulties with insurance claims, but the likelihood in this instance is very small", he says

The recent drop in the rand exchange rate has confused the picture It will have come too late to support the first-half earnings but, depending on how long the level is sustained, it could have a significant benefit in the second half

Van As says there are a number of ways that a weaker rand would enhance earnings performance "The conversion of our foreign earnings would be at a much higher rate, our exports will earn more rands, and in the domestic market where competition against imports forced us to reduce prices early this year, we will be able to increase prices back to their original level"

Sappi to list on New York bourse

(194) BD 24/4/96

PULP and paper producer Sappi said yesterday it intended to list on the New York Stock Exchange in three to six months, depending on market conditions.

Sappi executive director of finance Bill Hewitt said: "It would enhance our standing as a true international pulp and paper producer."

A stabilisation in the pulp price, and a further rise in Sappi's share price were two factors necessary for a listing, said Hewitt.

The pulp price, represented by the benchmark northern bleached softwood kraft, has crashed to about $520 a ton from a high of $925 a ton in December last year.

Last week US diversified pulp and paper group Georgia-Pacific announced it would raise the price of NBSK pulp by $50 from June 1.

Hewitt said he was treating the decision as more of "a trial balloon" meant to test demand, but that it boded well for the industry.

He said that ideally the price of a Sappi share, traded on the JSE, should be between R70 and R75 before a New York listing went ahead.

Yesterday Sappi closed at R55,25, down R1,50 in moderate trading.

US investment house Donaldson, Lufkin & Jenrette and Union Bank of Switzerland were advising Sappi on the listing, said Hewitt.

Apart from the JSE, Sappi trades on the London, Paris and Frankfurt stock exchanges. However, all but 10% of the 151-million issued shares trade on the JSE, making it an illiquid stock.

The New York listing would raise less than $200m, Hewitt said, as the JSE allowed SA-based companies to issue no more than 10% of their market capitalisation on an offshore bourse. Sappi's market capitalisation is about $1,96bn.

Proceeds from the issue would be used to retire some of Sappi's considerable debt load, Hewitt said. — AP-DJ.

Paper and pulp firms anticipate better times

(194) BD 24/4/96

Amanda Vermeulen

THE tide could be turning for the besieged paper and pulp industry, with a possible $50/ton rise in pulp prices from June 1, and the announcement this week in the US of a $80 or 10% rise in paper prices

Prices for fine paper have risen 10% to $860, Sappi chairman Eugene van As said yesterday. The pulp price, which peaked in early January at $925/ton, was currently priced at about $440, but the $50 rise was expected to come through shortly.

The company said the rises, which halt several months of plummeting prices, said the upturn had been fuelled by a buoyant US economy, and speculative buying of pulp stock.

Analysts have said paper prices could drop to $400, but Sappi Southern Africa MD Ian Forbes said the price was unlikely to reach that level.

However, many overseas producers have been forced to take down time, and Van As said the Sappi European operation had reduced stocking time to eight days from the normal 20 days

The effect on Sappi, which relies for about 40% of its earnings on exports, had been cushioned by the devaluation of the rand

Sappi reported earnings a share of 325c for the year to February last year, and 600c for the seven months to September. But it warned profits for the six months to March could be lower. Analysts estimated that it should, however, still be on track to match the September figure. Sappi closed 2,6% down on the JSE at R55,25 yesterday, against a R76,50 year high last May.

The packaging industry has suffered similar ill fortune, but for different reasons

Kohler CE Richard Bruyns said yesterday consumer demand had slackened in the last quarter, creating a knock-on effect on demand

The beverage industry and agricultural market have been particularly hard hit The beverage industry has seen a slump in volumes, mainly attributed to the weather, and this had reduced demand for aluminium cans

Poor weather conditions had hit Kohler's corrugated packaging products to the agricultural industry. Bruyns said this should be short term as a bumper crop was expected later this year.

Kohler lifted earnings 25% to R64,1m for the six months to February off turnover which declined 17% to R1,2bn. Its share closed 2,8% off at 670c yesterday, against an 850c year high in February.

Nampak nets control of large Malawian firm

BD 5/6/96 (194)

NAMPAK has taken a controlling stake in Malawi's largest packaging company, Packaging Industries, for R7m.

The group said yesterday it had boosted its share to 60% from 26% through the deal, which was "a logical extension of its dealings with the firm".

New shares are being issued by the company for most of the consideration. The balance will involve Nampak buying shares from the Malawi Development Corporation, Nampak's long-standing partner in the company. The corporation is disposing of some of its stake as part of a programme of privatisation of its portfolio.

Packaging Industries, based in Blantyre and employing 400 people, supplies corrugated cartons to the tobacco industry and paper sacks to the tea and cement industries. It also provides cartons and packaging systems to beer brewers and the dairy industry. — Reuter

Sappi counts the cost of bold move into US

(194) ST9/6/96

By PAUL ABRAHAMS and ALISON MAITLAND

SAPPI surprised the paper industry in 1994 when it outmanoeuvred Arjo Wiggins Appelton, its Franco-British rival, by snapping up SD Warren of the US

The bid, the largest in the US by an SA group, catapulted the hitherto obscure company into the international arena

But although Sappi's strategy looked valid — the company became world market leader in coated paper — there were concerns at the time that the company may have paid too much.

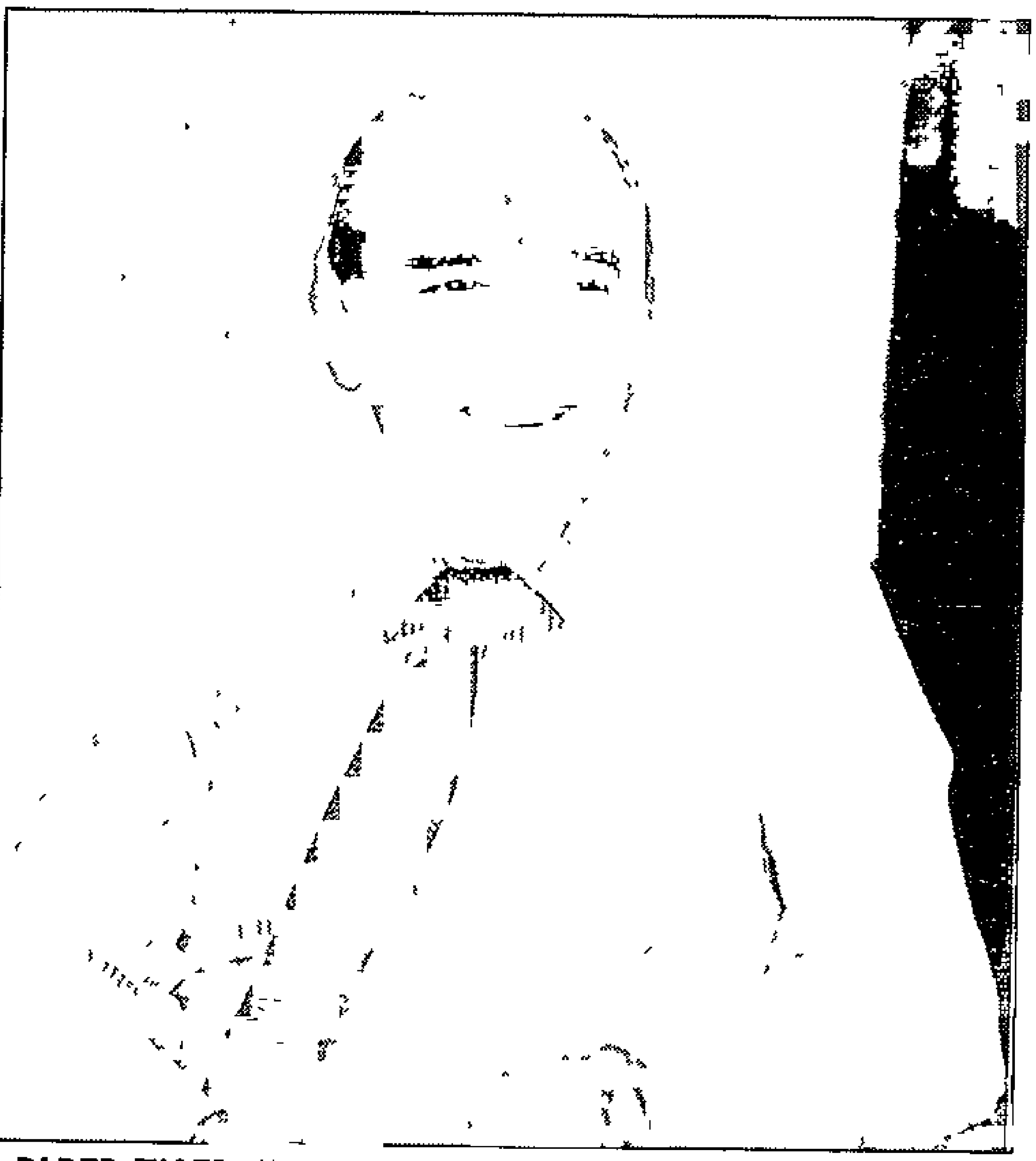
Many believed that Sappi would struggle to pay down the resulting debt, particularly given that the US paper cycle looked like peaking Since the deal was struck those concerns have looked increasingly prescient

However, executive chairman Eugene van As dismisses suggestions that he paid too much For one thing, the transaction price was $1,47-billion rather than the publicly announced $1,6-billion This, he says, was because Scott Paper, SD Warren's owners, sold the business debt-free

Mr van As insists SD Warren has turned out to be an excellent business, although Sappi has had to invest substantially and alter operating procedures

"Scott was really insular Management thought it had been running the business really well But when we showed staff best practice in South Africa and Germany, their first reaction was disbelief Now they're delivering "

Investment has included an information technology system installed within three months



PAPER TIGER: Eugene van As, executive chairman of Sappi

"Previously, it was almost impossible to tell what was going on," explains Mr van As

The company has put money into safety Accident rates at some mills were unacceptably high

The SA company has also given management its head "Previously, if SD Warren people wanted to get anything done, it had to be cleared in triplicate by headquarters Now we tell them to just go and buy what they need They have to deliver, of course We don't tolerate sleepiness, but there's now an energy in the company that just wasn't there before "

The results speak for themselves, says Mr van As Sappi's US mills have increased annual production by 200 000 tons The group has increased its US market share in coated paper by 2,5 percentage points to 27,5%

However, improvements in operational efficiency have been more than offset by the collapse in paper prices during the second half of 1995 SD Warren may have been earnings-enhancing in its first year under Sappi, but Mr van As admits he is not sure whether it will be this year "It's not making what it earned last year, that's for sure," he says

Mr van As admits the collapse in pulp and paper prices hit Sappi doubly hard First it reduced cashflow from the US operations which would have helped pay down Sappi's dollar-denominated debt And secondly, it stalled a possible New York Stock Exchange quote last autumn which was also aimed at reducing Sappi's gearing

"It's no secret that we were looking at a quote, and there's no point having a quote without raising equity " But after the halving in pulp prices from a peak of $1 000 a ton last September, the exercise was put on hold

Gearing is between 90% and 95%, says Mr van As, although he stresses there is no off-balance sheet financing. "Unlike some paper companies, what you see is what you get," he says

Sappi has taken some action to relieve its predicament The group has paid off $170-million in debt and refinanced its US bank borrowings, reducing the interest burden by between $8-million and $10-million a year The group is also receiving some help from its German businesses which have recently picked up Cash flow is covering interest payments But what will really help is a recovery in pulp prices later this year, says Mr van As

"The ratcheting down of inventories has been dramatic There has been a big movement in the inventory from pulp to paper and there is a lot of unannounced down-time, reducing production Spot prices were below $450 Now nobody's paying that little Pulp prices should continue to recover and could reach about $650 a ton after the summer, and maybe $700 by year-end As long as world economic growth remains steady, there will be no over-capacity until mid-1998 when new Asian machines come on steam "

Even if there is an upturn, Sappi will not be seeking more acquisitions Mr van As believes the pace of industry concentration could quicken, especially in Europe, where "quite a lot of coated paper capacity is coming in between now and December 1997"

No other global industry has its top 10 or 15 players sharing as little as 15% of the market "That will have to change," he says "You're getting pan-European merchants and they don't want to deal with every Tom, Dick and Harry in every country And publishers are moving towards fewer suppliers " But the squeeze on balance sheets caused by the downturn in pulp and paper prices means mergers are more likely than acquisitions, he insists

Meanwhile, Mr van As remains unrepentant about the SD Warren acquisition The business is a good one, he insists He would prefer to overpay for a good business than buy a bad one on the cheap "If the market turns bad, you've still got a good business If it was a bad business in the first place and the market turns down, then you're really in trouble " — *Financial Times*

COMPANIES

Sappi considers a merger partner to help reduce debt

(194) BD 11/6/96

Amanda Vermeulen

PAPER and packaging group Sappi is considering a number of options to reduce its debt burden, including finding a merger partner for its European interests

Chairman Eugene van As said the company, which has said it wants to list in the US, may also look at bringing in an equity partner for the whole group, but this was not presently being debated.

Sappi, hard hit by massive slumps in international pulp prices — which saw the tonnage figure slashed by almost half to \$520/t in three months — reported debt of \$1,1bn by its US operation SD Warren in the six months to March. Excluding Warren, the debt stood at R3,6bn, an increase of 10% on the September figure.

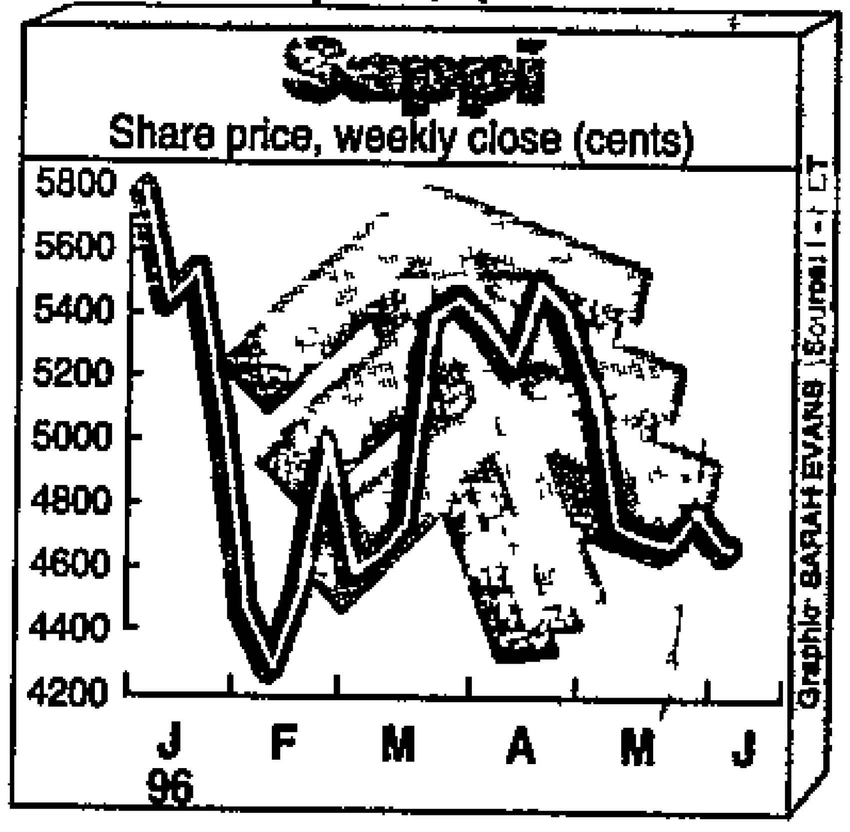
A spokesman for the group said yesterday Van As was not overly concerned about the group's high gearing, but the problem had been compounded by the unexpected weak pulp prices, overstocking and a softening in demand.

An analyst said one of the options available to bring down the high debt equity ratio of the US interests — currently sitting at 95 — was the mooted listing of Sappi in the US.

However, one analyst said while the paper and pulp markets remained soft — although there were general signs of a recovery in prices and demand — a listing would have to be put on ice

Van As said the group would look at a listing once the JSE share price traded in the R70 to R75 range The counter hit this target last year in August, but traded yesterday at R46,70

Another analyst said investor sentiment in the US was turning towards commodity stocks which would make the environment more attractive for a listing. But a listing would make only a small dent in Warren's debt burden, as the JSE restricted SA-based companies to issuing for cash a maximum of 10% of market capitalisation on offshore exchanges



However, he said, Warren's bankers were not putting pressure on Sappi to reduce its debt faster, as it was being adequately serviced. Sappi recently renegotiated its interest repayments, reducing them by 10% a year

The Sappi spokesman said one possibility to reduce the debt was to sell the group's timber lands in the US, about 365 000ha in Maine However, Van As said he was reluctant to sell the land as a short term measure

Analysts said a merger of the group's European interests with another player in that market was also a possibility, as Van As had said the market needed to be rationalised into fewer players

This could improve margins one or two points, but it was unlikely to have an impact on its debt The group had mills in Germany and the UK. Although Sappi could be interested in a merger, there were no particularly appealing candidates and Van As said Sappi was unlikely to buy into another European company.

Sappi reported a 22,5% slump in net income to R356,3m in the six months to March, off a 32,6% increase in turnover to R6,6bn Share earnings declined to 215c from 286c

Big three accused of collusion by competitors and clients

Packaging groups under fire

(194) CT(BR) 21/6/96

By Stuart Rutherford

Durban — Consol, Kohler and Nampak, the dominant paper and packaging groups in the country, have been accused of collusion as the struggle for market share reaches a new intensity in the industry

Smaller packagers and customers of the three firms alleged that they meet every few weeks to discuss market share, the allocation of customers and price levels in the market, and that they regularly tail opposition trucks to establish who their clients are

No comment could be obtained from Nampak, but Consul and Kohler denied that there was collusion between the three firms

Consul said that each of the companies did have "respect for one another's strengths"

Wouter Meyer, the chief director of the Competition Board, said the board had not yet received any formal complaints, but it was investigating the paper and packaging industry and talking to the main players

"We are not very happy about the situation, but we can only act if there is evidence of collusion or abuse of their dominant position," he said

An industry source, who did not want to be named, said the reason people had not complained to the Competition Board was because it was hard to obtain the necessary evidence and they feared a backlash from the large suppliers

He described the situation in the industry as a war, saying "today there are more rats and mice chipping away at the same piece of cheese than ever before"

But many of the biggest customers in the country are also rallying behind the smaller packaging suppliers

"We have a very strong alternative base of independent suppliers who keep the majors on their toes and help create adequate competition," said Edward Frey, the packaging director for Beacon Sweets

Beacon Sweets is one of the biggest buyers of packaging in KwaZulu Natal and its range of packaging products is by far the widest in South Africa

Shaukat Moosa, a director of Willowton Oil and Cake Mills, another of KwaZulu Natal's largest users of packaging, said his company bought mainly from Consol and the others did not call on him

"When we talk to Nampak their prices are more expensive and they have been for a long time"

He said the company promoted smaller operators by buying 10 percent of its packaging from them

Tony Welton, the financial director of Kohler, and Piet Neethling, the group managing director of Consol, agreed that new factors in the market had made conditions especially competitive of late

"These include the fact that volumes are off their peaks of last year and that the substantial increases in the supply of raw materials which came into effect last year have caused customers to seek active steps to reduce their cost of packaging," Welton said

Welton and Neethling were adamant that there was no collusion between the big three Neethling, however, said that the three companies did have "respect for one another's strengths"

"There is no way that Nampak, Kohler or Consol could kill one other To attack one another in a war situation would be futile, it would cost us millions and once the dust had settled it would not result in significant market gains," he said

Neethling said the only time the three came together was at meetings of the Packaging Council of South Africa, when they only discussed problems facing the industry

Beacon's Frey disputed this "There are certainly discussions between the big three and in our opinion business is often shared"

He said the big three exercised considerable influence in the market, especially in the niche markets, such as glass or tin, which had an adverse affect on price levels

High costs from the main players have driven some of the bigger users of packaging to invest in their own packaging equipment One example is Johannesburg's Douglasdale Dairy

Rowan Matthews, the managing member of the dairy, said the company had invested R2 million in packaging machines from Taiwan and was now producing bottles at between 15 and 20 percent less than market prices

Nampak, Consol and Kohler are said to control 72 percent of the South African packaging market, though this is slowly decreasing

Frey said all restrictions, such as duties and surcharges, needed to be abolished to make the market more competitive

"Productivity and international benchmarking are a must," he said

☐ See Business Watch

BANG THE DRUM *Jose Luis Aldabalde, Uruguay's ambassador, said yesterday that regional integration in Latin America was a result of "a silent revolution" — a strong desire by the people to consolidate democratic and economic transformation "Integration is a movie We have to work hard for a happy end to the movie," he said of the Mercosur common market between Uruguay, Brazil, Argentina and Paraguay He was speaking at the Africa International Trade Centre*

Forestry players at loggerheads

(194) ST(BT) 7/7/96

SHAKE UP LOOMING A worker from Sappi, one of the companies at the centre of the timber row

By SVEN LUNSCHE

A MAJOR confrontation is looming over the restructuring and possible privatisation of the SA Forestry Company

The brawl pitches Safcol with the apparent support of the Ministries of Public Enterprises and Water Affairs and Forestry against sections of the independent sawmilling industry backed on broad principles by the Competition Board

At the heart of the dispute is the perceived lack of competition in the forestry industry with three players — Safcol, Sappi and Mondi — controlling almost 75% of the softwood timber market

In many regions Safcol is the sole supplier of logs to 40 independent sawmillers, although it also operates five sawmills itself The Competition Board is currently investigating whether or not Safcol has abused its dominant position to favour its own mills at the expense of its other customers

The findings of the board, not expected for some months, could have a bearing on the government's approach to the restructuring of Safcol

In line with the government's policy on state enterprises a sectoral committee, chaired by the Department of Water Affairs and Forestry, is currently examining Safcol's future status.

Safcol chief executive Tieme van Vuuren stresses that his company will abide by any decision from the government But the company's preferences are clear "It is in the best interest of the shareholder to privatise Safcol in its present form as soon as possible

"A privatised Safcol will operate efficiently and produce maximum returns for the state" Van Vuuren says From all accounts it appears that Safcol has the ear and support of the relevant Ministries

This privatisation proposal is strongly resisted by large sections of the sawmilling industry who fear that Safcol will use its dominance in the timber market to run down the competition

In its representation to the Competition Board one of the independent sawmillers — JSE-listed Yorkcor — asked a leading British competition authority to provide alternatives

Dan Goyder, deputy chairman of the Monopolies and Mergers Commission, argues strongly in favour of the establishment of a regulator "with independent authority to control the prices and conditions upon which Safcol does business"

He says "It is widely accepted that there is little benefit to an economy in converting a public monopoly into one with commercial objectives without the safeguards for competitors and consumers that such a regulator can provide"

The establishment of a regulator assumes that Safcol sells off its sawmills The forests would then be privatised or held in trust for the state

Van Vuuren and the Department of Water Affairs and Forestry reject the notion that Safcol should split "The growing of timber on its own is not really profitable You need to expand downstream activities," says Hennie Coetzee, the department's manager of forests

The relationship between Safcol and the sawmillers is at the heart of the Competition Board investigation While Safcol has yet to make representations, Board chairman Pierre Brooks is investigating whether Safcol has abused its dominant position both in respect to the contract terms and by favouring its own mills at the expense of its competitors.

"Companies in dominant positions can easily abuse their position The responsibility for a public company to avoid this trap is even greater," Brooks comments

Goyder charges that Safcol has already abused its dominance "Since given responsibility for managing forests on a commercial basis Safcol has chosen to do so in a manner abusive of its dominant position by adopting a range of practices, including that of changing dramatically, its approach to pricing and other essential terms

"These practices represent the typical approach of a dominant enterprise seeking to weaken a customer whom it may regard as a potential competitor," Goyder says

Brooks has a number of options available if uncompetitive behaviour is established These include direct remedial action and the appointment of a regulator

In broader principles he strongly advocates that competition policy principles are considered in the government's restructuring process.

"We need strong competitive factors in the market. Otherwise there will be only short-term advantages for Safcol and no long-term benefits for the industry," Brooks says

Safcol took over the running of the commercial forests in 1993 with a mandate to improve their financial returns to the state, a mandate it has pursued with gusto

Previously the Department of Forestry had been a rather benevolent administrator and supplied the sawmilling industry with subsidised log prices in order to stimulate employment in rural areas.

That changed rapidly after Safcol's formation and sawmillers soon faced sharply increasing log prices as well as stricter contract conditions most notably shorter contract periods

Most of the sawmilling groups — 19 out of 22 — have accepted Safcol's revised contracts although there are allegations that the groups were browbeaten into doing so

The three that have not concluded deals with Safcol — Yorkcor and Eastern Cape groups Rance Timber and Lentz Forest Products — have stated that contract terms were tightened and log supplies threatened after they refused to accept Safcol's terms

Van Vuuren rejects these allegations, stressing that only 5% of its log supplies are under dispute A recurring theme in his argument is the need to bring local log prices in line with world prices and improve sawmilling technologies to make better use of log supplies

In the 1995/96 financial year Safcol has invested about R50-million to upgrade its sawmills

The industry counters that Safcol can guarantee its own log supplies Without security of tenure other sawmillers are loath to make the large-scale investments necessary to improve production.

Safcol says security of tenure is also assured in the new contracts

Hardwood interests cost Mondi R1bn

(194)

Nicola Jenvey BD 23/7/96

DURBAN — Paper and pulp producer Mondi has bought hardwood interests jointly owned by Hunt Leuchars & Hepburn and Anglo American Corporation for R1bn.

Mondi, owned by Anglo American Industrial Corporation, said yesterday it would pay R684,5m for the Timber Holdings interests and was also taking responsibility for the business's debt HLH would receive R362,8m in cash (including a premium for outright control and the management contract), with Anglo gaining R321,7m in cash and Mondi shares

Mondi shareholders would inject R800m in equity and loans into the unlisted Mondi to keep their shareholdings at the level prior to the Mondi share issue to Anglo, to fund capital expenditure and to refinance debt

Mondi said the deal would allow it to rationalise and strengthen its forest resources and allow it to consider a major expansion of its pulp mill facilities around the turn of the century

Timber Holdings, with annual sales of about R900m, is the major supplier of mining timber packs to Anglo American gold mines. Its Silvacel woodchip business produces eucalyptus woodchips mainly exported to Japan.

Mondi — which had R501m net earnings last year — said the deal would be positive for its earnings

HLH CEO Neil Morris said the cash — with the R220m raised by selling its softwood division to Sappi in April — would cut group debt, which was a gross R683m for the year to March

Mondi said it had also complied with Competition Board stipulations as part of the deal, including offering land and a mill to the Central Timber Co-Operative and/or the Transvaal Wattle Growers' Co-Operative.

Mondi acquires 100% of HL&H Timber Holdings in R1bn deal

(194) CT (MR) 23/4/96

By John Spira
DEPUTY EDITOR

Johannesburg — Mondi has acquired 100 percent of the equity of HL&H Timber Holdings from Anglo American Corporation and beleaguered Hunt Leuchars & Hepburn Holdings (HL&H) in a R1 billion deal

Mondi is a 51,7 percent held subsidiary of Anglo American Industrial Corporation (Amic) HL&H will use its share of the money to reduce its gearing, which will strengthen its balance sheet

The transaction, details of which were released yesterday, marks HL&H's exit from the timber industry on which its fortunes were originally built 140 years ago Earlier this year, HL&H Timber Holdings sold its softwood timber interests to Sappi for R220 million

Over the past eight years, HL&H's focus has changed from timber to food and branded consumer goods following the acquisitions of TSB, Robertsons and Rainbow Chicken

The R1 billion price tag attached to the deal comprises R684,5 million payable to the former equal shareholders (Amic and HL&H) in HL&H Timber Holdings and the assumption by Mondi of R325,7 million of external borrowing

The consideration of R684,5 million will be settled by R362,8 million in cash (including a premium for outright control and the management contract) to HL&H and R321,7 million in shares and cash to Anglo American Corporation

On March 31, the book value of HL&H's 50 percent interest in the net assets of HL&H Timber Holdings was R240,4 million

HL&H Timber Holdings has an annual turnover of R900 million In the year to December 31, Mondi's turnover was R4 billion.

"We believed the future of HL&H was best served by consolidating and focusing our resources on our remaining food and consumer goods businesses that offer attractive opportunities for growth," said Neil Morris, the chief executive of HL&H

"The reduction in gearing and strengthening of our balance sheet would help position the group to achieve its longer term objectives," he said

HL&H calculated that, had the deal been effective for its 1996 financial year, its headline loss would have been reduced from 45,2c to 31,5c a share, and its net asset value at March 31 would have improved from 706,4c to 787,2c a share

Mondi has financed the transaction from its own cash resources and through an equity injection by its shareholders

In addition, interest bearing convertible loans were contributed by the shareholders to fund capital expenditure and refinance debt The total contributed by the shareholders was R800 million

Tony Traher, the chairman of Mondi, said the acquisition of HL&H Timber Holdings should be positive for Mondi's earnings

☐ See Business Watch, Page 18

ST(BT) 28/7/96

Mondi waits for the right package

(199) (194)

MONDI's successful R1-billion bid for the hardwood interests owned jointly by Hunt Leuchars & Hepburn Timber Holdings and Anglo American has moved it a step closer to a major expansion of its pulp and paper mill at Richards Bay, writes DON ROBERTSON.

Mondi chief executive Tony Trahar says, however, that it will be two to three years before a final decision is taken regarding the expansion

Late last year, Mondi attempted to sweeten its bid for the HL&H timber interests, then under Competition Board scrutiny, by saying the acquisition would "secure resources for a R5-billion mill that could create thousands of jobs"

"It is another step in our acquisition of fibre resources required for the expansion, but we will need more than this for our eventual requirements. We will also need the right package of economic conditions," says Trahar.

Mondi, a subsidiary of Anglo American Industrial Corporation, will pay R684,5-million to HL&H and Anglo and will assume R325,7-million of the timber company's debt Of the capital amount, R362,8-million will be in cash to HL&H and R321,7-million in shares and cash to Anglo

Earlier this year, HL&H sold its softwood interests to Sappi for R220-million.

HL&H/MONDI

BARKING UP THE RIGHT TREE

FM 26/7/96

(194)

The R1bn deal between Hunt Leuchars & Hepburn (HL&H) and Anglo American Corp's Mondi Paper finally brings much needed respite to the embattled Rembrandt company Along the way, it also spells the end of HL&H's 90-year involvement in SA's timber business

Neil Morris

HL&H CE Neil Morris puts a brave face on it, but ruefully concedes that he's sad the group is now confined to the food business, though recognising that a more concentrated focus is essential to its long-term survival

At the same time, he's clearly relieved that HL&H's poor gearing ratio — about 60% before the deal — will now be restored to a distinctly healthier 30% (though that's not quite as good as the 25% Morris hoped for when the *FM* reported on the company in January)

The company's timber interests, held through HL&H Timber Products, are essentially divided between supplying timber props to mines (Mining Timbers) and a lucrative export business (Silvacel), which sells wood chips to Japanese pulp producers The expected decline in earnings from the sale of Timber Products will be offset — almost exactly, says Morris — by the decline in interest payments this year Over financial 1997, however, he will have to secure benefits from HL&H's other operations

Anglo American held a 50% stake in HL&H's timber division anyway, so the R1bn deal isn't quite what it seems at first glance Mondi takes on R325,7m in external debt and pays Anglo R321,7m in cash and shares and HL&H another R362,8m (the difference between the two payments of R41,1m is an outright control premium)

Mondi chairman Tony Trahar says he accepts the purchase is "probably relatively expensive in the short-term, but Mondi can achieve significant rationalisations " Among the more important of these is that, as demand for timber props declines, so Mondi can make more use of the available timber planting (it has taken on an additional 128 000 ha) for its pulp and associated products

More important probably is that the purchase brings closer a major expansion in its pulp production at Richards Bay Indeed, this may well be the weightiest of Mondi's considerations in arriving at its decision to press on with the deal, long in execution and already frustrated by an earlier aborted attempt

Tony Trahar

In the short term, Trahar estimates that Timber Products will add about R85m-R90m to Mondi's operating profit before interest for the nine months of the current financial year, and R40m-R50m in net earnings Over 1997, however, he expects the contribution to improve materially as rationalisations take effect

Over at HL&H, the concentration of effort continues to be, as Morris puts it, to get Rainbow Chicken through its hospitalisation period and back into reasonable equilibrium He concedes it won't be achieved quickly though — more losses this year before a gradual improvement as the efforts of the past few years begin to kick in

Even that's dependent on a number of factors, many outside Rainbow's control Morris says Rainbow is no longer the lowest-cost producer that it was and that weakens its position as the biggest supplier This also presumes that Rainbow is able to avoid any recurrence of the disastrous Newcastle disease which so decimated its flocks two years ago And the supply/demand equation is still out of balance prices now are lower than two years ago despite hefty cost increases and the problems of imports remain a material one

Next on his list is to conclude the Rainbow rights issue, which will probably see HL&H ending up with 70%-80% of the equity At least Morris has the satisfaction of knowing that the company's sugar leg, concentrated in Mpumalanga, has turned a long corner and spice manufacturer Robertsons continues to be a spectacular contributor

Taken by and large, the deal is probably marginally expensive from Mondi's viewpoint, but has the capability of turning into a winner down the line And it gets HL&H out of its debt difficulties and enables it to concentrate on counting its chickens in a market that is increasingly problematic *David Gleason*

MORKELS

STABLEMATES

Forget that Claas Daun controls both Morkels and Bergers Stores And that he held both groups apart, but in the same stable In the eyes of Morkels' MD Dods Brand and financial director Terry Simon buying the assets of Bergers out of holding company Bertrad (Daun is to retain the shell) makes better sense

It gives Morkels, at a fair price, 180 well-established retail outlets and attractive diversification opportunities

The deal has been on the cards for months while Bergers' management battled against insolvency Bergers name, solid among consumers if not in the trade, will be given added value through the skills and resources available in the new management

Simon emphasises that Morkels has long waited for the right opportunity to

Anglo buys stake in pulp producer

(194)

Amanda Vermeulen

BD 10/5/96

ANGLO American has bought a \$250m stake in BAT Industries-owned pulp producer Aracruz Celulose SA and is reshuffling offshore assets to give its SA group Mondi wider global access.

The corporation said yesterday it bought the 11,8% stake from BAT's Brazilian subsidiary Souza Cruz.

Its domestic and offshore paper and pulp interests, jointly owned with Amic and Minorco, would also be reshuffled to give Anglo a greater stake in Mondi Europe. Mondi executive chairman Tony Trahar said the group still had to discuss how much this would increase its 5% stake in Mondi Europe.

Aracruz is the world's largest, lowest-cost producer of bleached eucalyptus pulp, with net income for the past financial year of \$386m. Mondi SA, 51,7%-owned by Amic and 31,2%-owned by Anglo, more than doubled profit to R501m for the year to December. The deal, undertaken through Anglo subsidiaries ARH and Mondi Brazil, was funded through a \$500m syndicated loan arranged by ARH.

Sappi's results to reflect collapse in the paper market

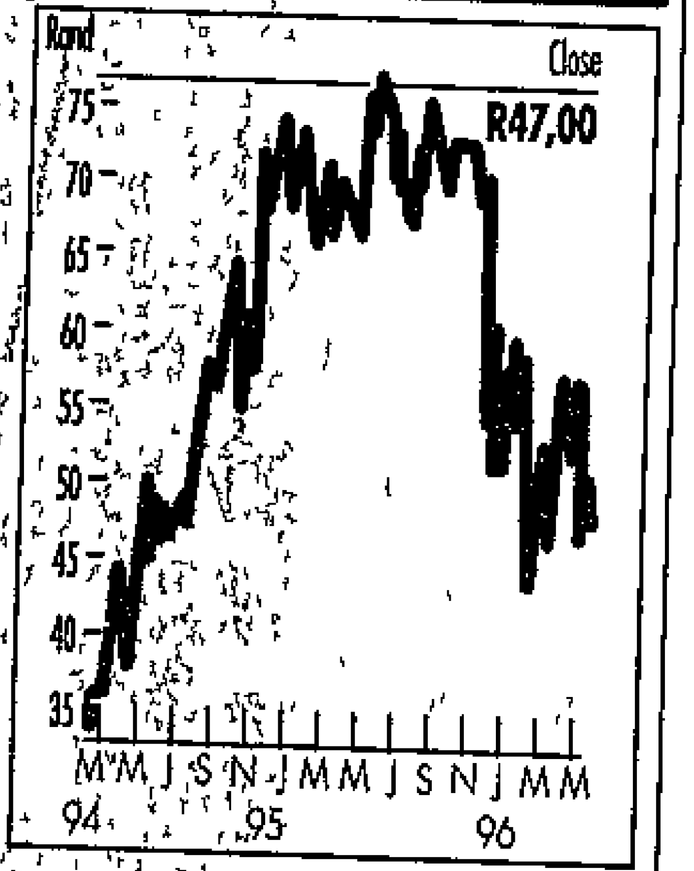
194

By Ann Crotty

CT (BR) 21/5/96

INDUSTRIES EDITOR

Johannesburg — Sappi's results for the six months to March 31 are due later this week and, judging by the sustained weakness in the share price, investors have been persuaded that earnings have been mauled by the collapse in the international paper and pulp market.



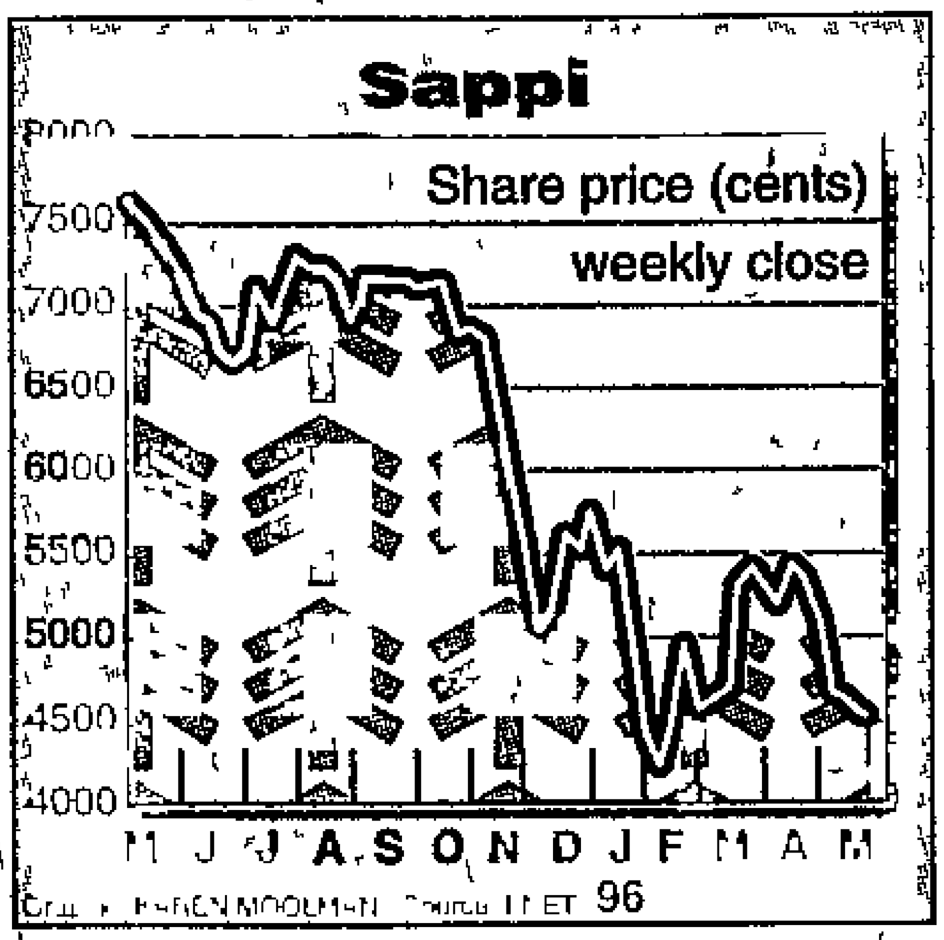
At the company's annual meeting in February, Eugene van As, the chairman, warned shareholders that the collapse in pulp prices between the end of last year and April would have a severe effect on earnings for the financial year to September 30. At the time the share price was trading at about R51 having slumped from a peak of R76,50 in April last year.

After the warning analysts revisited their earnings forecasts and came up with earnings figures of about R8,00 a share for the full year. Sappi's management indicated that even this was too high.

Most analysts now expect a figure of about R6,00. This looked disappointing, given that R6,00 was earned in the seven months to September 30 last year.

If full-year earnings were in the region of R6,00 then the six months to March 31 would be below R3,00, because the second half of the year was expected to be the stronger half.

The pulp price appeared to stabilise in April and the group's rand earnings would be boosted by its foreign-based income.



Weak prices cut Sappi's income

(194)

Amanda Vermeulen

BD 24/5/96

WEAK paper and pulp prices cut Sappi's net income 22,5% to R356,3m in the six months to March

Share earnings dropped to 215c (286c in the previous comparable period). The dividend was maintained at 70c. Turnover improved 32,6% to R6,6bn, but operating income grew only 11,3% to R794,3m Net finance costs of R463m and capitalised finance costs of R144,3m left pre-tax income 8,8% lower at R476,2m A higher tax bill of R57,7m (R32,4m) cut net income to R356,3m (R459,7m).

Chairman Eugene van As said the markets in which Sappi operated had softened dramatically during the review period The benchmark pulp price slumped to $520/t in March from $925/t in December. Transaction prices had come in below list prices.

The inventory build-up of the previous year had continued to experience corrections, which resulted in most paper mills recording significant down time — as much as 25% in some cases — to adjust to sharply lower orders

Continued on Page 2

Sappi

(194)

BD 24/5/96

Continued from Page 1

"The collapse of the pulp price also put severe pressure on paper prices, leading customers to drive their inventories to extraordinarily low levels to avoid having to write their values down." However, pulp producers were now taking down time, excess stocks had been reduced and paper demand was rising.

Pulp prices bottomed in March and increases had been announced for the end of June, Van As said. Uncoated and coated fine paper bottomed in April but had started to move up and discounts were being reduced. The weak rand would enable Sappi to reverse price cuts and the final quarter should see domestic prices rise to their earlier levels.

The group was progressing with its R1,2bn SA modernisation and cost reduction programmes. Most should be completed by the end of September.

In the UK, Sappi was developing projects costing £35m as part of a restructuring following consolidation of its UK and German operations into a European unit. In Germany, the group would spend DM50m to cut costs and improve quality and output, enabling Hannover Papier to increase its market share and improve profits.

In the US, capital expenditure related to maintenance or high payback projects at SD Warren would amount to $65m for the year.

Van As said the low April and May prices would affect figures for the second half. "We expect a recovery in the fourth quarter as prices stabilise and discounts reduce. Exports will begin to benefit from the weaker rand, particularly after currency hedges are worked off, but second-half earnings could mirror those of the first half."

Slumping prices hit Sappi earnings

CT (BR) 24/5/96 (194)

By John Spira

Johannesburg — Sappi reported a 25 percent slump in earnings to R2,15 a share for the six months to March 31 on sales that rose 33 percent to R6,6 billion

The interim dividend was unchanged at 70c a share The drop in global pulp and paper prices hammered Sappi's operating margin down to 12 percent compared with 18,5 percent for the seven months to September last year.

Eugene van As, Sappi's chairman, said all its markets had softened

"For example, the list price of northern bleached softwood kraft pulp, the benchmark for the industry, fell from $925 a metric ton last December to a list price of $520 a ton by the end of March, the steepest decline ever Transaction prices dropped below the list prices"

He said that the inventory buildup that had occurred previously continued to be corrected

Van As said Sappi's outlook had become more positive, though it was operating from a low base

"Pulp prices bottomed in March and price increases have been announced for June Indications are that they will prevail Uncoated and coated fine paper prices reached their low in April but have started to move up and discounts are being reduced"

He said earnings for the second half of the financial year would still be severely affected by the low prices of last month and this month

☐ See Business Watch, Page 21

Paper prices set for increase

(194) ST(BT) 26/5/96

By MARCIA KLEIN

MONDI Kraft has warned that paper prices are set to increase from July on the back of signs that the international paper and pulp market has bottomed out

Mondi Kraft, a major supplier of corrugated papers to the packaging industry, says major converters in the price-sensitive Asian market have been trying to negotiate longer-term contracts at the current prices, while European converters are no longer proposing lower prices

Mondi Kraft marketing manager Peter Hurst says orders are starting to pick up, "although stockholdings will have to reduce further before any major resurgence in paper prices takes effect"

He says the price of fine papers has already risen by 10% in the US, and an increase of $50 a ton in the international pulp price is expected to come into effect from June

There are signs of a hardening market in the second half but "exactly when and to what extent is anybody's prediction", says Mr Hurst

The company has been following the international downward trend in prices since the end of last year, he says, but the US and other major economies are showing strength, and better prices can be expected

Mr Hurst adds that the decline of the rand has had an effect on local prices of imported raw materials like chemicals and fuel oils which are used to manufacture corrugated papers "This, and increases in transport costs, must ultimately also have an effect on our pricing"

Mondi Kraft conducts internal pulp transactions at international prices, so 'any improvement in world prices would have a direct bearing on the prices of downstream paper, corrugating and board products manufactured within the Mondi group"

The fall in prices over the past few months has had the effect of reducing interest in alternative packaging materials like plastics, and "corrugated papers have also improved competitiveness against wood packaging for fresh produce"

Poor pulp prices put the squeeze on Sappi

(194) ST (BT) 26/5/96

By JULIE WALKER

SAPPI's share price ditched another 60c to R45 after interim results for the six months to March confirmed the group's fall in fortune. Earnings fell a quarter to 215c a share against 286c in the period to March 1995.

Sappi earned R794,3-million operating income from turnover of R6,6-billion. The operating margin fell from 18,5% to 12% in the seven months to September last year. More than a third of the income came from Sappi's 1995 purchase of SD Warren, which took a heavy toll in interest.

Net finance costs of R463-million climbed by almost half on 1995, and another R144-million of finance costs were capitalised. Most of the debt relates to the SD Warren acquisition, but Sappi consolidates debt across the group to give a meaningful picture of the level of exposure. Long-term borrowings and other interest-bearing debt rose by R546-million. Sappi is still 94% geared with long-term borrowings of R8,2-billion.

At a presentation of results to analysts last November, Sappi executive chairman Eugene van As noted that the price of northern bleached softwood kraft pulp had already fallen to $925/ton, which he expected would roughly be the price into 1996. However, NBSK — the industry's benchmark — fell to as low as $520/ton by the end of March, the steepest decline to date.

Mr van As says the inventory build-up last year was corrected throughout the period under review. Most mills took downtime to adjust to the lower order flow.

The collapse of the pulp price pressurised paper prices, and customers allowed their inventories to fall to very low levels so as not to have to write down the value of stocks.

However, he notes the return of some stability to the markets. Excess pulp stocks are believed to have been reduced and paper demand is rising steadily.

"Pulp prices bottomed in March and price increases have been announced for June. Discounts on uncoated and coated fine papers are being reduced and prices are moving up." He adds that the weaker rand will enable Sappi to reverse some of the price reductions effected earlier in the year and the last quarter of the financial year to September should see domestic prices restored to their earlier levels.

In the longer term, prospects are better, but for the remainder of the current financial year Sappi will be "severely impacted" by the low prices of April and May.

On the positive side, Sappi should have spent the bulk of the R1,2-billion on modernisation and cost-reduction programmes in southern Africa and capital expenditure will reduce significantly to normal maintenance levels.

However, rather untimeously before the recent collapse of the rand Sappi had put in place rand-dollar forward cover to reduce the effects of what had been a strong rand. "The collapse of prices caused the period of cover to be beyond what was originally planned. If Sappi had had the benefit of taking cover at the current exchange rates, earnings would have been improved in the second half of the financial year by 80c a share." As it is, Sappi expects second-half earnings to mirror the interim.

Another contingent cloud of liability hangs over Sappi. If South Africa adopts the proposed new standard relating to deferred taxation, Sappi will be obliged to switch from the partial to the comprehensive method of provision. While this will not have an impact on cash flow or dividend payments, it will knock declared earnings.

Sappi's share price has dropped from a high of R75 a year ago to as low as R42 in February and is currently trawling the mid R40s, roughly 10 times forward earnings. The share price usually pre-empts cyclical turns both up and down, but factors such as deferred tax and forward cover now play an unquantified role. The JSE does not favour Sappi yet and remains impervious to bullish statements of better things next year.

PACKAGING INDUSTRY SURVEY

(194) ST(BT) 11/8/96

PART AND PARCEL OF PROSPERITY

The fortunes of the packaging industry, which act as a leading indicator of economic growth, suggest that an upswing may be just around the corner, writes **CIARAN RYAN**.

THE packaging sector is generally regarded as a barometer of economic performance, providing a porthole view of the consumer markets it serves

1995 was an outstanding year for these companies Last year, at a time when the economy grew at around 3,2%, packaging companies reported volume growth in excess of 8% Consumer confidence was soaring, the rand stable and capital inflows at record levels

But with a worse-than-expected Christmas season, customers were left with a stock overhang which reduced demand in January In February the rand collapsed, along with business confidence

Volume sales have barely moved since January, although June sales were slightly firmer, suggesting the start of the next uptrend may not be far off

The growth in demand for packaging generally exceeds economic growth by between two to three percentage points

Since 1985, the packaging index has grown at 2,3 times the growth in GDP Over the past six years, both Kohler and Nampak outperformed the JSE industrial index

Packaging shares also tend to anticipate movements in the economy An early sign of improving business confidence is inventory build-up, for which packaging is an essential component

The decline in share prices in the packaging sector reflects a bruising first half to the year, although most companies continue to report real growth in earnings Nampak's share price fell from R23 to R17, Kohler from 850c to 580c and Consol from 5 350c to 3 900c

Last year Nampak reported a 9% growth in packaging volumes, a 23% growth in sales, and a 27% increase in earnings per share Consol's sales were up 22% last year and operating profit by 19% — at the December 1995 interim stage, turnover was up a further 16% and operating profit 22% The third of the three main packaging groups, Kohler, reported a 22% growth in earnings per share for the half year to February 1996 and a 28% improvement in pre-tax income

It is unlikely, however, that packaging companies will be able to keep up these kinds of growth rates in the current financial year Packaging volumes have been flat for most of the early part of this year — there are many reasons, among them a rainy summer (reducing demand for soft drinks and beer), overstocking at Christmas and a reversal in business confidence in the first two months of the year

With growth in packaging volumes tending to exceed growth in gross domestic product, packagers are excited by the government's plans to lift economic growth to 6% a year by 2000.

Urbanisation and rising levels of disposable income underpin this market This suggests that growth in demand for packaging could return to the 8% levels seen last year

Nampak, Kohler and Consol combined plan to invest more than R3-billion in capacity expansion over the next five years to ready themselves for growth

Packaging has become an increasingly sophisticated and demanding market It is a means of unitising bulk products but, more importantly, is seen as a vital component in a company's marketing strategy An attractively packaged product is more likely to sell than a poorly packaged one

Packagers are no longer simply suppliers of packaging material to their customers They are intimately involved in the design and production of their clients' products As such, they have become indispensable to the consumer markets

As the accompanying tables show, the fastest growing packaging markets are metal (average 10% annual growth between 1960 and 1995), followed by plastic and glass (5%) and paper (4%) The three major packaging companies are well positioned in each of these markets and most have tie-ups with international packaging groups (very important for international distribution and technology transfer)

As South Africa finds itself integrated into the world trading community, local customers are increasingly aware of international packaging prices This makes it difficult for local suppliers to pass on price increases, putting margins under pressure This, however, should be offset by the natural growth in volumes over the next few years

A reversal in the JSE packaging index will be read as a sign of returning business confidence Of the three largest packaging companies, Nampak enjoys the highest market rating with a price earnings ratio of 18,1, followed by Kohler at 13,6 and Consol at 12,6

TOTAL PLASTICS MARKET % VOLUME GROWTH

	1993	1994	1995
PET	[illegible]%	+14%	+17%
Rigid	+3%	+7%	+3%
Flexible	+2%	+10%	+0%
Total	+2%	+9%	+5%

TOTAL METAL MARKET % VOLUME GROWTH

	1993	1994	1995
Beverage cans	+9%	+16%	+14%
Food cans	10%	+4%	+4%
Aerosols	-3%	-	-
Total	[illegible]	+1[illegible]	+1[illegible]%

[illegible] MARKET % VOLUME GROWTH

	1992	1993	1994	1995
Corrugated	-3%	2%	+14%	-4%
Cartonboard	-9%	-3%	+5%	+4%
Sack, bag & wrap	3%	1[illegible]	[illegible]	
Cores & tubes	0	-3%	+4%	0
Pulp trays	[illegible]	4%	[illegible]	[illegible]
Total	+4%	-3%	+9%	+3%

PACKAGING MARKET VS GDP GROWTH

Year	GDP index	Packaging market index
1990	[illegible]	100
1991	99,6	101,8
1992	97,5	99,3
1993	98,6	95,4
1994	100,	102,1
1995	104,1	106,7

Nampak spends its way into bringing world-class service

NAMPAK plans to invest more than R2-billion over the next five years on plant and capacity The group comprises 20 separate businesses, each of which is aiming for world-class manufacturing standards The group's factories are being fitted with world-class technology in anticipation of strong growth in the years ahead

The group invested R400-million in plant last year and plans to spend a further R600-million this year — half of it in the beverage division

"This capital expenditure is critical to ensuring that we are a low-cost producer able to withstand the most trying market conditions," says Nampak chief executive, Trevor Evans

Mr Evans is looking beyond the limp performance of the past six months to the pot of gold which lies ahead

"If the economy starts to grow at 6% a year, then we want to be geared up to meet the demand for packaging products, which has historically exceeded economic growth," he says

After a 9% growth in volume demand in 1995, the market turned flat in 1996 Demand for beverage packaging, a substantial contributor to Nampak group sales, was spoiled by the heavy rains of December and January, depressing sales of beverages

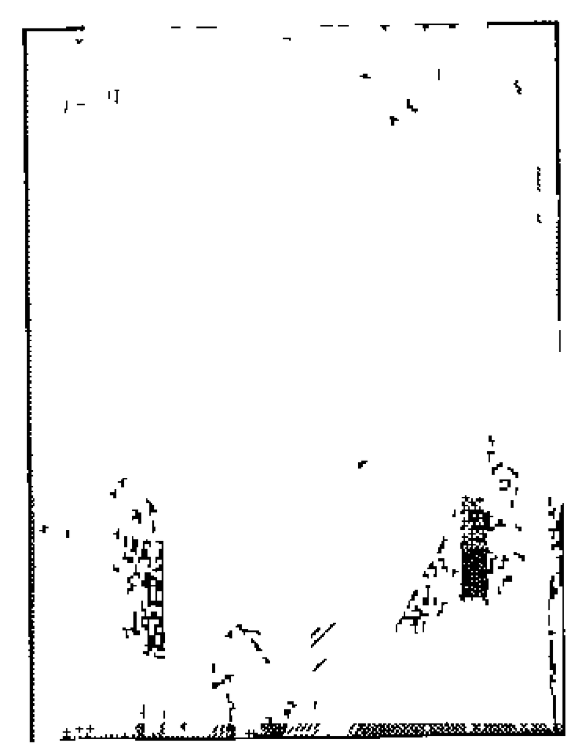
Margins, too, are under pressure as a result of weaker market conditions Another factor which has fundamentally altered the pricing structures of local packaging companies is that local companies are more of international pricing

"Our customers expect us to supply them at globally aligned prices, yet our suppliers price at import parity (the equivalent price of landing materials in South Africa)" Fluctuations in the prices of paper and plastics has placed margins under additional pressure

Nampak's answer to this uncertainty is to transform itself into a world-class manufacturer

"We are concentrating on doing everything more efficiently, equipping every division with the latest technology and making sure that we are prepared to face whatever threats and challenges come our way," says Mr Evans

Four years of 8% annual growth would absorb the country's entire packaging capacity, requiring further, huge capital expansion This kind of growth could also attract strong interest from overseas competitors, although strong alliances have already been cemented between local and overseas packaging companies Nampak has a tie-up with a number of overseas packaging companies, including Saint Gobain



TREVOR EVANS

Mondi's exports gaining ground on its competitors

WHILE Sappi has been grabbing the headlines with its acquisition of US fine paper producer S D Warren, competitor Mondi continues to make steady progress in its international expansion.

Mondi's parent, Anglo American, recently acquired a 28% voting stake in Aracruz of Brazil, the largest eucalyptus pulp producer in the world. The group's other off-shore interests include 50% of UK-based Aylsford Newsprint, 49% of Austrian paper-and-pulp producer Neusiedler, and 44% of Franschach

Mondi Europe is 95% held by Anglo's overseas investment arm, Minorco, or any of the other factors which can influence this market"

Record fruit exports over the last two years have been a boon to packaging companies Hundreds of thousands of new fruit trees have been planted over the last five years to meet export demand, pointing to several years of future growth for packaging suppliers.

Demand for packaging material was soft in the first half of 1996, although June sales point towards a turnaround in demand

"Demand was flat in the first half of the year as a result of stock build-up in anticipation of strong Christmas sales which turned out to be a bit of a disappointment, accompanied by weakness in the economy in the early part of the year," says Thompson "This period of inventory adjustment appears to be at an end and we are now seeing a pick-up in sales"

Volume sales grew by 9% in 1995 on the back of a surging economy and inventory build-up

Paper and packaging suppliers came in for criticism late last year for raising prices by 40% Mondi reduced its prices by 7,5% in April this year, but warns of a price increase later in the year

"The big increase in price over the last year follows a period of about two years during which we held our price below international levels The price increase in October last year largely closed the gap between local and international prices"

Local prices will in future track international trends, according to paper and pulp producers. Import duties of 10% (of the free on board value) will decline to 5% in terms of South Africa's General Agreement on Tariffs and Trade commitments

Cont.

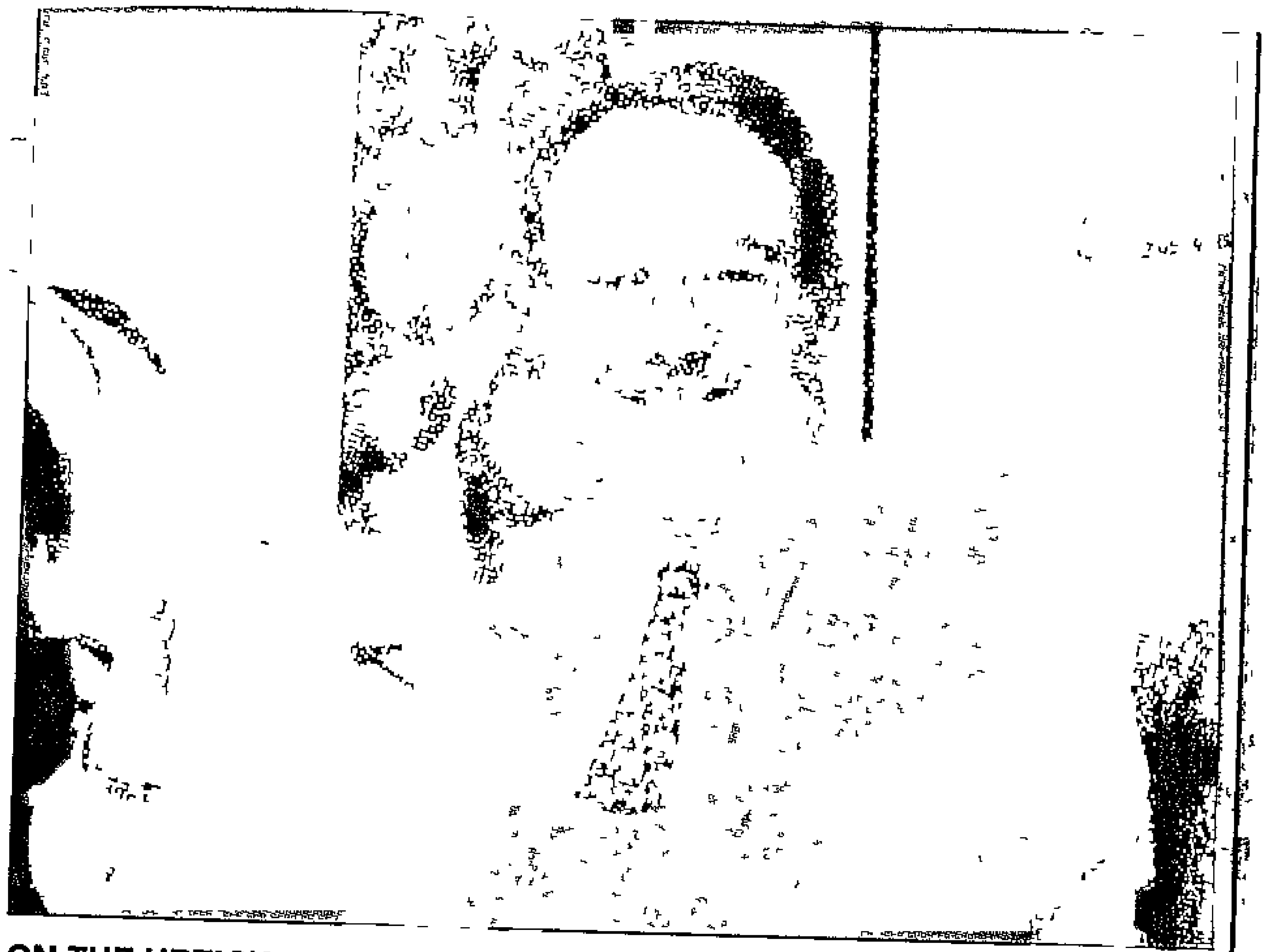
with Mondi South Africa holding the remaining 5%

The group is also making headway in the export markets Its Richards Bay mill is running flat out to meet local and export demand for Mondi Baywhite packaging grade, renowned for its packaging strength and outer finish which accommodates high-quality print

About two-thirds of the group's Baywhite production is exported, while fruit exports account for roughly 10% of Mondi's sales of corrugated paper

"Unlike other sectors of the economy, the fruit market is less sensitive to short-term economic swings," says Andrew Thompson, deputy managing director of Mondi

"Fruit must be packed when ripe, regardless of order levels, the weather,



ON THE UPTICK . . . Mondi's Andrew Thompson Pictures: JEREMY GLYN

Seartec looks sharp with income up 26%

((?))(194) CT (AR) 12/8/96

By Marc Hasenfuss
CAPE EDITOR

Cape Town — Seartec confirmed its status as a rising star in the Seardel Group with a 26 percent rise in attributable income to R14,2 million in the year to June 30

The company distributes Sharp electronic equipment and Scripto stationary products

Earnings a share came in 24 percent higher at 23,3c a share because of more shares in issue A final dividend of 5c a share was declared, pushing the annual payout up 88 percent to 7,5c

Turnover increased 15,6 percent to R226 million Chris de Bruin, Seartec's chief executive, reported that all marketing divisions produced strong growth

"This was notwithstanding a slow first quarter caused by most customers holding back purchases to take advantage of the abolition of the customs duty surcharge and reduced duties," De Bruin said

De Bruin also said the company scored almost R1 million in non-sustainable income from customs duty refunds relating to previous financial years.

That amount was included in the company's after tax income, de Bruin said

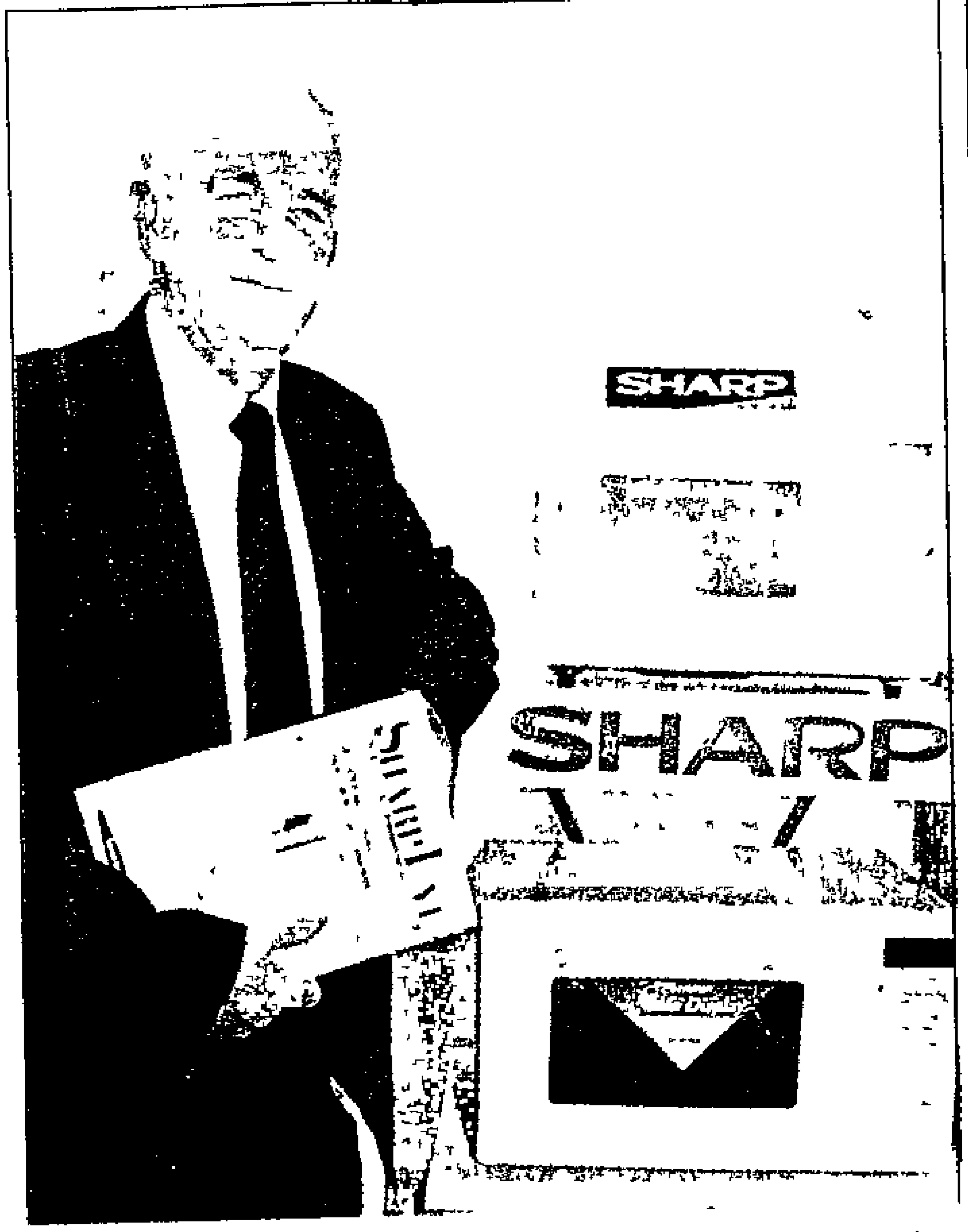
He attributed the performance to a concentrated effort in a highly competitive market "Our products performed exceptionally well across the board with noteworthy increases from our photocopier range, video projectors, fridges and microwave ovens"

The office automation division benefited from increased awareness of its products Sales of calculators, fax machines and currency-handling devices increased noticeably, De Bruin said.

Seartec's balance sheet also ended the period in good shape, with interest-bearing debt a mere R500 000 and cash reserves well up at R14 million The company's strong operating cash flow of R18,5 million slashed the interest bill by 61 percent to R187 000

De Bruin said new products, including an Internet-compatible notebook computer and a wide-screen television set, would help Seartec maintain its market share

"We are confident that our existing product range from Sharp Japan will continue to provide the growing South African market with what it wants," he said.



PROFIT WAVE *Chris de Bruin, the chief executive of Seartec, with his profit-spinning product range* PHOTO ANDREW BROWN

WBHold looking forward to a plum year

By Marc Hasenfuss

Cape Town — WB Holdings (WBHold), the JSE-listed fruit farming company, is in line for a bumper year, with interim profit more than doubling to R1,5 million on the back of a markedly bigger deciduous fruit harvest.

The company's turnover, which is made up of the export and local sales of pears, plums, apples and nectarines, climbed 57 percent to R8,1 million in the six months to June Trading margins improved to more than 20 percent from 12 percent in the first half of last year, lifting operating income by more than R1 million to R1,7 million

Alan Silverman, the managing director of WBHold, attributed the strong showing to increased production and sales this season

The bigger fruit tonnages were partly expected after last year's production fell to 25 percent on 1994 levels

Silverman said operating costs for the interim period had exceeded budget "This was due to increased labour costs in harvesting the bigger crop, but this will be well compensated for by the increased fruit income"

He said WBHold's revenue and expenditure did not accrue evenly throughout the year and indicated that the first six months' profit did not necessarily represent half the full year's profit because less than 50 percent of the fruit had been sold

Silverman predicted profit for the full year would be substantially higher than last year "Prices are in line with those received in 1995, but the weaker rand will give export fruit income a boost"

Confidence for a strong full-year showing was underlined by the interim payout of 5c a share, covered more than three times by earnings of 16c a share The half-year dividend is only 3c short of last year's full payout of 8c a share

In line with the company's capital development programme, the balance sheet showed an increase in fixed assets to R37 million and short-term loans of R5,1 million

This capex programme resulted in new plantings of 21ha and a further 4ha of replanting Silverman said two-thirds of the new plantings, which were expected to be completed by the end of the year, would be a new apple variety and the remainder pears

Further expenditure this year would include a new orchard development at a cost of R2 million, new plant and machinery and additional staff housing.

WBHold closed unchanged at R3,70 on the JSE on Thursday The current price, which is a considerable discount to a stated net asset value of R4,08 a share, reflects the mixed fortunes of the company in the past five years.

Be fair, or else ... union warns

(194)

Sowetan 13/8/96

By Abdul Milazi
Labour Reporter

FOR SEVEN years and eight months the Paper, Printing, Wood and Allied Workers Union has patiently negotiated for centralised bargaining in the paper, print and wood industries – now it is time for the pay-off

Ppawu spokesman Mr Alfred Tshabalala says the union is committed to a negotiated settlement, but if no agreement is reached at their meeting with employers on Thursday, "the union will be left with no choice but to declare a dispute"

Should the union declare a dispute, the industries will face their first national strike by Ppawu's 53 000 members, which will have an adverse effect on newspapers and other publishing companies

Employers have continually objected to the formation of centralised bargaining forums in favour of plant-based bargaining

The protracted negotiations forced Ppawu to call a national conference last year to discuss the way forward, but the National Executive Committee voted against a strike and resolved to continue with negotiations

Tshabalala said "The union remains committed to peaceful industrial relations, but in the same breath, it remains our responsibility to protect workers' rights"

"We feel the process has reached a situation of do or die, our membership cannot tolerate any further delays," said Tshabalala

Education and training

The industry is also divided into pulp, paper and packaging, printing and publishing and wood sectors

At industry level, Ppawu will campaign for education and training, affirmative action and restructuring

At sector level, the union will campaign for the setting up of minimum wages and better working conditions

Tshabalala added "The union notes that in the past, agreement could not be reached on collective bargaining due to employers' non-cooperation"

Timing of forward sales knocks Sappi

(194)
BD 16/8/96

Edward West

PAPER and pulp producer Sappi has lost at least R166m in export earnings to ill-timed forward sales, forcing it to scale back income forecasts for the year to September.

The group, which suffered a 22,5% fall in attributable income to R356,3m for the six months to March, said yesterday that international prices had started to recover. However, Sappi would be denied much of the gains, as virtually all its export sales for the second half had been based on a rand value far higher than its current level.

Group finance director Bill Hewitt said Sappi had taken forward cover on a third of its export earnings before the rand collapsed.

Selling at the current exchange rate would have lifted export earnings more than R1 a share — at least R166m on the group's share base average for the six months to March.

Chairman Eugene van As, who in February warned that lower prices

Continued on Page 2

Sappi

(194)
BD 16/8/96

Continued from Page 1

would affect second-half earnings but indicated the performance would outstrip first-half earnings, was not available for comment yesterday.

Sappi said the improvement it had forecast with its interims had started to occur. The benchmark northern bleach softwood kraft pulp price had reached $560-$580 a ton compared with the base in April of $450 and $925 a ton in December. Demand for coated paper had risen sharply in Europe and prices were now on an upward trend.

However, US subsidiary SD Warren had had to rescind a price rise it forced through in June.

The group's shares closed at R45,80 on the JSE yesterday, against a R73 high reached a year ago.

Paper and packaging industry stakeholders differ on structures

BD 16/8/96 (194)

Reneé Grawitzky

NEGOTIATIONS on the establishment of a centralised bargaining forum covering more than 70 000 workers in the paper and pulp, packaging, printing and wood industry has commenced with differences emerging between unions and employers on the type of structures to be formed.

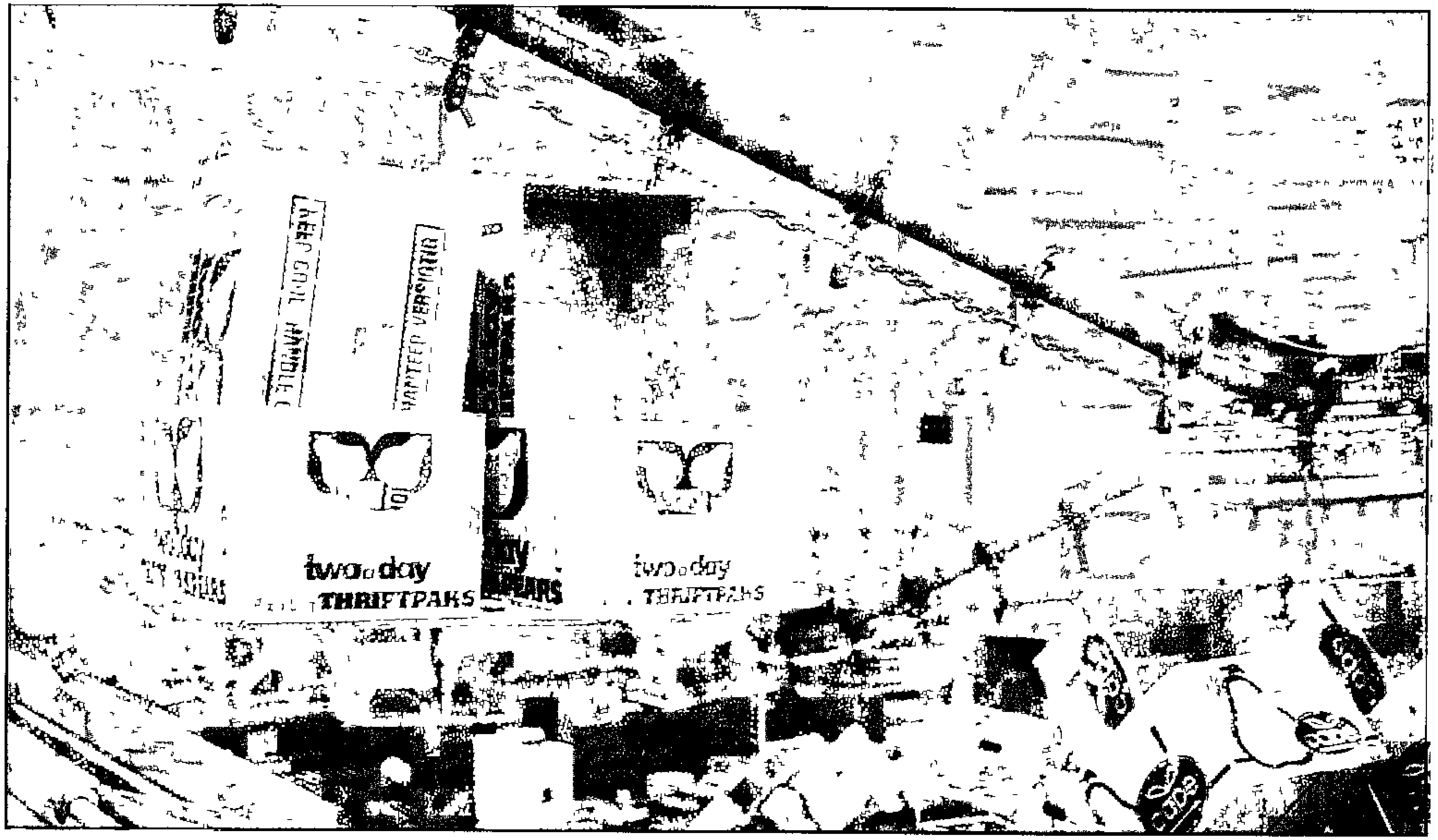
Representatives of a number of companies including Nampak, Consol, Mondi, Kohler, Waltons and Carlton Paper met the Paper, Printing, Wood and Allied Workers' Union, SA Typographical Union and Media Workers' Association of SA yesterday to continue talks on centralised bargaining

The Paper, Printing, Wood and Allied Workers' Union said employers present had agreed in principle to the notion of centralised bargaining However, they raised the question of demarcation of sectors and were opposed to a single bargaining forum They proposed a number of separate forums The unions had proposed a national bargaining council with three subsectors for pulp, paper and packaging, printing and publishing, and wood

The union said employers indicated that a single bargaining forum would create a monster and would have economic disadvantages for business

An employer spokesman confirmed that employers wanted separate bargaining councils for each sector

The union said its national conference earlier in the year resolved to establish a national forum to discuss issues such as education and training, affirmative action and restructuring, and issues around medical aid, pension and housing The union agreed that wages and conditions of employment could be set within sector-level forums The parties agreed to continue discussions within the next few weeks



Pack plant's output is up

(194)
ARG 20/8/96

THE Two-a-Day fruit packaging plant in Grabouw, with cold storage facilities of up to 60 000 tons, has doubled its throughput after a R10 million upgrade

Doug Murray, Two-a-Day's group engineering manager, believed that the new plant put Two-a-Day in the front line of South Africa's fruit packers

One of the extra's Two-a-Day now offered was fruit waxing, coating the fruit with an ultra-thin layer of specially formulated wax with preservative and cosmetic functions

Most of the controls at the new plant were computerised, giving a far more accurate and precise operation than was possible before

But the present low value of the rand, although beneficial to growers in the short-term, made the cost of imported plant excessive Only about 60 per-cent of the total plant could be made locally

Improvement beats market expectations

Consol earnings leap

(194) CT (BR) 21/8/96

By John Spira
DEPUTY EDITOR

Johannesburg — Consol, the packaging and rubber manufacturer in the Anglovaal group, boosted earnings before exceptional items by 17 percent to 357c a share in the year to June 30

The improvement, which was ahead of market expectations, came on the back of an 11 percent turnover increase to R3,3 billion Dividends were 16 percent higher at 102c a share

Net financing costs rose 52 percent to R87,2 million on the back of a debt-to-equity ratio that rose to 43 from 37

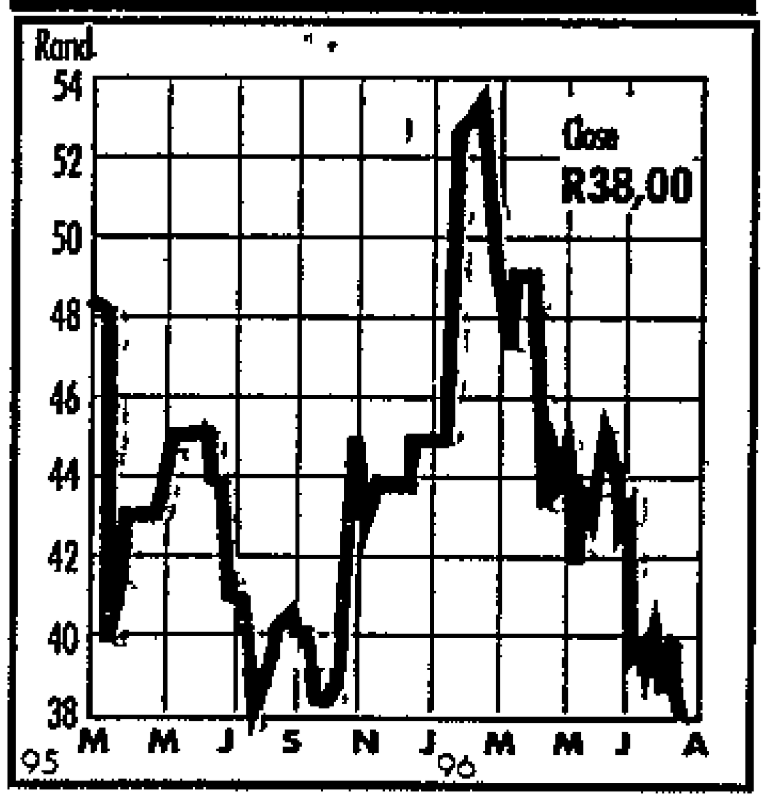
Piet Neethling, the managing director, said yesterday that Consol's packaging activities, where turnover had grown 16 percent and operating profit 22 percent, had performed especially well.

The rubber operations, where sales were 8 percent higher and operating profit 7 percent ahead, reflected the competitive pressures in the tyre industry

Neethling said packaging had done well in spite of the effect of lower volumes after a slowdown in the local economy in the second half of the financial year and despite increasing import volumes

Consol's glass division had achieved "small" profit growth. However, the technological updating of the division was escalating and he expected a better performance this year

Consol



Construction of a R180 million furnace project in the Western Cape had started

Neethling said the paper division had recorded a "meaningful" profit increase

"The major portion of this division's capital investment and renewal programmes has been completed The division is therefore geared for growth, and production efficiencies measure favourably against overseas manufacturers"

Plastics suffered a loss, but it was smaller than last year "

From November the division has been in profit on a monthly basis and the prospects for next year are promising," Neethling said

Tyre manufacturer Tycon and tyre retreader Tredcor were affected by lower-priced imports.

Neethling nevertheless believed Consol's rubber operations were "optimally positioned to meet current and future challenges in the long term"

Neethling said the South African economy was not expected to "perform at a meaningfully higher level than that experienced in the last six months of the financial year Demand for group products is likely to reflect that performance"

He nevertheless expected Consol to achieve a further earnings increase this financial year "An advance of between 10 and 15 percent is a rough prediction"

☐ See Business Watch

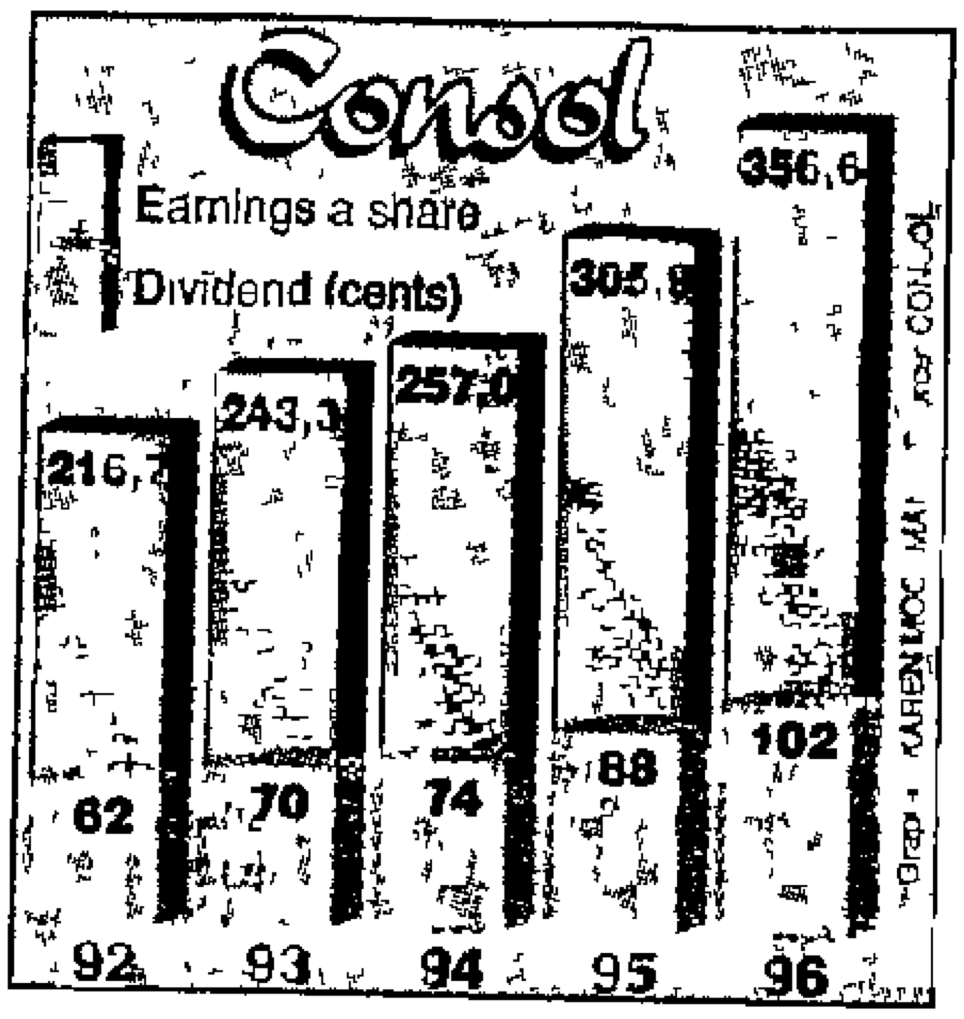
Anglovaal's Consol beats decline in the economy

BD 21/8/96

(194)

Edward West

PACKAGING and rubber manufacturer Consol increased earnings 17% to R229,5m in the year to June, overcoming a substantially weaker performance induced by the decline in the economy in the second half



The Anglovaal subsidiary's earnings a share rose 17% to 357c. Dividends a share rose to 102c (88c), with dividend cover kept at 3,5 times.

Group MD Piet Neethling said yesterday he did not expect the economy to improve at a meaningfully higher level than in the last six months of the year under review However, the group could realise earnings growth from cost and efficiency improvements.

Group turnover rose 11% to R3,32bn, with packaging sales up 16% to R1,5bn and sales from the group's rubber interests up 8% to R1,82bn. Operating profit rose 15% to R389,3m.

Reflecting the slump in activity in the second half, paper packaging turnover grew only 6% compared with 25% growth in the first half. Similarly, glass packaging sales grew 3% compared

Continued on Page 2

Consol

(194)

Continued from Page 1

pared with 18% in the first half.

Net financing costs increased 52% to R87,2m. Debt to equity climbed to 43% from 37%. Net borrowings stood at R529m at year-end, a figure which was expected to increase by about R150m by the end of this financial year.

The glass division's capital expenditure would continue at a relatively high rate, resulting in a further increase in financing costs.

The plastics division started making operating profits from November, but a loss was reported for the full year due to high restructuring and retrenchment costs.

Tyre manufacturer Tycon reported a decline in virtually all sectors, except sales into the new vehicle market.

The paper packaging division reported a meaningful improvement in profit. However, the paper and board packaging industry experienced its largest increases recorded in the cost of its principle raw materials.

BD 21/8/96

Sappi at centre of waste furore

By Shirley Jones (??)(19??) CT (BR) 23/8/96

KWAZULU NATAL EDITOR

Durban — Sappi, the pulp and paper company, is at the centre of a scandal which could shut down its industrial cellulose plant along the south coast of KwaZulu Natal

The Sappi Saiccor plant, which is the world's largest producer of dissolving pulp for the textile industry, earns billions of rands in foreign exchange and employs more than 1 400 people

The company had been singled out by incensed parties attempting to rid beaches of knee-deep foam and offshore pollution, known as "purple death", which is believed to be undermining tourism and subsistence industries in the area

Investigations by members of the Pipeline Forum have unearthed a number of irregularities relating to the Saiccor plant

The Pipeline Forum is an association of main stakeholders in the region, and other industries such as Tioxide and AECI, which want to reduce pollution in the area

The irregularities include the alleged omission of a R40 million effluent treatment plant during Saiccor's recent R1 billion upgrade An environmental impact assessment study, required by the water affairs department, was also not carried out before the project started

At a meeting held yesterday by the Pipeline Forum, water affairs department confirmed that an environmental assessment impact study was a basic requirement, even during 1993 when the expansion was announced

Sappi said the colour problem, which affected divers' visibility along beaches near Umkomaas, had no negative effect on marine life However, it said the matter was being addressed It said Saiccor was investigating several options to solve the problem,. all of which required large amounts of capital

"As agreed with the minister of water affairs and forestry, a formal submission will be presented on October 15 An EIA (environmental impact assessment) of the various options available to the company will form part of the submission, " the company said

Sappi said Saiccor's renewal application for its effluent disposal permit by the water affairs department would be presented to the department at the same time

Judy Pitts, who represents Tioxide on the Pipeline Forum, said the problems were also likely to affect AECI and Tioxide's permits, which come up for renewal in July next year It has been decided that all three permits have to be signed by Kader Asmal, the water affairs minister, because of the pollution furore in the area

Pitts said Tioxide, a producer of titanium dioxide, had taken an active stand and reduced effluent levels However, without discharging some waste into the sea, it would also have to close down, creating unemployment and the loss of more than R100 million a year to the regional economy

Other Pipeline Forum members say Tioxide and AECI have co-operated with the forum's anti-pollution requests, but Sappi Saiccor has become aggressive, withholding information and allegedly circulating a memorandum telling its employees the local community was trying to destroy their jobs

Union threatens national strike after workers fired

LT (BK) 29/8/96 (194)

By Stuart Rutherford

Durban — The 63 000-strong Paper, Printing, Wood and Allied Workers' Union is threatening to strike over the dismissal of 380 workers at Lion Match's factory in Durban last week

Lucky Mhlongo, the secretary of the union's southern Natal branch, said the union's leaders had resolved to embark on a national strike if the workers were not reinstated unconditionally He said the union was approaching Cosatu to find out if it could involve all of the federation's members

The workers were dismissed last Thursday after employees picketed the company's offices to protest against disciplinary hearings against three staff members The trio had allegedly intimidated and harassed management officials during a three-week strike that started on July 30 They were demanding that workers be allowed to transfer funds from the company's pension fund into the union's national provident fund.

Terry Turner, Lion Match's managing director, said the company fired the workers because of their unlawful and aggressive behaviour during the strike, and their defiance of management warnings and a court interdict barring them from coming within 50m of the factory

Turner said the company was employing new workers It was not reinstating the dismissed workers, but they could apply for re-employment

He would not quantify the losses Lion Match incurred because of the two strikes that jointly prevented more than three weeks of production, but said its other factories had not made up the losses Production was resumed at the Durban plant yesterday.

Mhlongo said the company dismissed the workers because it did not want to transfer the R22 million from its pension fund into the union's provident fund He said the dismissals could not be justified, because 196 workers had been arrested last Wednesday and were in jail when they were fired

FF legislator in union's bad books

CT (BR) 29/8/96 (194)

By Jonathan Rosenthal

Johannesburg — Dirk Smit, a Freedom Front (FF) member of the Gauteng provincial legislature, is embroiled in a dispute with the Paper, Printing, Wood and Allied Workers' Union over the dismissal of 137 workers last year by Sustain Timbers of Alrode, where he was a director

Alfred Tshabalala, a union spokesman, alleged yesterday that after the dismissals Sustain had failed to comply with an Industrial Court ruling that called for the company to reinstate the workers with six months of back pay

Smit denied yesterday that he had been involved in the dismissal. He said Sustain had employed professional consultants who advised the company to fire the workers when they went on strike

"For the last two years since the election I was not involved in Sustain (other than as a minority shareholder)," he said But he later confirmed that he was a non-executive director and attended board meetings

Smit said he was not involved in the day-to-day management of the company

He confirmed that the Industrial Court had ruled in favour of the dismissed workers, but said that Sustain had gone into liquidation long before the ruling However, when pressed further, he said he was unsure of the exact dates of the liquidation and judgment

The Alrode factory, which was previously occupied by Sustain, was bought from Sustain's liquidators by Blue Chip Industrial Holdings

Blue Chip's managing director is Gerrie Human, the Freedom Front's parliamentary whip in the Gauteng legislature

Human said yesterday that there was no connection between Sustain Timbers and Blue Chip "We are completely separate companies and none of the previous Sustain shareholders are shareholders in Blue Chip.

"The only individual from Sustain in Blue Chip is Dirk Smit," he said Smit is employed as a consultant

Human said his relationship with Smit was almost exclusively political because they had both served on the Alberton town council for about eight years before they were elected to the Gauteng legislature

Smit said the union's allegations were an attempt to embarrass him politically. "I don't think the union is acting in the interests of its people", he said

He said he had advised Blue Chip's board to employ former Sustain employees and said that more than half had already been employed

The union plans to embark on a one-day strike in Johannesburg on Monday. About 8 000 workers are expected to march on the Gauteng legislature to deliver a memorandum to Smit

"In our view, Mr Dirk Smit does not deserve to service the public, his motives should not be left unchallenged," Tshabalala said

Paper union calls for one-day strike (1994)

dustry to

ET(BR)S19176

Bid for Mozambican forests

(194)

Edward West

BD 6/9/96

PAPER and pulp producer Mondi was negotiating with Mozambican authorities to establish forestry plantations in that country, Mondi forestry GM John Quy said yesterday

Quy said although no agreement had been reached between the Anglo-owned group and the Mozambican government, a number of meetings had taken place He said Mondi was investigating Mozambique because of limited opportunities in SA

Local permits were becoming difficult to obtain, mainly because of water-related issues. SA was a water deficient country, and there was limited opportunity for forestry expansion, said Quy.

HORTORS (194)

REASON FOR CONFIDENCE

FM 6/9/96

Investor confidence in Hortors was renewed during the past 12 months — boosted by much-improved 1996 results and expectations of further growth — after a consistent profit record was broken during fiscal 1995

- **ACTIVITIES:** *Printing, packaging and photolithography*
- **CONTROL** *CTP Holdings 88%*
- **CHAIRMAN** *E M Jankelowitz MD S F Cormack*
- **CAPITAL STRUCTURE.** *57,1m ords Market capitalisation R276,9m*
- **SHARE MARKET** *Price 485c Yields 1,4% on dividend, 2,2% on earnings, p e ratio, 45,3, cover, 1,5 12-month high, 500c, low, 140c Trading volume last quarter, 991 232 shares*

Year to March 31	'93	'94	'95	'96
ST debt (Rm)	3,5	6,2	2,1	14,1
LT debt (Rm)	3,4	3,9	13,8	6,4
Debt equity ratio	0,15	0,19	0,26	0,27
Shareholders' interest	0,61	0,59	0,60	0,60
Int & leasing cover	n/a	n/a	6,2	8,7
Return on cap (%)	15,4	13,6	10,1	17,8
Turnover (Rm)	94,0	123,1	135,7	166,6
Pre-int profit (Rm)	12,1	12,9	10,0	20,8
Pre-int margin (%)	12,9	10,5	7,3	12,5
Earnings (c)†	16,0	18,5	11,7	10,7
Dividends (c)	6	7	3	7
Tangible NAV (c)	92	102	11	121

† Diluted headline earnings

Operations have been streamlined and operating margins widened after losses from an acquisition depressed profits during the previous year A commitment to meeting world standards should help reassure investors that the good results can continue

Things haven't gone entirely according to plan, however CTP management is considering whether to appeal a ruling by the Supreme Court that prevents the Hortors delisting plan from going ahead Chairman Edwin Jankelowitz says it is not yet clear why the ruling was made

Under the proposed scheme of arrangement, CTP would offer minorities one CTP share for 10 Hortors shares It is likely that news of the appeal is tempering market reaction

In fiscal 1995, costs of relocating and integrating subsidiary Clegg Holdings caused operating margins to drop though turnover improved This year, Hortors acquired the controlling inter-

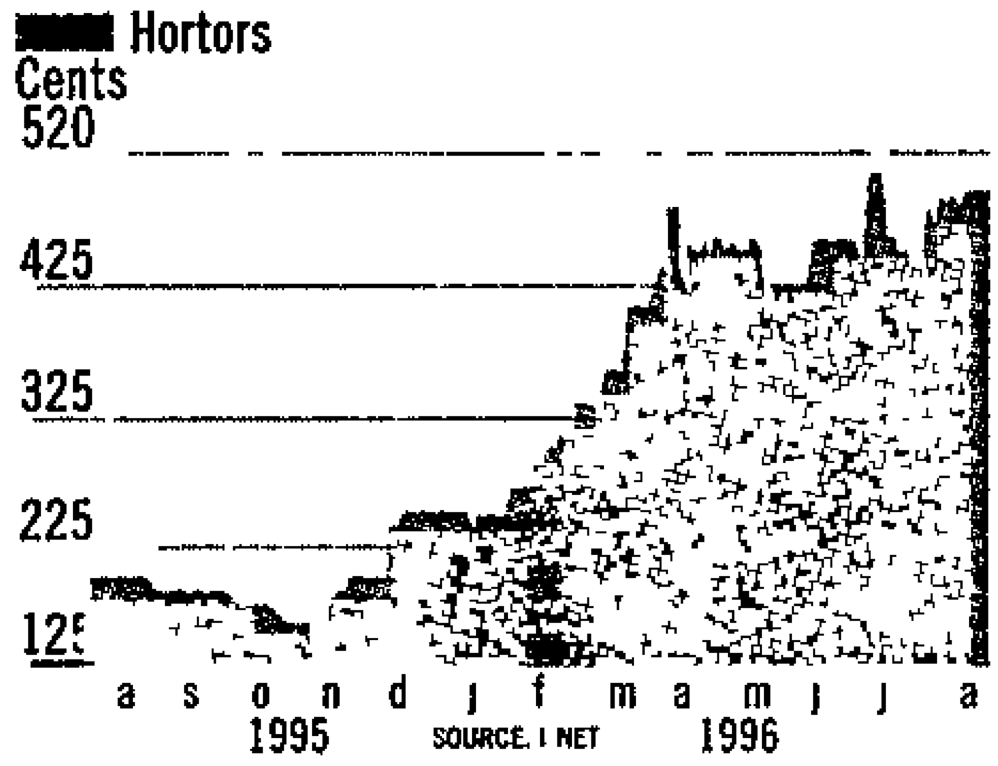
Edwin Jankelowitz

ests of Clegg Though the packaging and printing operation performed below expectations, it is improving the group's unit costs through greater volumes and nominal increases in overheads

Jankelowitz says the focus of 1996 was on efforts to improve operating efficiency, cost containment and working capital management It produced good results — pre-interest margin widened from 7,3% in fiscal 1995 to 12,5% and returns on capital employed jumped from 10,1% to 17,8%

Turnover rose by 22,8% to R166,6m, while operating income doubled

And attributable headline earnings jumped 119,9% to R13,3m though total EPS fell slightly after goodwill was written off



But attention to the balance sheet is due this year, interest-bearing borrowings increased, with the short-term portion up seven-fold to R14,1m The effect on profits, evident in financial 1996's accounts, is likely to increase Finance charges doubled last year

Some divisions attained ISO 9002 certification by adopting specified world-class quality assurance standards Most divisions are performing well, and Jankelowitz hopes to introduce new products this year

The Hortors share price roughly reflects the value of the CTP offer Ten Hortors shares at 485c each are worth slightly less than one CTP counter at R49 Though the counter has been rerated during the year, it still has longer-term attractions — which presumably is why CTP wants the shares held by minorities *Michelle Joubert*

Sappi workers 'show solidarity'

THE Paper, Printing, Wood and Allied Workers' Union announced yesterday that Sappi workers in Springs had embarked on action showing solidarity with workers on a wage strike at Sappi Saiccor in Natal. BD 11/9/96 (194)

The union said workers had been shot at by members of the SA Police Service at the start of the Natal strike last Thursday. It said police opened fire on workers who had been locked out and arrested some.

The company said workers outside the company had begun intimidating and harassing people. Later in the afternoon, police fired rubber bullets and tear gas when workers became aggressive and threatened to damage passing cars.

Packaging company's net profits hit R1,9-m mark

(194) ARG 18/9/96

BUSINESS REPORTER

Harwill Investments, the Cape Town-based packaging company headed by Pep Stores' founder Renier van Rooyen, saw net profits rise 14 percent to R1,9 million in the year to June.

Turnover fell as the company sold off two of its plastics plants, Signum and Intec Plastics, and also felt the effects of a slow down in the economy during the latter half of the year

But Jorrie Jordaan, the newly appointed managing director of Harwill, pointed out that sales at the group's continuing operations continued the upward trend, rising 7 percent to R39,1 million

"But what's far more interesting is the group's three new ventures in Phillipi," Mr Jordaan said

These ventures would complement Harwill's packaging interests, which range from plastic film extrusion moulding to bottling for consumer products such as vinegar, cosmetics and cordials.

Mr Jordaan said by far the largest investment will be going into Harwill Medical, developing unique safety medical disposables and devices He said the bulk of the group's profits would come from this operation which he expected to be up and running in January or February next year

The second venture, which opens today, is a plastic bottle manufacturing concern

Mr Jordaan said Harwill hoped to increase its foothold in the market for disposable plastic wine bottles Much of South Africa's wine is distributed in plastic bottles, commonly known as "kelkies"

The third venture was the establishment of a plant manufacturing inexpensive plastic toys

Mr Jordaan said the plant was already in operation and would begin distributing toys in October

He did not rule out further new ventures.

The group announced last week that it would be holding a rights issue to raise almost R11 million to fund the new developments and increase its capital base

Mr Jordaan expected the benefits of these developments to begin flowing in the 1998 financial year

"We are only in year two of a three-year plan," he said

Boycott ignored, retailers claim

(194) ([illegible])

By Stuart Rutherford

CT (BR) 19/9/96

Durban — The call by the Paper, Printing, Wood and Allied Workers' Union for a national consumer boycott of Lion Match products this week had been ignored by consumers, retailers said yesterday

Michael Lafferty, the KwaZulu Natal director of Pick 'n Pay, said there had been no talk of a boycott from customers or management, nor had there been a drop in sales.

Lawrence John, the KwaZulu Natal grocery buyer for Spar, said he had not heard of the boycott and sales had remained constant

The boycott was called to protest the dismissal last month of 196 workers by Lion Match in Durban following picketing and stoppages.

Lucky Mhlongo, the secretary of the union's southern Natal branch, said he believed the boycott was going well and was being supported by the Congress of South African Trade Unions.

IN BRIEF

Sappi strike ends after wage agreement is settled

(194)

THE two-week strike at Sappi's Saiccor mill in KwaZulu-Natal by Pulp, Paper, Wood and Allied Workers' Union members has been resolved following an agreement on annual wage increases between management and shop stewards.

A Sappi spokesman said yesterday the union had agreed to management's offer of a 7% across-the-board increase which would be effective until September next year. This meant the minimum basic wage had now been raised to "more than R1 800 a month or around R23 000 a year".

Shift workers had returned to their duties yesterday morning, the spokesman said.

BD 25/9/96

PULP & PAPER *Manufacturer agrees to build extraction plant*

Sappi retreats in toxin row

(194) CT(BR) 3/10/96

SHIRLEY JONES

Durban — Sappi Saiccor, the dissolving-pulp manufacturer for the textile industry, has bowed to pressure from the water affairs and forestry department and community groups to build a chemical extraction plant that will help reduce the toxicity of its effluent pumped into the sea

The company is negotiating with potential offshore partners for the construction of the lignosulphonate extraction plant worth hundreds of millions of rands

A spokesman for Sappi, the parent company, said negotiations for a joint venture were at an advanced stage.

The plant will utilise lignosulphonates, extracted from the effluent it pumps into the sea off the KwaZulu Natal south coast, as a raw material

The effluent has been behind intense confrontation between Sappi Saiccor and members of the South Coast Marine Pipeline Forum, comprising stakeholders in local industries, who claim the pollution along the coastline is undermining their livelihood

Kader Asmal

A preliminary pipeline discharge investigation carried out by consultants Talbot and Talbot said Saiccor discharged about 100 mega litres of effluent a day to sea and an average of 23,7 mega litres of waste water a day into the Umkomaas River

The forum has cautiously welcomed the commitment from Sappi to invest a substantial, yet still undisclosed amount, in recycling its waste products

A preliminary presentation to the forum by Ian Forbes, the managing director of Sappi Southern Africa, revealed that through the establishment of the joint venture and various technological improvements scheduled to begin almost immediately, the company would be able to remove 60 percent of the solids from its effluent

Initial improvements would take place within the next 18 months, with more obvious improvements coming on steam during 1998

A spokesman for Sappi said this would have a significant effect on discolouration of the sea

This has been behind calls that Kader Asmal, the water affairs and forestry minister, cancel Sappi Saiccor's effluent disposal contract which comes up for renewal next month

Mondi Europe in $312m expansion

BD 4/10/96 (194)

Edward West

ANGLO American Industrial Corporation's (Amic's) Mondi Europe planned a $312m restructuring and expansion programme of its pulp, paper and packaging interests, Amic and other key shareholders announced yesterday.

The expansion would position Mondi Europe as a significant player in its field in Europe — turnover was expected to grow to $900m from $378m at the halfway stage in June

A spokesman for Anglo American Corporation's offshore natural resource group Minorco said the move would help smooth its earnings cycle towards the end of the century, when profits would otherwise be heavily weighted towards base metals

Mondi Europe contributed $36,6m to Minorco's operating earnings in the first half of this year

Amic, which owns 51% of Mondi, had reached agreement on a series of transactions which would introduce Anglo as a shareholder in Mondi. The transactions were subject to a number of conditions, including the finalisation of international loan facilities with Mondi's bankers, a statement said.

The new structure was expected to be implemented before the end of November, and Mondi Europe would be renamed Mondi Minorco Paper

In terms of the agreement, Mondi and Anglo would inject into Mondi Europe 28% of the voting stock of Aracruz Cellulose SA, and about $62m in cash to fund an increase in the capital of Frantschach AG, one of the biggest packaging companies in Europe.

Aracruz Cellulose SA, one of the lowest cost and largest producers of eucalyptus pulp in South America, was acquired by Anglo for $250m in June.

Mondi's interest in Mondi Europe would rise to 20% from 5% at present Anglo would acquire a 20% stake in Mondi Europe, and Minorco's stake would fall to 60% from 95%.

Mondi's increased interest would be financed through international loans. The Frantschach capital increase would push Mondi Europe's joint controlling interest in Frantschach to 50%

Continued on Page 2

Mondi

(194)

Continued from Page 1

BD 4/10/96

from 44,4%

The enlarged Mondi Europe would consist of the following jointly controlled investments in the paper, pulp, packaging and related industries.

- ☐ A 49% direct and 25,5% indirect stake in Neusiedler AG, a European producer of uncoated wood-free copy paper with turnover of about $400m;
- ☐ A 50% interest in the $1,4bn-a-year Frantschach Group, which in turn has a 51% interest in Neusiedler. Frantschach also controls Frantschach Packaging, which has 40% of German packaging firm Bischof & Klein, 55% of Europapier, Austria's largest paper merchant with annual sales of $250m and a 93% interest in the $150m-a-year Pols pulp mill in Austria;
- ☐ Joint control of Aylesford Newsprint, one of the largest newsprint producers in Europe, with SCA Group of Sweden, and
- ☐ A 28% voting (12% equity) investment in Aracruz Cellulose

Mondi Europe to restructure

(194)

JAMES LAMONT

CT(BR) 4/10/96 INDUSTRIAL EDITOR

Johannesburg — Mondi Europe, the forest products and packaging group, plans a $312 million restructuring and expansion that will strengthen its pulp, paper and packaging interests, Anglo American Industrial Corporation (Amic) said yesterday

The restructuring, to be implemented by the end of next month, will increase the equity interest of Mondi, an Amic subsidiary, in Mondi Europe, and introduce Anglo American as a shareholder But it is subject to several conditions, including concluding international loan facilities with Mondi's bankers.

Under the terms of the restructuring, Mondi and Anglo American will inject 28 percent of Aracruz Celulose voting stock, worth $250 million, and about $62 million in cash into Mondi Europe to fund an increase in the capital of Frantschach, a European forest products and packaging group Mondi Europe will change its name to Mondi Minorco Paper

Amic bought its Aracruz interest in June. Aracruz's Brazilian mill is the world's largest producer of bleached eucalyptus pulp.

Mondi's interest in Mondi Europe will rise from 5 percent to 20 percent Anglo American will acquire a 20 percent interest in Mondi Europe, and Minorco, Anglo's Luxembourg-based natural resources arm, will slim its 95 percent holding to 60 percent

Mondi Europe's joint controlling interest in Frantschach will be increased to 50 percent from 44,4 percent

The enlarged Mondi Europe will comprise 49 percent direct and 25,5 percent indirect interest in Neusiedler, a leading producer of uncoated wood-free copy paper, a 50 percent interest in the Frantschach Group, a 50 percent interest in Aylesford Newsprint, a British newsprint producer; and a 12 percent equity interest in Aracruz Celulose

FOREIGN INVESTMENT *Workers demand Sappi acts against campaigner Roland Mazery*

Union enters row over crusade

(34) (194) CT (BR) 10/10/96

SHIRLEY JONES AND JAMES LAMONT

Durban — The Print, Paper, Wood and Allied Workers' Union (Ppwawu) yesterday threatened Sappi with a strike if it failed to take disciplinary action against Roland Mazery, the managing director of Sappi Saiccor Mazery is behind a campaign to draw international attention to South Africa's crime problem

Bengeza Mthombeni, the national general secretary of Ppwawu, yesterday warned Sappi that the union would mobilise its members and consider its options, including a strike, if Sappi did not discipline Mazery

Mthombeni said the union viewed Mazery's campaign of letters and news clippings depicting escalating violence to international business leaders and politicians as tantamount to treason "We see him as a person who is contributing to the hardship of the unemployed He is not contributing to reconciliation and must be isolated

"We agree there is violence, but we have to ask how we can help, instead of trying to scare investors and placing the country in a bad light The onus is on Sappi to defend its name What has Sappi done to reduce crime and violence? If Sappi takes no action, it means Sappi supports this individual and condones what he is doing," he said

But Sappi has stuck to its stance that Mazery's actions were entirely personal Ian Forbes, the managing director of Sappi Southern Africa, yesterday described Sappi as a "very committed South African company" and said Mazery's personal political beliefs in no way reflected the views of the company

But Wendy Lucas-Bull, the chairman of Business Against Crime, said yesterday that Sappi did not participate in the Business Against Crime campaign

Mazery said yesterday that he was "shattered" by the response to the publicity his actions had attracted He said he had been inundated with congratulatory calls and would continue his campaign until there was tangible evidence that the government was taking appropriate action to halt the country's "'slide into anarchy"

"You can tell Ppwawu that I am effectively a retired man I am no longer the managing director of Saiccor I am standing in for my successor and acted in my personal capacity The union should contact me to discuss this," he said

Mthombeni said the union would meet Sappi to discuss the Mazery campaign in Johannesburg next week — the same day Sappi was due to discuss with the water affairs and forestry department the controversy surrounding Saiccor's effluent disposal into the sea off the south coast of KwaZulu Natal

Lucas-Bull said she was "appalled and embarrassed" by Mazery's campaign "He is acting in his own interest I cannot conceive how he thinks that is a constructive way forward"

She said the government's door was open to the concerns of business and that the government was considering the fight against crime as a high priority She said the campaign would prejudice inward investment

☐ Opinion & Analysis, Page 16

Dear Mr Dinkins... Roland Mazery's letter from Hell

Mayor David Dinkins
625 Madison Ave.
12th Floor
New York, NY 10022
U.S A

12 September 1996

Dear Mr Dinkins,

This letter is a difficult one to write because you may perceive it as being unpatriotic. Far from it: it is being written in the interests of the long term future of South Africa and as part of an international campaign which was started some three months ago, and which is aimed at putting "diplomatic" pressure on our Government to take immediate and effective measures to combat the escalating rate of crime, violence and corruption in our country. The campaign is targeted at friends of South Africa and more specifically at those individuals and institutions who, over the past thirty years, have morally and financially assisted in the removal of the National Party from power and establish democracy in South Africa

The rate of crime, corruption and violence in South Africa has reached such intensity that serious doubts are being expressed as to the medium term future of democracy in our country Indeed, South Africa will not be able to attract large scale foreign investments unless the rampaging crime rate is rolled back To do this the Govt must take very tough measures, and clean up its own act as a matter of urgency Without such investments the country will progressively degenerate into a state of anarchy.

An extract from a recent letter by Mazery to the former mayor of New York

PAPER/PULP *'Consider alternative sources'*

Asmal says dagga has high potential

CT (BR) 17/10/96 (194)

Stuart Rutherford

Durban — Pulp and paper companies need to recognise the potential of alternative fibre crops like hemp, commonly known as dagga, which are readily produced by small farmers in many districts, Kader Asmal, the minister of water affairs and forestry, said yesterday

Speaking at the eighth international conference of the Technical Association for the Pulp and Paper Industry of Southern Africa, Asmal said high-fibre dagga crops with low resin contents, that were of no use to the narcotics trade, could produce yields of fibre equivalent to wood

"Dagga is drought-resistant, pest-resistant and grows in a wide range of conditions and terrains," he said.

"I know that your technology is not geared to pulping such crops, but non-wood pulping plants require relatively little capital, and you could install non-wood pulping lines alongside your big pulping plants "

He said that would increase pulp volumes and accelerate local economic development by procuring non-wood fibres from local producers.

Spelling out challenges to the delegates, Asmal said the industry needed to publish information on environmental performance regularly, to increase the rate of recycling of paper and improve training.

"Unlike many other industries, you do not have an industry training board, you do not have an industry forum where you can meet with labour on training issues, and your worker training is not, for the most part, certified or portable "

Lastly, he called for a much greater, purposeful co-operation and flow of information within the industry to improve understanding and identify areas of common interest.

"I am not suggesting the type of collaboration that might provoke the further ire of the Competition Board, but rather that which would serve the industry, and the people of South Africa best," Asmal said.

Union to strike over dismissals

Kevin O'Grady

194

THE Paper, Printing, Wood and Allied Workers' Union (Ppwawu) would stage a national day of action next month in protest against the dismissal of 196 of its members by the Lion Match Company, general-secretary Bengeza Mthobeli said yesterday

The union had called off protests planned for today as a result of progress made in negotiations with Federated Timbers on the number of recognised bargaining levels, he said

Mthobeli said Lion Match's dismissal of 196 Ppwawu members, and the dismissal of 44 members by Kiley Baker in Selby, during talks on workers' participation in the Ppwawu provident fund, proved management's "intransigence".

BD 21/10/96

stead of releasing only extract

French tennis star Yannick Noah signs autographs at the Champions' Tour tournament at Sandton Square on Saturday. He beat SA's Johan Kriek in yesterday's final. See Back Page.

Picture: TYRONE ARTHUR

Coloureds meet over new movement

BD 21/10/96

Linda Ensor

CAPE TOWN — About 40 members of the coloured community met yesterday to discuss the formation of a new political organisation, the December 1 Movement, to mobilise coloured people.

The name, yet another in a long line of attempts to mobilise the community on ethnic grounds, harks back to the emancipation of slaves on December 1 1834.

Its founders, who include disaffected ANC members and former United Democratic Front activists, as well as teachers, church ministers, students and academics, said a new organisation was needed because of a deep-seated sense of political marginalisation among coloureds

The December 1 Movement sees itself as an umbrella force to reassert the "coloured identity", not a mainstream political party. Its aim would be to ensure the involvement of coloured people in the transformation process.

"In the post-apartheid period we are confronted with the dilemma of a coloured community seemingly unable to come to terms with the reality of a changing country," one of the movement's founders, Rev Michael Weeder, said in a document outlining its vision

Coloured people, he said, needed to come to terms with the fact that they were an African people, with their own history, which had been uniquely scarred by the suffering of slavery

"This movement should be informed by a programme that recognises that the particular slave experience and history of the coloured people have ongoing consequences "

The goals and aspirations recall those of the Black Consciousness Movement, which urged black people to search within for their human dignity and power.

Union to strike over dismissals

194

Kevin O'Grady

THE Paper, Printing, Wood and Allied Workers' Union (Ppwawu) would stage a national day of action next month in protest against the dismissal of 196 of its members by the Lion Match Company, general-secretary Bengeza Mthobeli said yesterday

The union had called off protests planned for today as a result of progress made in negotiations with Federated Timbers on the number of recognised bargaining levels, he said.

Mthobeli said Lion Match's dismissal of 196 Ppwawu members, and the dismissal of 44 members by Kiley Baker in Selby, during talks on workers' participation in the Ppwawu provident fund, proved management's "intransigence"

BD 21/10/96

City inherited 'nightmare'

Big step forward in Kohler earnings

(194) BD 21/10/96

Jacqueline Zaina

PAPER and packaging group Kohler has seen a marked improvement in attributable earnings in the year to August, boosted by its focus on core packaging and consumer interests developed during the past two years

Attributable earnings before abnormal items were lifted by 19,1% to R143m in that period

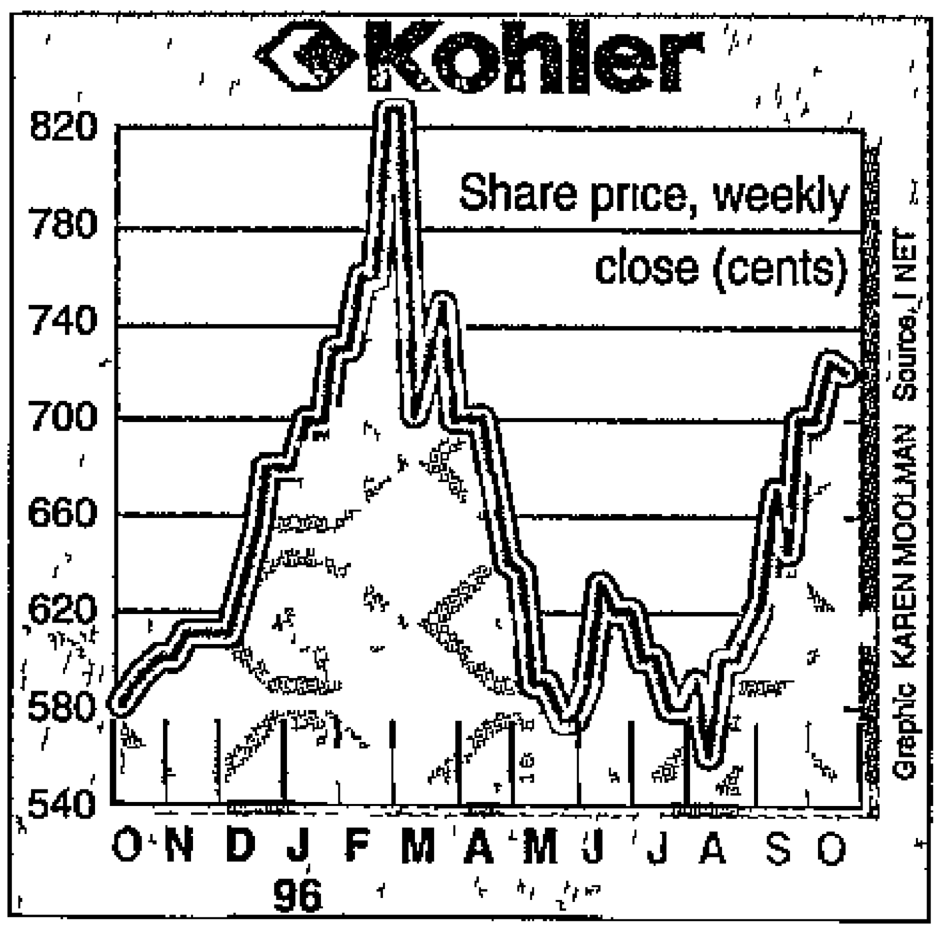
Share earnings rose to 47,2c (40,5c) and the directors declared a final dividend of 9,4c a share, bringing the total annual dividend to 15,8c a share

The group posted turnover of R2,3bn (R3,1bn) owing to the disposal of non-core interests Graphtec, 45% of Kohler Sacks and Emcape.

On a "like-for-like" basis, operating income rose 22% to R210,7m on a turnover increase of 15%, pushing operating margins to 9% from a previous 7%

Packaging represented 81% of group turnover, with paper and board packaging contributing 44%, followed by plastics at 30% Metal packaging — the Crown Cork operations which it jointly owns with US-based Crown Cork & Seal — represents 7%

Financing costs fell to R4,1m from R30,5m the year before, as a result of



Continued on Page 2

Kohler

(194)

Continued from Page 1

BD 21/10/96

R183m cash received from the disposal of non-core operations and strict asset management

Abnormal items before tax included a R38,5m profit on the sale of businesses last year, as well as a R37,2m charge for discontinued operations and the scrapping of equipment in consumer division, Carlton Paper Corporation and Crown Cork

A marginally lower effective tax rate resulted in earnings before abnormal items increasing by 19% — of which 91% was generated by the group's packaging interests

Group CE Richard Bruyns said the past 12 months had been challenging because the economy had faltered during the year. What had looked like a promising year had been mediocre in volume terms, but he was pleased with the group's second half earnings growth

He said the group's core businesses were performing well and margins had been improved in all operations except metal packaging Crown Cork SA had incurred a loss during the review period after summer rains weakened demand for beverage cans and the food can price war resulted in lost market share and lower margins Further restructuring of the business was planned for the year ahead.

The largest operation, Kohler Corrugated, although affected by the substantial increase in paper raw material prices, had managed to maintain its market share. Bruyns said volumes had fallen off in paper markets due to the declining economy and a poor agricultural season, but improved efficiencies had contributed to higher operating margins

He said both divisions within Kohler Plastics — the second largest operation — had produced "solid results". The flexible operations supplying mainly the fast moving consumer goods industries had offset the slowdown in local volumes with new exports

Carlton Paper had managed a turnaround in profitability in the second half on 12% turnover growth for the year, said Bruyns. At the interim stage, earnings were 46% lower than the year before, but rationalisation and greater efficiencies meant full-year earnings were constrained to 9%

Bruyns said while the group was cautious in the short term, as the lower volumes in the packaging industry are expected to persist, continued real growth in earnings could be expected

Business body denies it played a part in international publicity campaign

Chamber and Mazery 'not linked'

(194) CT(BR) 21/10/96

JAMES LAMONT
INDUSTRIAL EDITOR

Johannesburg — The Durban Chamber of Commerce and Industry denied at the weekend that it had played any part in the publicity campaign orchestrated by Roland Mazery, the former managing director of Sappi Saiccor, after a union called on it to expose members who had participated in the initiative

Rob Stretch, the president of the chamber, said "the chamber of commerce was not at all involved" in the international campaign to alert 39 friends of the government to the growing lawlessness in South Africa in an effort to press the government to fight crime

He said the chamber did not support Mazery's actions, preferring to participate in national initiatives like Business Against Crime But he said it shared some of his concerns

Stretch was responding to a call from the Paper, Printing, Wood and Allied Workers' Union for the chamber to come forward with the names of its members who are believed to have assisted Mazery

Bengeza Mthombeni, the union's general secretary, said on Wednesday that the union would press the chamber to expose members who he believed were still undertaking publicity campaigns "Our focus should be on the Durban Chamber of Commerce We should isolate the people doing this sort of thing"

Stretch said no-one in the chamber's management was involved with Mazery's campaign. "We were not involved at all with Mazery, but he kept us informed of what he was doing, just as he did president Nelson Mandela"

He said it would be impossible for the chamber to single out possible campaigners from its 7 000 members

Geoff Tyler, the chamber's chief executive, said last week that there were members who would associate themselves with the campaign, though the chamber would neither bless nor condemn what Mazery had done in his personal capacity

Mazery, who argued that his campaign was utterly transparent, said last week he had received the support of other Durban businessmen He said he knew of three or four other businessmen in KwaZulu Natal who were conducting similar campaigns, but he declined to identify them

The South Africa Foundation, which represents South Africa's 50 largest companies, recommended over the weekend that crime "be presented in the right perspective and that the serious light in which the matter is being regarded by government and society as a whole, including the business community, be explained abroad"

It said that although frustration with crime was understandable, people should contribute to finding solutions rather than merely criticise

Sappi given extra time to solve effluent discharge

(194) BD 22/10/96

Tim Cohen

CAPE TOWN — Water Affairs Minister Kader Asmal agreed yesterday to a short extension of Sappi's licence to discharge effluent from its Umkomaas pulp plant, on condition that the company produces concrete environmental proposals within six months.

The plant is discharging 600 000 tons of non-toxic aligno sulphonate a year out of a 3km-long pipeline into the sea at Umkomaas.

According to the department, the discoloration of the water affects marine biology about 20km north and south of the factory.

Asmal said he was disappointed that Sappi had not come forward with concrete proposals following discussions a year ago. But several suggestions had been put forward, one of which was to more than double the length of the sea pipeline.

The CSIR was still studying the effect of this proposal and hence a six-month extension of the license was justified.

The company agreed that after six months it would implement a plan for dealing with effluent disposal in an environmentally friendly way, which would be put into action over five years.

Sappi corporate affairs manager Johan van Wyk said the company was satisfied with the results of the meeting.

Van Wyk said the company would introduce a new process to recycle about 10% of the effluent.

Minister gives mill six months to make a plan

Sappi told to end beach pollution

ET(BE)22/10/96 (194)(...)

CHRISTO VOLSCHENK AND REUTER

Cape Town — Kader Asmal, the forestry and water affairs minister, has given Sappi's Saiccor mill six months to come up with a long-term plan to eradicate pollution on KwaZulu Natal's beaches by its Umkomaas mill

After a meeting with top management yesterday, Asmal said the company had agreed to build a ligno-sulphate plant costing between R300 million and R500 million to reduce ligno-sulphate emissions by between 35 and 40 percent

The emissions cause the discolouration of water and a thick foam on the beaches 20 km on either side of the mill, which is at the mouth of the Umkomaas river Local communities have been campaigning for several years to stop the pollution

Asmal said that another meeting would be held with Sappi on November 19 to consider a report by the Council for Scientific and Industrial Research

Asmal said he was "considering extending their permit, which expires on November 3, until June 21 because by that time there should be other options available"

He said the planned plant would eventually reduce pollution by about 40 percent, but he wished to have it reduced by 70 percent by 2000 Other options in reducing pollution include extending the pipeline out to sea to 7,5 km from the present 3 km

Permits are usually issued for periods of five years or more Asmal said the fact that he was considering granting only a six-month permit indicated he was serious about getting rid of the pollution by the year 2000

Kader Asmal, the forestry and water affairs minister

PHOTO ANDREW BROWN

Two union representatives who were present, Martin Mahlaba and Christopher Wilson, said they were happy with the outcome of the meeting Wilson said the new ligno-sulphate plant would employ 200 people full time once it was commissioned

Unions have been backing anti-pollution campaigners in the issue

Glen Jansen, the representative of the South Coast Marine Pipeline Forum, which has been campaigning against the pollution, said the solution offered by Sappi was "too little too late" He urged trade unions to apply pressure for further pollution control measures

If a satisfactory solution could not be found by June, the forum would consider litigation against Sappi, he said

The forum was also pushing for a full environmental impact assessment of the area

Nampak overcomes squeeze on margins

BD 8/11/96 (194)

Jacqueline Zaina

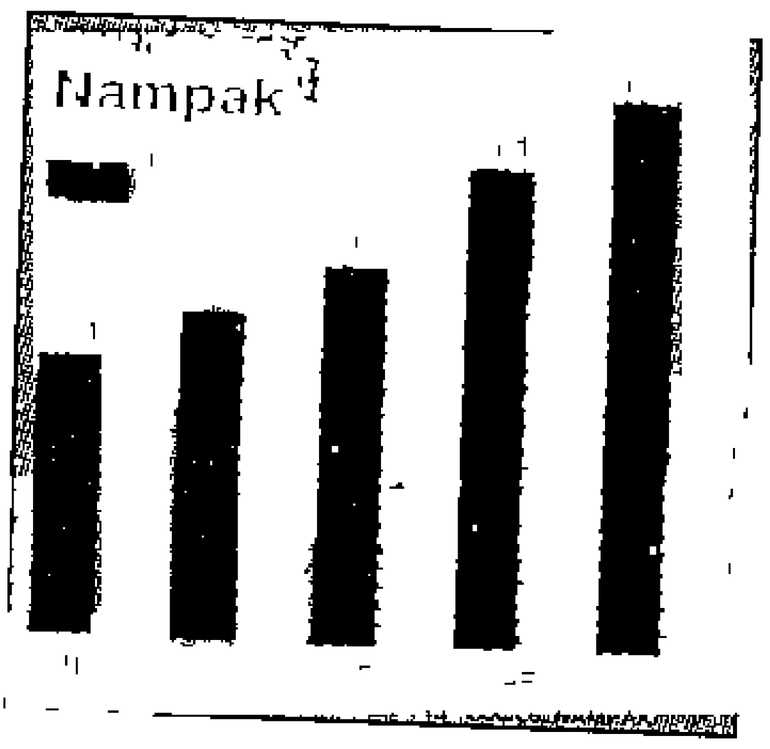
PACKAGING group Nampak raised headline share earnings 16% to 103,8c in the year to September in spite of a decline in consumer spending and sharp rises in raw material costs which put pressure on margins

The group has adopted headline earnings a share as its prime measure of performance and indicator of sustainable earnings

A final dividend of 26,3c a share took the annual dividend to 40c a share — 14,3% higher than the year before

Chairman Brian Connellan said attributable earnings climbed 15% to R526,6m on the 11% turnover growth to R6,6bn Sales volumes grew 2% after adjusting for acquisitions, disposals and loss of substantial paper merchant business to previous supplier Mondi

Operating income grew 9% to R804,2m resulting in a narrowing of margins to 12,2% (12,5%) Connellan said the full impact of higher raw material costs — which were only partially recovered in selling price increases — had been offset by cost containment and productivity gains. Restructuring costs of R45m — including relocation, business disposal and retrenchment costs — had also been included above-the-line



Financing costs more than doubled to R26,7m due to the 27% increase in borrowings to R394m to fund R605m capital expenditure on new technologies aimed at improving efficiencies

After income from investments of R20,9m (R12,9m) and R100 000 abnormal items relating to net profit on the sale of businesses, pre-tax profit amounted to R799m — 8% higher than the year before Tax charges were 5% lower at R255m due to the lower STC rate and capex allowances

Connellan said a stronger operating cash flow of R1,1bn (R951,4m) had restricted gearing to 16% (15%), despite the heavy capital expenditure. Capex had amounted to R1bn in the past two years. The group had significant cash resources available for acquisitions

The group's beverage activities had produced reasonable earnings growth, while its glass operations improved earnings after strong volume growth and greater productivity.

Connellan said consumer demand was not expected to improve next year Yet benefits from the capex programme and the productivity drive would ensure growth of real earnings

Amrel's earnings surge in first half

Hefty capital expenditure reflected in increased borrowings despite strong cash flow

Nampak wraps up a tough year

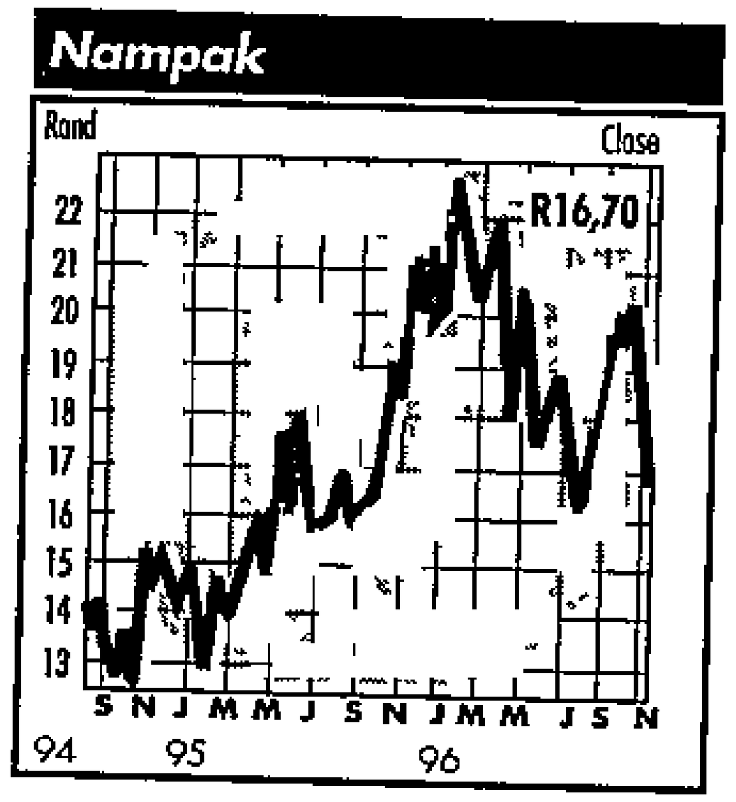
(194) CT (BR) 8/11/96

Ann Crotty
CONSUMER INDUSTRIES EDITOR

Johannesburg — Nampak, the paper and packaging group, produced attributable earnings growth of 15 percent for the 12 months to September 30, which was ahead of market expectations, despite tough trading conditions

The difficult trading conditions were reflected in reduced margins, but the effect of this was compensated for by a sharp increase in income from investments and reduced tax

Headline earnings rose 16 percent to 103,8c a share from 89,8c last year A final dividend of 26,3c a share has been declared for a total payout of 40c a share for the year — 14 percent up on the previous year



The group was able to report an 11 percent increase in turnover to R6,6 billion from R5,9 billion, helped by some volume growth at Bevcan and the glass divisions Operating profit increased 9 percent to R804,2 million from R736,5 million, reflecting a slight squeeze on margins to 12,2 percent from 12,5 percent

Brian Connellan, the group chairman, said R45 million of costs relating to acquisitions, disposals and movement of plant, which would previously have been taken below the line, were taken at this level If these had not been incurred, margins would have been up on the previous year

Although the group's cash flow was considerably stronger this year, with cash available from operations more than double at R515,8 million, financing costs increased to R26,7 million from R12,6 million

The balance sheet shows borrowings up 27 percent to R393,9 million from R310,2 million The increase in borrowings, despite the strong cash-flow, reflects the group's hefty capital expenditure There was about R600 million worth of capital expenditure this year, up from R400 million in 1994 Capex plans for next year point to a spend of about R350 million

Connellan said the capex was aimed at ensuring the group was a world-class player He pointed out that Nampak's major customers "put considerable pressure on us to meet global pricing and quality criteria"

Income from investments were almost double at R20,9 million, up from R12,9 million The group's investments include operations in Zambia, Zimbabwe and Malawi.

The tax rate was 32 percent, down from 36 percent, leaving after-tax income up 16 percent at R544 million from R470 million Attributable earnings were R526,6 million

Management is looking for a "satisfactory growth in real earnings" for next year

Sappi expects drop in profit

BD 26/11/96 (194)

PULP and paper producer Sappi is set to report a steep drop in annual profit as it reels under the twin blows of a cyclical trough in the industry and having been caught out by currency movements.

The sector, which is notoriously cyclical, has seen prices plummet in the first half of the year. Then, as signs of a recovery in the second half started to emerge, Sappi shocked the market by issuing a profit warning, saying its second-half profit would be substantially lower than that of the first.

Forward cover on some of its export earnings, taken early in the year, had meant virtually all second-half export sales had been transacted at a less favourable exchange rate due to collapsing prices and declining volumes.

"The hedging and the fact that their prices have really dropped ... will both hit Sappi hard," one analyst said.

Other analysts said the volatile nature of the market made profit and dividend predictions difficult. They forecast earnings a share of between 200c and 320c, against a pro forma 846c last year.

The dividend was expected to come in at 70c to 120c a share, against a pro forma 120c last year. The comparative figures are on a pro forma basis due to Sappi changing its year-end to September. The consensus figures were for earnings of 266,6c a share and a dividend of 90c a share.

A Sappi spokesman said the results were due early next week, but no specific day had been decided upon.

Analysts said Sappi had also suffered from problems at its Saiccor mill, which has been hit by a strike and production problems. "Saiccor is the real domestic engine, and when most things have gone into the red, as they do at the bottom of the cycle, Saiccor is usually the last thing that keeps on going. But this time they had a few problems," an analyst said.

However, most of those polled said the past six months should prove to be a low point, and the upturn in the cycle should start to benefit the group next year.

"If you look at the pulp and paper cycle there are some good indicators that it has turned around now, and there are upticks in the prices of various products," Frankel Pollak analyst Mark Rule said. — Reuter

Sappi profit expected to take a knock

(194)

JONATHAN ROSENTHAL

CT (BR) 3/12/96

Johannesburg — Weak pulp prices and forward sales on a stronger rand will knock Sappi's second-half earnings when the paper and pulp producer reports its full-year results today, analysts said yesterday.

Pulp prices, benchmarked on northern bleached softwood kraft, fell from $925 a ton last September to just more than $520 a ton in March. High inventories have restricted a real price recovery, with prices battling to break out of a range between $560 and $580 a ton for the past six months.

Stocks in the North American and Scandinavian inventories have climbed well above 1,7 million tons, with October stock levels rising about 200 000 tons.

Sappi's warning in an August cautionary that it "will not feel the benefit of improved markets in its final financial quarter as expected, and earnings for the second half of the financial year are therefore expected to be well below those of the first half", pulled the share price down to below R40. But the share price has firmed to R41,50 in the run up to the results announcement.

The company's first-half earnings a share fell to 215c from 286c the year before.

The question facing analysts was just how badly Sappi would do. A Reuter poll last week showed analysts' expectations of earnings a share ranging from 200c to 320c, with consensus at 266c. Expectations of dividends ranged from 70c to 120c.

An analyst at South African Value Analysis, an independent research company, said yesterday he expected earnings to be at the lower end. Another analyst said Sappi had sold forward at bad exchange rates and had experienced labour unrest at its Saiccor plant.

An analyst at SBC Warburg said he expected Sappi to make a second-half loss.

'Disastrous' slump in Sappi's earnings

(194) BD 4/12/96

Amanda Vermeulen

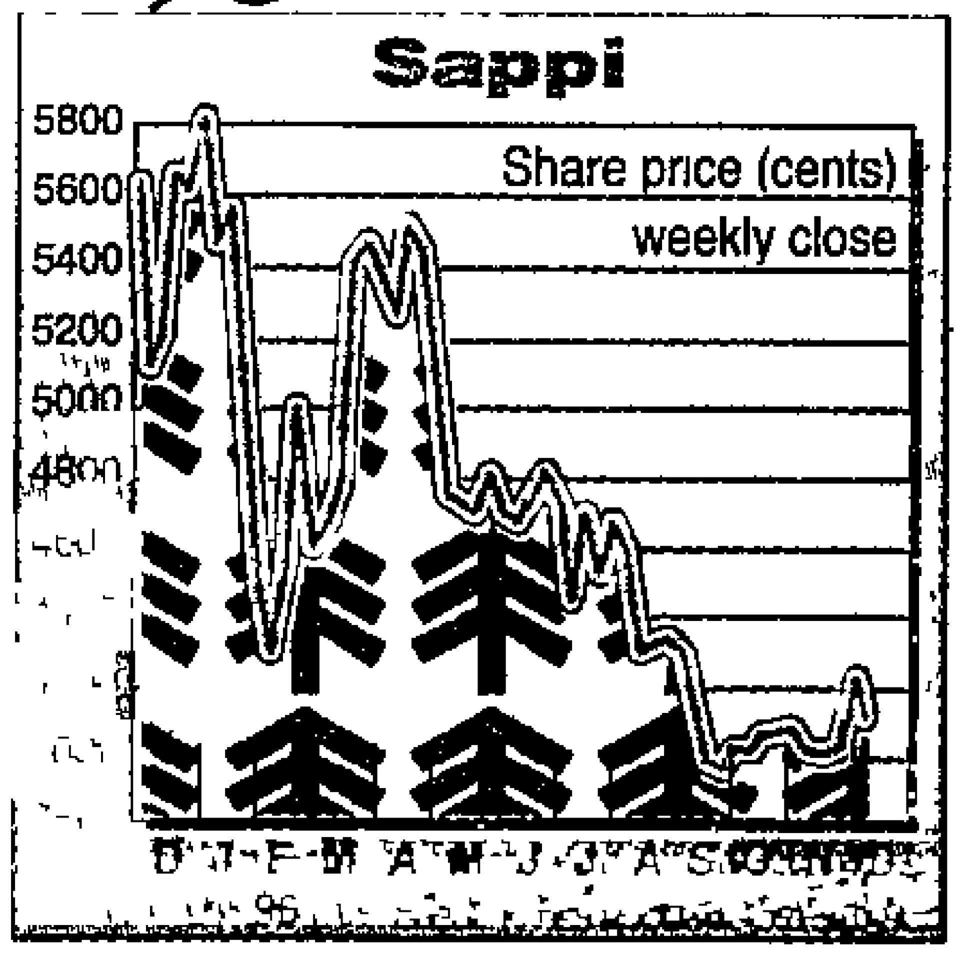
FORESTRY group Sappi's net income plummeted 70,2% to R404m in the year to September after a sharp downturn in the markets in which it operated and the cost of forward foreign exchange cover affected bottom line.

Share earnings plunged to 230c (846c) A total dividend of 140c was declared Shareholders could elect a capitalisation share award in place of the final dividend of 70c.

The group announced today it had bought out the 22% minority interest in US-based SD Warren held by DLJ Merchant Banking Partners, certain of their affiliates and UBS Capital Corporation, for $138m.

The deal gave Sappi 97% of Warren equity on a fully diluted basis, and the group has agreed to try to obtain the remaining stock within 120 days after closing the acquisition.

Group turnover rose 15,2% to R15,3bn during the year, compared with the previous 12-month period,



which included only a nine-month contribution from SD Warren. The comparable period is an unaudited 12 months as Sappi changed its year-end from February to September, and the previous financial year was for the seven months to September 1995

Continued on Page 2

Sappi

(194)

Continued from Page 1

BD 4/12/96

Chairman Eugene van As said that although costs were generally well controlled, the effect of falling selling prices and production downtime taken due to weak demand had knocked operating income down 45,9% to R1,2bn

"Profits were also adversely affected by the cost of forward cover taken during the year on one third of Sappi Southern Africa's sales, prior to the deterioration of prices and the collapse of the rand " Van As said the total charge amounted to about R200m

He said that despite difficult trading conditions both Warren and Sappi Europe generated positive free cash flows for the year, and Warren improved its debt to equity ratio. The group's debt to equity ratio, however, worsened to 0,99 from 0,97 owing to the slump in the rand and the large capital expenditure programme in Sappi Southern Africa

Van As, who described the earnings performance as "disastrous", said the paper and pulp markets had apparently bottomed out in July, but for most of the period under review the selling prices of the group's main products were very depressed as customers reduced inventories in anticipation of further price declines, forcing Sappi to take downtime

Sappi second-half earnings even worse than expected

(194) CT (BR) 4/12/96

Jonathan Rosenthal

Johannesburg — Sappi shares shed a rand in heavy trade yesterday after the paper and pulp producer's second-half earnings plunged, pulling earnings a share for the full year to September 30 down 73 percent to 230c

The results were worse than analysts expected A Reuter poll last week elicited a consensus view on expected earnings of 266c

Group turnover rose 15,2 percent to R15,3 billion, partly because the group acquired a stake the previous year in Warren, the largest producer of woodfree coated paper in the US

Operating income fell 45,9 percent to R1,2 billion, from R2,26 billion.

A final dividend of 70c a share was awarded This payout, together with an interim dividend of 70c, took the full-year dividend to 140c a share In the previous seven-month reporting period shareholders received a dividend of 120c a share

Sappi will offer shareholders the option of a capitalisation award instead of a cash dividend

The group said profit was negatively affected by the fall in selling prices, weak market demand for its main products and the cost of forward cover taken during the year on about a third of the group's southern African sales, before the deterioration of prices and the collapse of the rand These costs have now been provided for in full.

Operating income was cut almost in half by finance costs of R684 million

Eugene van As, Sappi's chairman, said both Warren and Sappi Europe had generated positive cashflow for the year and Warren had improved its debt-equity ratio

But the group's overall debt-equity ratio was adversely affected by the deterioration in the rand exchange rate and the large capital expenditure programme in Sappi Southern Africa

Participants differ on prospects for recovery in pulp prices

Durban — Sappi and Sappi Saiccor, the paper and wood pulp producers presented divergent opinions over the prospects of recovery in the dissolving pulp price yesterday

Sinclair Stone, the works director said at Saiccor's Umkomaas Mill on KwaZulu Natal's South Coast yesterday that Saiccor was facing a tough year ahead Stone was more sceptical than Eugene van As, Sappi's chairman, about a recovery in the dissolving pulp price, which plunged from $1 100 a ton [illegible] to $600 in July

Stone said Saiccor, the world's largest producer of cellulose pulp, with a market share of [illegible] 20 percent, [illegible] operating at full capacity in [illegible] market dominated by the textile industry. A drop in demand from the [illegible] — Shirley Jones

SEARDEL

BATTLING TO SOAR AMID INDUSTRY TURMOIL

fm 6/12/96 (194)

Higher share rating may be in sight

Puzzled Seardel chairman and controlling shareholder Aaron Searll shakes his head in bewilderment and bemoans the low 3,7 p e rating attached to his market-dominating group

With patience, stamina and determination, he pursued a mission to show that Seardel, now a giant in the clothing and textile industries, deserves to be rerated

Typical of a jet pilot — which Searll is — he set his course for the long journey that began in the mid-Eighties Since then, though buffeted by numerous storms, he has covered most of it successfully and a higher rating could be close now Seardel is a transformed company

Almost a decade ago, it was a heavily overgeared group of clothing manufacturers with minor interests in property and toy making and a growing investment in business and consumer electronics It still has a small interest in toys and property but is now the largest clothing manufacturing group in SA

It also controls the largest textile makers, Frame Holdings and Romatex, and several years ago listed on the JSE subsidiary Seartec, a thriving business that imports Sharp and Scripto business and consumer electronics and office equipment

Seardel's "mix" differs sharply from a year ago Whereas contribution from apparel sales was 79% and operating profit 71% in 1995, this year apparel contributed 53% of turnover and 39% of operating profit Textiles now dominate asset usage

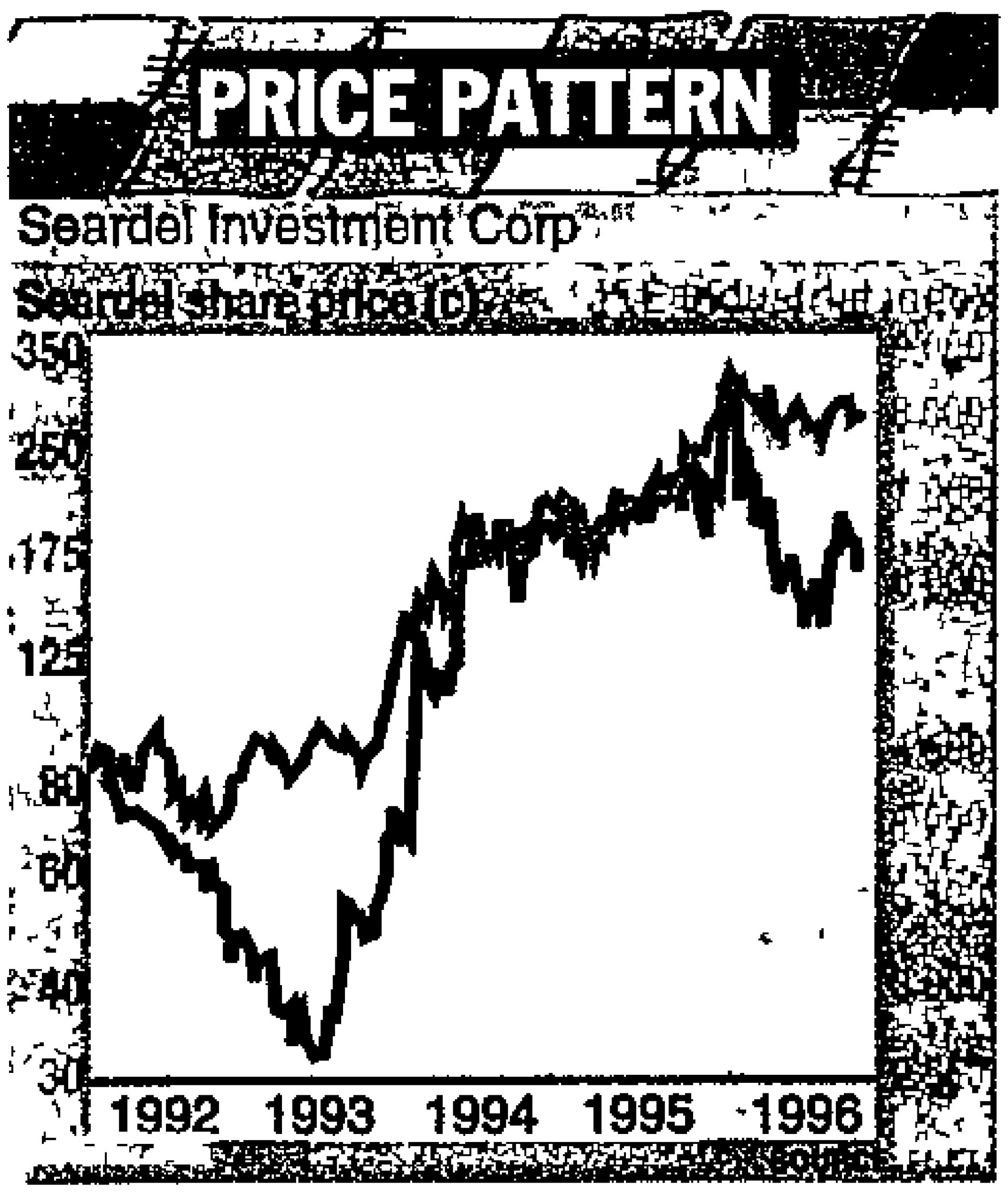
The evidence points to sound management of these holdings but investors cling to a perception that the local clothing and textile sectors are under siege — from each other, from foreign competition, from the destabilising influence of the unions and their demands, and because of ostensibly insufficient support from government

Most investors and researchers believe neither sector is yet able to produce sustainable real earnings growth They therefore shy away from investment in Seardel shares and others in the sector — hence the low market ratings

If their theses are right, how can the transformed Seardel be expected to perform when its main earnings thrust has to come from developments within these industries? Why has Searll recently invested so much in the "beleaguered" textile industry? Does he know something the market doesn't? Can he and his colleagues make the clothing and textile sectors sufficiently competitive against global rivals to produce real growth in profits in the companies he controls?

Aaron Searll

The broad answer is yes — but obviously he can't do it alone There are some wise heads working with him to sort out the problems in these sectors If they get effective supply-side measures from government, the chances are good that both sectors can stage solid recoveries and continue to deliver sustainable earnings growth even against fierce international competition



Throughout the late Eighties and early Nineties, Searll struggled to reduce the debt in Seardel Finance charges all but wiped out operating profits in those days Dividend cover — still a high five times — is a legacy of that period

Opportunity knocked in 1992 In partnership with Gregory Knitting Mills, Seardel acquired control of SA's biggest textile manufacturer, Frame Holdings, when it was losing money In that year, Frame's EPS were a negative 420c and borrowings were R179m In 1993, the loss was reduced to 61c a share and borrowings were R113m By end-June 1996, EPS were 152c, there were no borrowings and Frame held R144m cash

Last month, Frame bought control of Romatex, another large textile producer, from CG Smith Its profitability has plummeted from an attributable R27m in 1995 to R1m in 1996 The purchase price for 50,8% of Romatex was 225c a share, though net asset value was 970c Unlike Frame, Romatex is not losing money but, as with Frame, sound returns are expected about two years after it has been restructured

Seardel is listed in the clothing, footwear & textile sector of the JSE This sector has an average p e of 8, the third lowest on the JSE

Even now, after buying control of Frame and Romatex, Seardel's rating is among the lowest on the JSE Its p e of 3,7 seems strange for a 40-year-old company that has a turnover approaching R3bn in financial 1997, a net asset value of 379c, a return on equity of 12% and a return on capital of 9% Just this week Seardel was ranked in the *Business Times Top 100 Companies*

When Frame and Seartec are stripped out of the consolidated 1996 Seardel figures, Seardel's apparel, toy and property divisions (its original businesses) are rated on a meagre p e of about 2,6 No wonder Searll shakes his head when he thinks about it

In financial 1996, apparel and toys together had a turnover of R1,4bn and contributed R67m (42%) of group operating income from assets valued at R590m The combined debt equity ratio of these divisions, with Seardel's properties, is roughly 0,25 They employ 16 000 people out of a group total of 21 331

One argument for Seardel's low rating is that the overall group has increased EPS by only 11% compound if 1991 is used as a base year But with 1992 the base year (Seardel's worst in a decade), EPS have grown at a compound rate of 33,3% This approach may be debated but the message remains clear Seardel is one group that is not about to fold Yet the market is rating it as if it is

An underlying reason for the poor ratings of Seardel and the sector is that the clothing and textile industries were at each others' throats for many years

Each was trying to protect vested interests, often at the cost of the other Both had created competing, powerful lobbies in government and begged for added protection against foreign competition

When sanctions fell away, it became obvious they were highly vulnerable to the planned reduction in the general export incentive scheme that followed Gatt unless they collaborated

Only then did the back-stabbing stop Searll played a major role in bringing together and reconciling the clothing and textile federations They are now co-operating and planning constructively for the future

The clothing industry has had a torrid time over the past six years but the worst could be over The 1994 Swart report on the Uruguay Round recommended a formula for phasing out import duties on clothing and textiles over the next 10 years

Clearly racked by indecision, government took a full year to react In August 1995, it decreed that the phase-down period should be seven years (not 10) with a final duty after 2002 of 40% on clothing, 22% on fabrics and 15% on yarns Because the industry was already in the throes of rationalisation and reconstruction, this simply accelerated the process The industry has continued to petition for further supply-side relief

The Duty Credit Certificate (DCC) scheme was introduced This permits clothing exporters to claim a credit of 30% of the exported value of garments and offset it against duty payable on future imports of cloth

With the 470 03 regulation under which manufacturers import fabric with rebated duty, add value to it and export it again, the DCC was aimed at assisting exporters It is effective until 1998

There is a strong lobby from joint clothing and textile federation Clotex to have the DCC extended until 2003

After poor results in 1992, Searll appointed group directors Bernard Richards (55) and Chris de Bruin (59) as joint MDs of Seardel As well qualified, experienced managers — each holding DBA and MBA degrees — their appointments marked the turning point in the group's fortunes

Bernard Richards

They motivated innovations to reduce group debt and rationalised operations where necessary

Richards and De Bruin place great emphasis on increasing productivity and efficiency to meet demands from the retailing sector for quicker response times The consequences are shorter lead times for Seardel factories but better service, lower stocks and faster stockturns for retailers

Seardel is setting the example for the clothing industry by upgrading technology to advanced equipment It is investing more in education and developing worker skills In financial 1987, it will spend R85m on the latest technology, the more capital-intensive Frame will spend R80m of this Capex at Romatex is budgeted at R29m

Continuous updating of manufacturing equipment is reducing the cost of the relatively high labour content in these industries

The seven-day strike earlier this year took a hefty toll The estimated cost to the group in lost production was R6m Richards and De Bruin say it was a "lose, lose" exercise They believe lessons have been learnt on both sides — and that the industry summit with Sactu in October produced a better understanding of the problems of each, which will help avoid a similar strike in the future

Illegal imports is a crucial issue for many manufacturers Seardel has been at the forefront of attempts to help government curb these

But Richards says much of the illegally imported clothing is cheap, mass-market merchandise that finds its way into the informal sector and so does not have much of an effect on Seardel's sales

De Bruin, also Seartec CE, says only 9% of Seartec's turnover is directly affected by these imports

Frame deputy chairman and CE Roy Sable, who played the leading role in restoring Frame to good health, insists that even with these illegal textile imports, Frame is competitive and profitable in its niche markets

He says 1997 is the last year when cash resources will be used for capital expenditure, depreciation will take care of that Instead, shareholders' interests will be paramount

Chris de Bruin

Sable is forecasting real earnings growth for that group in future, irrespective of the consequences of the phase-down of import duties

Many uncertainties face the clothing and textile industries Market forces demand increasing productivity and specialisation But the clothing industry is forecasting output will drop 6% in 1997

De Bruin is confident of real earnings growth in 1997 Richards is confident Seardel's apparel factories will make substantial progress towards achieving their goals

Searll carefully proposes a maximum 6% advance in turnover to about R3bn at this stage but hedges on earnings He reckons headline earnings will either be slightly lower or not much higher than in the 1996 year

With many options open to the JSE investor, this is not an exciting prospect But Seardel has fundamental strength and the share is clearly undervalued Dividend cover will be reduced this year At the first glimpse of better times ahead, the market is likely to rerate the share It could then easily double *Gerald Hirshon*

SAPPI (194)

TIMBERRRRRR

FM 6/12/96

After reporting a 73% slide in earnings for 1996 — releasing figures at the bottom end of analysts' forecasts — Sappi may be forgiven for feeling battered after the past year Executive chairman Eugene van As comments ruefully on the extent of the downturn in the group's markets "I'd hate to think there could be another downcycle this bad "

Van As should know — he's been head of Sappi for many years Yet the profit collapse was caused by more than just a severe deterioration in product markets There were other important causes

Despite market signals (such as diminishing orders), management remained unduly optimistic for too long There were production problems in several areas of operations And the group, which operates in historically cyclical markets, entered the downswing with a heavily borrowed balance sheet

Particularly disturbing, Sappi incurred a massive forex loss of R200m because of a management decision which was endorsed by the full board After the huge array of exchange losses that corporate SA suffered in 1985, this is astonishing Sappi was then part of Gencor, which 11 years ago absorbed forex losses exceeding R213m

Forward cover on one-third of group exports from SA was arranged when the pulp selling price was US$950 and the market was strong But the price dropped to $450 over 60 days and the rand fell off the edge Finance director Bill Hewitt says the losses amount to about R200m But R50m in unused cover was written off at year-end, so the group starts financial 1997 with a clean slate The wisdom of the decision may be debated, the timing was disastrous

Of turnover, 19% is now generated in SA, 14% from SA assets in offshore markets and the remaining 67% is contributed by US subsidiary SD Warren (48%) and Sappi Europe (19%) — the key to many of the recent difficulties The international dimension is not easy to integrate Partial integration leaves some of the overseas operations at the mercy of the pulp price in upturns

Sappi's turnover grew 15% to R15,3bn and operating income fell 46% to R1,2bn

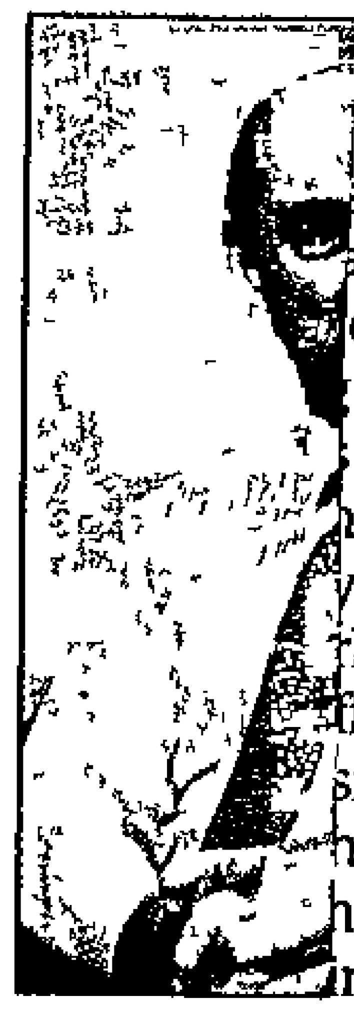
ROUGH-HEWN

Year to Sep 30	*1995	1996
Turnover (Rm)	13 258	15 271
Operating income (Rm)	2 258	1 222
Attributable (Rm)	1 356	404
Earnings (c)	846	230
Dividends (c)	#120	140

* Unaudited 12-month period # Audited 7-month period

Average margins were halved to 8%, SD Warren achieved 17%

Net income fell 70% to R404m and EPS dropped 73% to 230c The woeful second half squeezed out EPS of just 15c after the first half's 215c



Eugene van As

Global overproduction of pulp slashed prices and also led to commercial downtime in most of Sappi's operations

Problems in the Hannover UK operation meant more losses there, though demand has firmed and orders have picked up Van As says the manufacturing turnaround is complete

Consolidation is on the cards for the European industry Van As says that Sappi could be involved — but only in an equity deal, not cash He believes that not many players will survive, though Sappi should Orders have picked up since collapsing in first-half 1996

SD Warren performed creditably, increasing its share of the coated woodfree paper market from a high 25% to about 27,5% It made a profit before paying preference dividends and retired $70m of debt A $100m cost reduction programme is in place for 1997

Sappi SA acquired a new MD in Ian Forbes and is undergoing an extensive management shake-up A R1bn capex programme at three of the SA mills — also launched with exquisite mistiming — is complete, though the balance sheet was slightly bent

The group balance sheet shows robust real growth in assets and cash of R673m However, Van As is at odds with the market over Sappi's R9,6bn in borrowings Debt:equity is about 99%; interest payments took more than half operating income in 1996

Analysts are unhappy at the debt, derating the share partly on those grounds Van As chafes at a rating he considers well below international standards. He rejects any "short-term decision just to pretty up the balance sheet."

Société Générale Frankel Pollak analyst Mark Rule agrees that Sappi is underrated "in the world context," but says that a rerating is unlikely until debt drops and earnings start coming through Feelings on market and price recovery are mixed, some analysts seeing good volume growth, especially in paper, but no soaring price increases. Sappi's management has acquired a reputation for determined bullishness Current forecasts do not moderate that perception.

Many consider the share a buy at R41,50. It's a highly cyclical stock and when the cycle turns it should again do well The art is in deciding where the turn — and the recovery in sentiment — lies

Margaret-Anne Halse

Sappi takes hard look at its timber troubles (194)

JULIE WALKER
DIAGONAL STREET

ST (BT) 8/12/96

LAST week, Sage bemoaned a low rating this week it is Sappi Chairman Eugene van As cannot understand why investment communities think only half as much of Sappi as they do of similar businesses

Sage's financial performance is not the reason behind its low price–earnings ratio, but it is at Sappi Van As furnished many of the reasons behind Sappi's rating himself earnings dropped by three quarters, there were foreign exchange losses of perhaps R200–million, gearing is almost 100%, interest cover only 1,3 times, debt in US subsidiary SD Warren is too highly priced, much downtime was taken, 27 management positions have been changed and new young blood is in short supply

"We are concentrating on growing our people Sappi stagnated in developing young talent to the stage that we can no longer buy a company and put management in You cannot grow big business unless you have young people," says Van As

The weak share price, currently R40, is even more galling for those on the Sappi share incentive scheme, who paid as much as R56,75 for their shares (some even paid R69) At a presentation to press and analysts this week, Van As confessed "It is galling to come and face analysts who rate you the bummest paper company in the world"

So how to fix it? Sappi has amicably reached agreement to buy out the 22% minority shareholding in SD Warren for $138–million, either as cash or through a vendor placement of Sappi scrip, so the high–cost debt can be refinanced Sappi will then have 97%, and aims to buy the balance The paper mill was flooded during October when 425mm of rain fell in 12 hours and 30 days of production was lost because machines and electricals were under water It will be Sappi's biggest insurance claim yet Sappi is also to buy out the IDC's holdings in Saiccor and Bonuskor, probably through scrip

Sappi's business in England was not much better Management had to be brought in from Germany "It was almost World War 2 again, the Germans winning this time," says Van As Sappi England made another loss, compounded by contract problems with the North American agent which cost £4–million

Van As expects there to be consolidation among Europe's paper producers, and for Sappi to be one of the survivors "We won't buy anything for money It must be an equity deal and partners must come for the ride too Something has to happen as there are too many players"

In the year to September, Sappi's turnover climbed by 15% to R15,3–billion, operating income fell 45% to R1,2–billion and the net finance cost jumped 28% to R684–million (comparisons are against unaudited figures for the 12 months to September 1995 as Sappi changed its year-end) Operating margins more than halved to 8%· Van As never again expects to see the 27%+ Sappi made in 1990 when it was a fully integrated SA producer Good years should yield between 17% and 20%

Net income of R404–million looked sick against the previous R1,36–billion, and earnings were 230c a share against 846c A 140c dividend will be paid against 120c for seven months in 1995 Cash generation was R2,3–billion, all spent on three big rebuilds "We had planned for increases in production to come during a buoyant period, but it became a year of disaster"

Van As says Sappi would like to reduce its debt, but will not take short–term decisions to pretty–up the balance sheet if it is no good for the company in the long run

In the bigger picture, Van As has transformed Sappi from a SA producer of commodity products into a global forest products group with manufacturing facilities on three continents and an international sales network marketing in 70 countries Production capacity of pulp is 2,6–million tons, and of paper 3,2–million tons Fine paper and pulp make up 85% of turnover.

Warren makes up 48% of turnover, Europe 19%, and exporting out of Sappi's SA assets another 14%, leaving the domestic market accounting for only 19% of turnover.

There is some good news Forex losses were once–off and are written off "It was not some treasury maverick who decided to hedge We thought it wise to cover a third of our dollar income and delayed the decision for six weeks, during which time pulp prices nearly halved."

On management, Van As says Sappi was myopic "New eyes on old problems have led to significant improvements We had frankly gone backwards in productivity, but are now moving forward rapidly"

The market outlook for Sappi's products is also broadly better. Van As expects a slow improvement from the current low base, although he warns that new coated–paper capacity scheduled for late 1997 could adversely disrupt prices later in the year "With the completion of our capital expenditure programme in SA, all the mills are beginning to settle down after the start-up of the new units which will have lower costs and better products Sappi is therefore well equipped to benefit from any upturn in the market We will benefit substantially from the weaker rand in the new year Earnings for the next financial year are therefore expected to improve"

Since January, Sappi shares have fallen from R58 to the current R40, the decline having flattened since September All that remains to be determined is the turning point. the downside is limited from here I think it's time to buy

Picture JULANI VAN DER WESTHUIZEN

Picture JOE SEFALE

TOUGH TALK . . . Sappi chairman Eugene van As is determined to turn things around at the company

NAMPAK

SHOWING RESILIENCE

(94)

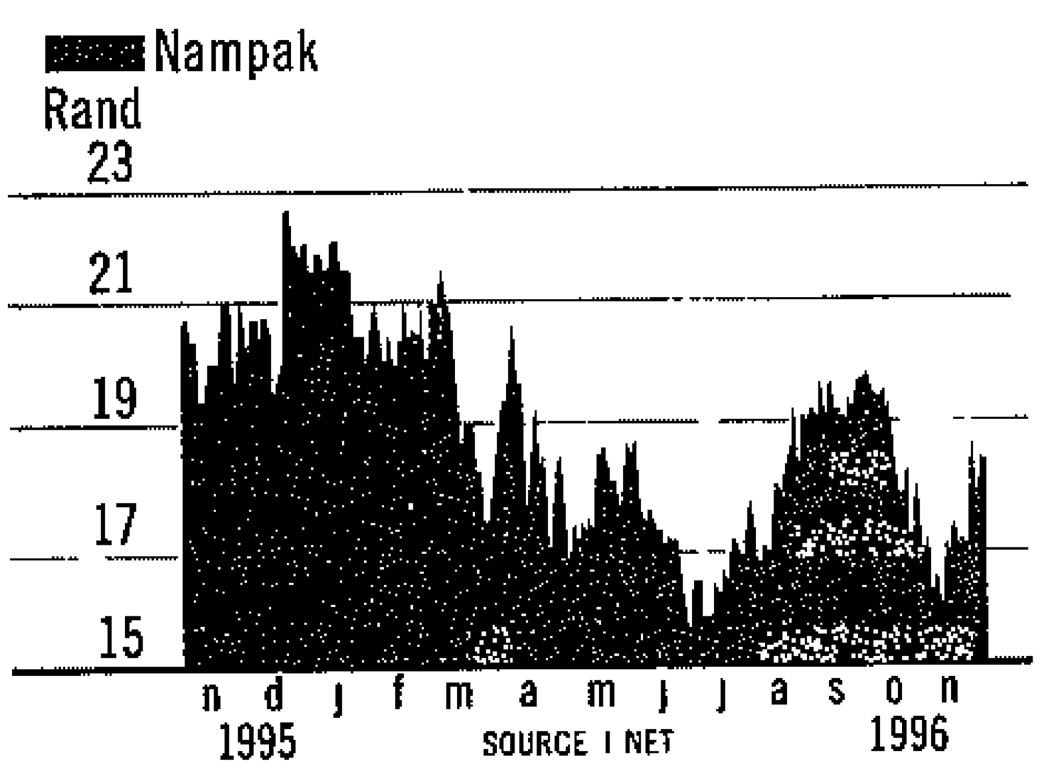
FM 13/12/96

- **ACTIVITIES** *Manufactures packaging products from paper, paperboard, tinplate, aluminium, plastic and glass*
- **CONTROL** *CG Smith (59,8%)*
- **CHAIRMAN** *B P Connellan MD T Evans*
- **CAPITAL STRUCTURE** *505,6m ords Market capitalisation R9,56bn*
- **SHARE MARKET** *Price 1 890c Yields 2,1% on dividend, 5,5% on earnings, p e ratio, 18,1, cover, 2,6 12-month high, 2 300c, low, 1 600c Trading volume last quarter, 8,2m shares*

Year to September 30	'93	'94	'95	'96
ST debt (Rm)	157	93	283	296
LT debt (Rm)	72	59	27	96
Debt equity ratio	0,10	0,05	0,11	0,13
Shareholders' interest	0,59	0,59	0,56	0,59
Int & leasing cover	16,6	55,5	59,5	30,9
Return on cap (%)	21,9	20,3	20,6	20,0
Turnover (Rbn)	4,54	4,79	5,90	6,57
Pre-int profit (Rm)	538	571	750	825
Pre-int margin (%)	11,8	11,7	12,5	12,2
Earnings (c)	61,7	71,8	91,1	104,2
Dividends (c)	23,8	27,5	35,0	40,0
Tangible NAV (c)	236	332	397	465

Abrupt changes in the economy usually lead to abrupt changes in corporate financial performance Nampak's results for the year to September 30 are interesting because they show how much a company can influence its destiny despite the vagaries of the business environment

For decades, the group has sought to establish a comprehensive spread of interests in packaging, reasoning that trends in packaging, like clothing fashions, change rapidly and any company unable to offer customers a portfolio of options and innovations is likely to be left behind



Allied to this is a recognition of the need to constantly hone productivity and efficiency across the full spectrum of operations, through development of personnel and technological innovation

Both aspects contributed to Nampak's achievement of acceptable earnings growth in an unusually difficult year Chairman Brian Connellan says the sudden and largely unexpected collapse of consumer demand from January caused organic turnover growth (existing businesses) to slow to only 2% for the year


Brian Connellan

This was supplemented by acquisitions and new greenfields ventures, with the result that, in rand terms, Nampak was able to maintain its share of the SA packaging market — which MD Trevor Evans estimates grew by 11% to R12bn — at just over half Nampak's turnover was R6,6bn for 1996, of which R176m came from direct exports

Opportunities to recover higher input costs by raising prices were curbed by intense competition in the industry and more customers applying demanding global pricing criteria to requirements

Management's response was to spend more on improving efficiency, including plant upgrades, and the success of this strategy reflected in a relatively mild fall in trading margin from 1995's record 12,5% to 12,2%

The decline nevertheless represented a "loss" of operating income of almost R20m and reduced the pre-interest profit growth rate by one percentage point

Further down the income statement, however, this and higher net finance charges were offset by a decline in the effective tax rate from 36,2% to 31,9% to produce a 16% gain in headline earnings — down from 28% in 1995 but in line with the group five-year growth average

Given this relatively stable background, it comes as little surprise that profit ratios across the board also held up well with, in particular, the 22,4% return on equity (1995 23%) indicating strong profit-generating capability

As regards the balance sheet, though accelerated capex has increased debt, the still-low gearing ratio of 13% (1995 11%) and high interest cover of 31 times underlines that there are no financial constraints to future development

These strengths, Connellan believes, should enable Nampak to maintain "sound real growth" in earnings this year notwithstanding the unpromising outlook for manufacturing production and private consumption expenditure

Arguably, Nampak is performing as well as could reasonably be expected However, it's clear from the fall in the share price from January's high of R23 to the current R18,90, and the decline in the p e ratio from 23,6 at the time of the last annual report to 18,1 now, that investors are taking a more cautious view

In the short term, they are probably right to do so But possibly the most important lesson to come from 1996 is that Nampak has demonstrated considerable resilience in the face of deteriorating trading conditions This — along with benefits still to come from last year's productivity and efficiency initiatives, and its financial capacity to grow — leaves Nampak's attractions as a long-term investment unimpaired *Brian Thompson*

SA DRUGGISTS

EXPANDING IN HEALTH CARE

FM 13/12/96

The restructuring and repositioning of SA Druggists from its origins as a pharmaceutical manufacturer to a composite scalpels and syringes, are intended for export to Europe and the US

This shift in Harwill's activities leads to an interesting situation The new plant is down the road from direct competition — Amic subsidiary Advanced Medical Technologies (AMT)

AMT chairman Robert Herbertson says that his plant will produce 225m syringes/year by calendar 1999 About 85% will be exported "The safety syringe concept justified our initial investment of R120m, though we'll develop more products," he says "Most equipment is already on site"

Jordaan says that it's too soon to quantify Harwill's production volumes

The use of safety equipment is increasing due to the growing risk to health care workers from communicable diseases, such as Aids, TB and Hepatitis B *Michelle Joubert*

OZZ

EXPANDING ABROAD

For many companies, the move into the international arena has brought tougher competition and diminished profitability Ozz is among the more deft industrial companies that have grasped the opportunity and are now deriving rising profits from exports or investments abroad

It has long shown an ability to maintain its expansion in activities or trading conditions where others have struggled Interim figures for the six months to end-September show Ozz again producing robust real growth in earnings, with headline EPS up 21% and the dividend up 22%

Turnover growth appears rather unexciting at 12%, not much different from the 13% in both the first and second halves of the year to March 1996 — and well below the 35% of the 1995 year Chairman Gary Zulberg points out that the lossmaking and "noncore" brick operation was disposed of from April 1 1996, Cape Gasworks was closed Comparative figures have not been restated last year noncore interests produced turnover of R19,1m but lost R3,1m

What counts for Ozz is profitability The group operating margin continued to widen It's now 16%, up from the year-ago 15,4% and from 14,3% in the 1994 half year Pre-tax profit rises 17%

Engineering interests generate the lion's share of group profit — in the 1996 year, these provided R44m of the total 49,5m (1995 R36,4m) Property produced R8,6m, rising sharply from 1995's R1,3m, and with the Randburg Waterfront contributing for a full year

In the latest interim, foreign earnings from engineering products — primarily foundry castings — were a major source of growth in turnover and profit These are derived from both exports and the profitable and expanding Australian company Crushing Equipment, which Ozz acquired for R8,2m a year ago

Overseas earnings have been strengthened by volume increases and the rand's depreciation Zulberg says foreign income now accounts for around a third of group turnover and he expects this percentage to rise, though the extent will depend partly on trading conditions in SA During the first half, orders for wear parts used in the local hardrock mining industry were well down

With the Australian operation bedding down well, Ozz is now negotiating investments in Germany and North Carolina in the US These deals — which Zulberg terms "strategic and defensive," as they will protect and ultimately enlarge existing distribution arrangements, in which Ozz will acquire 100% stakes — will cost about R18m Further such investments would probably follow

At R27,50, the p,e is 15, about in line with the JSE Industrial index Strengths include a consistent growth record, impressive profitability, a liquid balance sheet and entrepreneurial management — all suggesting the share is inexpensive *Andrew McNulty*

NASIONALE PERS

TAKING INITIATIVES

The figures in the interim results for Nasionale Pers (Naspers) belie the slightly subdued tone which runs through chairman Ton Vosloo's report The company has done more than passably well in the half-year — though trading conditions are becoming tougher in some markets

Aside from a few areas of Naspers being affected by bureaucratic bungling in government departments, the second half should also produce a sound result

The new political order in SA is demanding emphasis be placed on securing market share in the emerging black market

Naspers management has devoted attention to restructuring One development is the consolidation of the interests of Nasou, Via Africa and National Colleges with a new company, Vuna Industrial Holdings (*Fox* November 1)

Drum, previously a monthly, is now a weekly publication whose sales, says Vosloo, are exceeding expectations He also says good progress has been made with the unbundling of *City Press* from the newspaper sector into a new company with Dynamo Investments as the anchor partner

A new magazine printing works in Milnerton, Western Cape, was recently commissioned

Ton Vosloo

The newspaper sector performed well but the magazine division's income growth slowed because of a quieter retail sector, this also constrained advertising sales Vosloo hopes a better Christmas season will boost advertising expenditure in the second half

Naspers holds 3m M-Net, 80,3m M-Cell and 22,5m MIH Holding shares as its entrée into electronic media These have been lucrative investments M-Cell is now profitable and could well pay a maiden dividend

And the sale of Nethold to Canal Plus in France could mean a hefty capital profit for MIH when the transaction is complete That, in turn, would boost Naspers' profit after exceptional items

Giving credit to Vosloo's caution and conservative approach to the second half, if headline earnings grow by 20%, full-year EPS should reach about 175c At R40, the prospective p e would be 23

If the economy fails to maintain GDP growth of 3% and the retail sector remains subdued, then advertising revenues in print media are bound to be affected But, for the rest of financial 1997, Naspers still seems well positioned to increase its headline EPS by about 20% *Gerald Hirshon*

PAPER PROFITS

Six months to	Sep 30 1995	Mar 31 1996	Sep 30 1996
Turnover (Rm)	667	944	808
Pre-tax profit (Rm)	63,2	186,8	84,0
Attributable (Rm)	92,4	121,1	60,5
Earnings (c)	34,0	110	43
Dividends (c)	—	18	—

Sappi blamed for US protest

(194) CT (BR) 20/12/~~1996~~ 96

JONATHAN ROSENTHAL

Johannesburg — SD Warren, Sappi's integrated US paper producer, is embroiled in a labour dispute with the 250 000-strong United Paperworkers' International Union

Keith Romig, the union's information officer, said 900 union members at the Skowegan Somerset mill had embarked on a work-to-rule protest against a new labour agreement introduced by Warren He said Sappi was "trying to impose extreme flexibility on workers . and has been pushing to gut the existing union contracts"

He said Sappi said it would introduce new contracts last Friday but had not yet done so

Members of the South African Paper, Printing, Wood and Allied Workers' Union (Ppwawu) had addressed Warren workers at a rally in the US earlier this month

"You were told that Sappi's relationship with us in South Africa was fine I am here to tell you that this is not true," Albert Kgopa, the chief shop steward of Ppwawu, told workers at a rally in Waterville in Maine "We see Sappi trying to impose many of the same policies here which it has tried to impose on us We are here to help you resist "

Romig said workers were unlikely to strike, but were intensifying their protest

Warren employees at other mills had offered to take part in solidarity action "We are looking at a major international campaign," Romig said

A Sappi spokesman said Warren had offered industry-standard wages and working conditions

Warren could face fines of up to $110 000 for 13 separate citations for safety violations Citations by the Occupational Safety and Health Administration in the US department of labour included three for wilful violations of safety rules

One citation charges Warren with supplying employees involved in preparing chlorine with respirators that were not selected on the basis of hazards to which the worker was exposed Warren has an opportunity to meet the labour department to appeal against the fines

A Sappi spokesman said the charges had just been handed to the company and were still being evaluated. "We will probably contest them," he said

MANUF – PAPER & PROD :

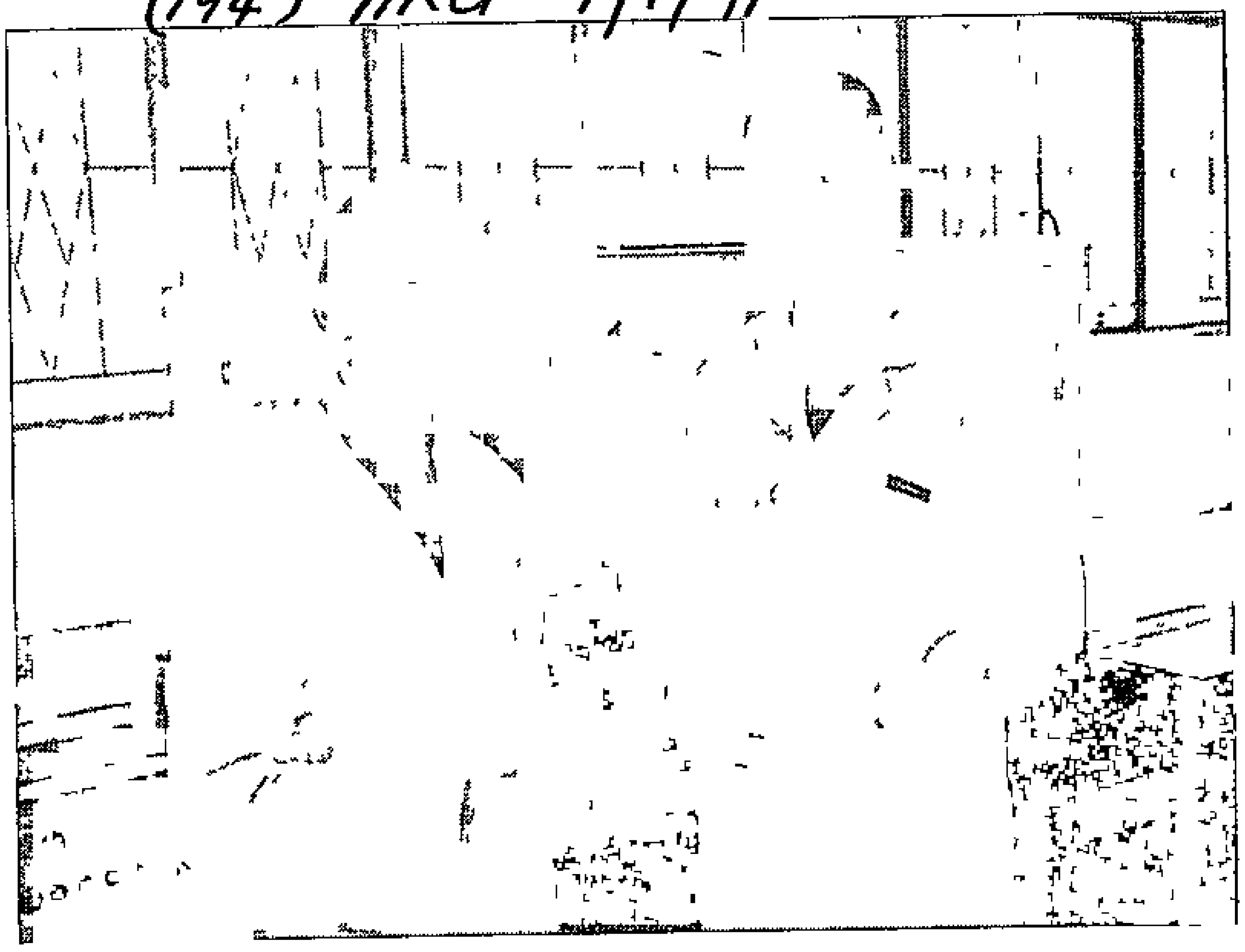
1997

Packaging plant aims to wrap up pill market

Full service to drug companies

(194) ARG 7/1/97

BUSINESS REPORTER



Packaging team: Mike Brown and Ralf Banks of Pharmaceutical Enterprises

The first independent contract packaging plant specialising in the full range of packaging requirements of the pharmaceutical industry has been established in Cape Town by Pharmaceutical Enterprises.

Mike Brown, the managing director of Pharmaceutical Enterprises, believed the company's experience and reputation in the manufacture and packaging of its own drugs provided it with the necessary expertise to offer other pharmaceutical companies a comprehensive service as contract packagers

Services offered include assistance with the registration of new medicines, package design and product inserts, packaging, warehousing and distribution, as well as stability trials and quality testing

The sophisticated plant, which opened recently after the installation of two UPS 200 Uhlman blister-packaging machines, specialises in the packaging of small or large quantities in blister or strip format and containers for tablets, capsules, ointments, creams and liquids

"The move towards blister packaging in the state sector for better product identification and the reduction of theft and wastage, coupled with the worldwide trend towards blisters or strips of solid dosage forms as the preferred presentation for both ethical and over-the-counter products, prompted us to expand our packaging plant to include the two Uhlman machines," Mr Brown said

The chief advantages of blister packaging include easy identification, improved control by batch number and expiry date, visibility of tablets, tamper-evident seals and protection against contamination

"We recognised the need for a specialised packaging facility in Cape Town to assist companies making the change to this format

"Pharmaceutical companies intending to follow the new trend and convert to blister packaging should seriously consider contract packaging before committing to a heavy capital investment in new machinery for a limited number of lines," Mr Brown said.

The two Uhlman machines can handle small and large runs and the company has invested in 10 different sets of change parts of various configurations for tablets and capsules

For added reliability, Mr Brown said, the company had the backup of local film and foil manufacturers in Cape Town

Good outlook for Sappi — analysts

(194) BD 8/1/97

Amanda Vermeulen

INTERNATIONAL paper group Sappi should provide strong profits this year because continued depreciation of the rand is expected, although no dramatic improvement in trading conditions was expected, analysts said yesterday

UBS Global Research said in its Global Paper Perspective report that while 1996 had been a poor year for the group, profits should pick up this year.

In the year to September Sappi's net income plunged 70,2% to R404m after a sharp downturn in conditions in the markets in which it operated and increased costs of foreign exchange forward cover, which affected the bottom line

UBS' global paper and packaging team said Sappi shares had underperformed in the market and recommended that its clients take up Sappi stock, despite the fact that high gearing remained an issue.

The group's debt to equity ratio worsened to 0,99 from 0,97 in the 1996 financial year as a result of the rand's fall and the large capital expenditure programme in Sappi Southern Africa.

UBS said that Sappi's Saiccor plant had suffered from destocking, continuing weak end demand for dissolving pulp and unexpectedly high expenses to do with effluent treatment.

"Also," the report said, "some recent poor customer relations have affected sales and profits and will take some time to resolve."

"Planned and achieved capacity increases in dissolving pulp by Saiccor customers are cause for concern," it said

Sappi's US interest, SD Warren, showed no signs of experiencing improved trading conditions as yet, the report said, although the situation had stabilised

Cost reductions, including 200 redundancies at Warren, would save about R40-R50m a year, and the benefits of this should flow through in the next financial year

The report said capacity increases in the European paper industry would mean low profitability for Sappi's Hannover Papier for some time to come.

Union calls for government inspection into work conditions at SD Warren

US Sappi plant in firing line

CT (BR) 14/1/97 (194)

Jonathan Rosenthal

Johannesburg — The United Paperworkers' International Union in the US has called on US government health and safety inspectors to cite SD Warren, a Sappi subsidiary, for a further wilful violation of health and safety regulations after the cover of a paper rolling machine shattered last week, the union said yesterday

SD Warren accounted for 48 percent of Sappi's turnover during its last financial year to September 30

Last month the occupational safety and health administration of the US labour department cited SD Warren for 13 safety violations in charges which could result in the company facing fines of $110 000

Mark Brooks, the director of the special projects department in the 250 000-strong United Paperworkers' International Union, said yesterday that the union had called government inspectors to inspect a plant after a cover blew apart, scattering chunks of metal up to 20 metres

"Pieces of metal flew 70 to 80 feet in all directions, and one narrowly missed an employee's head," Brooks said

He said the inspectors had been in the plant since the accident. No workers had been injured.

The union has also called government inspectors into all of SD Warren's other facilities as part of a "work safely" campaign amid a work-to-rule protest and deteriorating labour relations at the world's largest woodfree coated paper producer

Late last year Warren unilaterally implemented a new labour agreement at its Somerset mill after negotiations with the union had stalled

The union has accused Warren of "trying to impose extreme flexibility on workers", while Sappi has countered that Warren had offered industry-standard wages and working conditions

The new contract has introduced work on Christmas day and eliminated a week of employee's vacation benefits

"Sappi's future depends on the success of its investment in Warren, and it is foolish of the company to be alienating the workforce," Brooks said

The union has begun a solidarity campaign with the 54 000-strong Paper, Printing, Wood and Allied Workers' Union, which organises workers at many of Sappi's South African plants

It has collected petitions condemning Sappi's handling of a strike at its Saiccor plant in KwaZulu Natal last year and has contacted its counterpart unions organising workers at Sappi subsidiaries in Britain and Germany, Brooks said

"The no-strike clause was terminated when the company terminated the contract We can take the Somerset mill out at any time we want, but a strike is not our first option," he said

Paper chase at Mondi mill as strike continues

CT (BR) 17/1/97 (194)

STUART RUTHERFORD

Durban — Union officials said yesterday that 680 people were participating in the strike at Mondi Paper's Merebank mill in Durban. All but one of the five paper machines had been brought to a halt

Mhlaba Mkhize, the KwaZulu Natal regional organiser for the Paper, Printing, Wood and Allied Workers' Union, estimated that 95 percent of production had been stalled. The mill produces up to 500 000 tons of paper a year

Mkhize said there had been no progress made towards resolving the dispute yesterday and that no meetings with management had been planned for today.

"As a union we are adamant to continue with the strike until our demands are met and will be calling for sympathy strikes at other Mondi plants. There is the possibility that Mondi Kraft will join our action because they are also in dispute over wages"

No comment could be obtained from Mondi yesterday But general manager John Barton said earlier in the week the group had strong stockholdings and did not foresee any problems in supplying customers

Prices dent Cape Town's image

BD 20/1/97

Linda Ensor

CAPE TOWN — The "hamburger index" suggests that Cape Town has lost its allure for SA holidaymakers who have apparently been kept away by the astronomical prices being charged by hotels and restaurants.

Reports of the "tourist prices" being charged, especially at the Victoria and Alfred Waterfront, have already led to warnings by tourist authorities that tourists might shun Cape Town in future in favour of other destinations offering greater value for money.

Cape Franchising CEO Ari Efstathiou, whose company operates Steers' Western Cape franchise, concluded from his slower-than-normal trading figures for December that the popularity of Cape Town's central business district and Atlantic coast holiday areas was waning.

Cape Franchising increased its fast food sales by an average 30% every month last year bar December when sales of 14,5% were notched

Sales at both the Sea Point and Waterfront franchises were up a meagre 9% in contrast with the False Bay/south coast franchises which showed strong growth.

Common complaint

"These are revealing figures and in our opinion indicate that the central business district and Atlantic coast holiday areas of the Cape are losing favour.

"Our franchise holders tell us that a common complaint among holiday visitors was the high price of hotel rooms which is borne out by the amazing growth in the business being done by the cheaper bed-and-breakfast establishments and self-catering flats and the big reduction in hotel occupancy," he said

Efstathiou noted that Central Statistical Service (CSS) figures showed that hotel occupancy in the Cape was down more than 8% in the months up to December.

He was convinced that the figure would be even worse for the industry in the last month of the year.

"According to the CSS, Cape hotels have increased income by more than 20% from these lower occupancies which says a lot about the prices they are charging," Efstathiou said.

"With the construction of five huge new hotels scheduled for the Cape Town central business district it is evident that something will have to change."

Mondi strike continues

Reneé Grawitzky

THE Mondi strike in KwaZulu-Natal enters its third day today with the company indicating a willingness to continue negotiations but the union claiming Mondi is not prepared to move.

The Paper, Printing, Wood and Allied Workers' Union said it had lowered its demand for wage increases from 14,7% to 11%, but the company was not prepared to move off its 9% offer

Union members embarked on a strike last week after the Commission for Conciliation, Mediation and Arbitration failed to resolve the dispute through conciliation. Mondi said that incidents of intimidation were not helping the situation.

The commission said that the union wanted to refer the wage dispute to arbitration, but the company refused, saying the commission did not have the jurisdiction to arbitrate over the dispute.

The commission said it could arbitrate over a dispute such as wages only if both parties were agreeable Since the parties failed to agree on arbitration, the union had resorted to strike action.

Mondi said a number of workers who chose to work had their homes stoned and one machine was damaged.

Sappi revises cost of cleaning up pollution

JONATHAN ROSENTHAL (194) ET (BR) 21/1/97

Johannesburg — Solving pollution problems at Sappi's Saiccor mill in Umkomaas was likely to cost R150 million, Eugene van As, the chairman of Sappi, said last week

This is less than half the initially estimated cost of between R300 million and R500 million

Last year, Sappi's Saiccor mill, which produces dissolving pulp, came under fire from environmentalists and communities around the mill

They complained that the plant's liquid effluent caused a discolouration of water and thick foaming on beaches

Subsequently, in October, the department of water affairs gave Sappi six months to solve the problem

PULP FACT *Eugene van As, Sappi's chairman, halves the estimate for Saiccor clean-up*

Van As said an environmental impact assessment was being done, but a combination of doubling the length of the plant's pipeline and building a ligno-sulphate plant would reduce the visible effects of the effluent

He said the effluent was benign but it stained water, even at low concentrations

Modelling had indicated that the effluent would not come back ashore, he said

He said the only alternative solution would be to change the process at the plant at a cost of R1 billion and that would only be viable if Sappi increased the plant's capacity

"That would be the most elegant solution, but it is already the largest plant (of its kind) in the world by a factor of three and if we increased capacity the market just couldn't take it," he said

New labour legislation still fails to improve domestic workers' lot

Star 3/2/97 (194)

By Lee-Ann Alfreds

Despite new labour legislation aimed at protecting domestic workers, they remain among the most exploited workers in the country

They are not entitled to medical aid or pension and the recommended minimum wage for full-time domestics – R600 – is not linked to inflation and does not cover the rising costs of schooling, rent or clothing

But domestic workers and their Domestic Workers Union (DWU) often do not complain about salaries because they dare not, says the union's education and publicity secretary, Margaret Nhlapo

The DWU, which has a membership of about 2 000, has laid down recommended minimum wages for domestics in the absence of any kind of statutory minimum wage Even the new Labour Relations Act (LRA), which for the first time applies to domestic workers, fails to recommend a basic wage

That might be in the process of changing, however

Vincent Khumalo, the Government's assistant director of labour relations, says discussions are underway between organised labour and employers about an Employment Standards Bill, which "might set down basic minimum wages"

He says the bill, which is still in draft form and will replace the Basic Conditions of Employment and Wage Acts, still has to be presented to the Cabinet and is not likely to be implemented before next year

This means wages of domestics are still entirely at the discretion of the employer, quite a number of whom exploit their employees, according to Nhlapo

Nhlapo says there is great dissatisfaction with the union's basic recommended wage of R600 a month, but domestics don't complain because of the high unemployment in the country The recommended wage does not cover the cost of inflation, rent or rates or education for domestics' children

"Whatever we do we have got to look at whether we think the rates are acceptable (to employers) If we didn't we'd charge a minimum of R1 000," said Nhlapo According to Nhlapo, the union's recommended rates are:

- R600 for a full-time domestic (whether live-in or not) who cleans, washes and irons, and does basic cooking;
- R800 for a domestic who babysits, bakes and caters for the family, and
- R40 per day and the cost of transport for a domestic who comes in for the day

LABOUR *Resolution of the dispute as remote as ever, says union official*

Solidarity strikes with Mondi workers likely to spread

STUART RUTHERFORD & SHIRLEY JONES

Durban — Secondary strikes in support of Mondi paper workers could spread to more companies in KwaZulu Natal today, Lucky Mhlongo, a spokesman for the Paper, Printing, Wood and Allied Workers' Union (Ppwawu) said yesterday.

He said notification to union representatives within other companies of sympathy strikes had been delayed, but he expected secondary strikes to begin today or tomorrow.

On Friday Mhlaba Mkhize, the union's general organiser, said the secondary strikes had affected operations run by Kohler, Nampak, Sappi Saiccor and Republican Press.

He estimated that more than 5 000 people had been involved in the brief stoppages, picketing and demonstrations that began on Thursday.

"We don't want to punish other companies, but we are saying that Mondi is being unreasonable," Mkhize said.

Attempts by the Afcol Group on Thursday to stop secondary strikes at its plants through an urgent court interdict did not provide a guarantee.

While the union was instructed that it could not incite workers to go on strike, the court ruled that nothing stopped individual workers from going on strike in sympathy.

Mhlongo said though there had been some attempts to resolve the dispute on a national level, nothing tangible had emerged and the strike was no closer to being resolved than when it started.

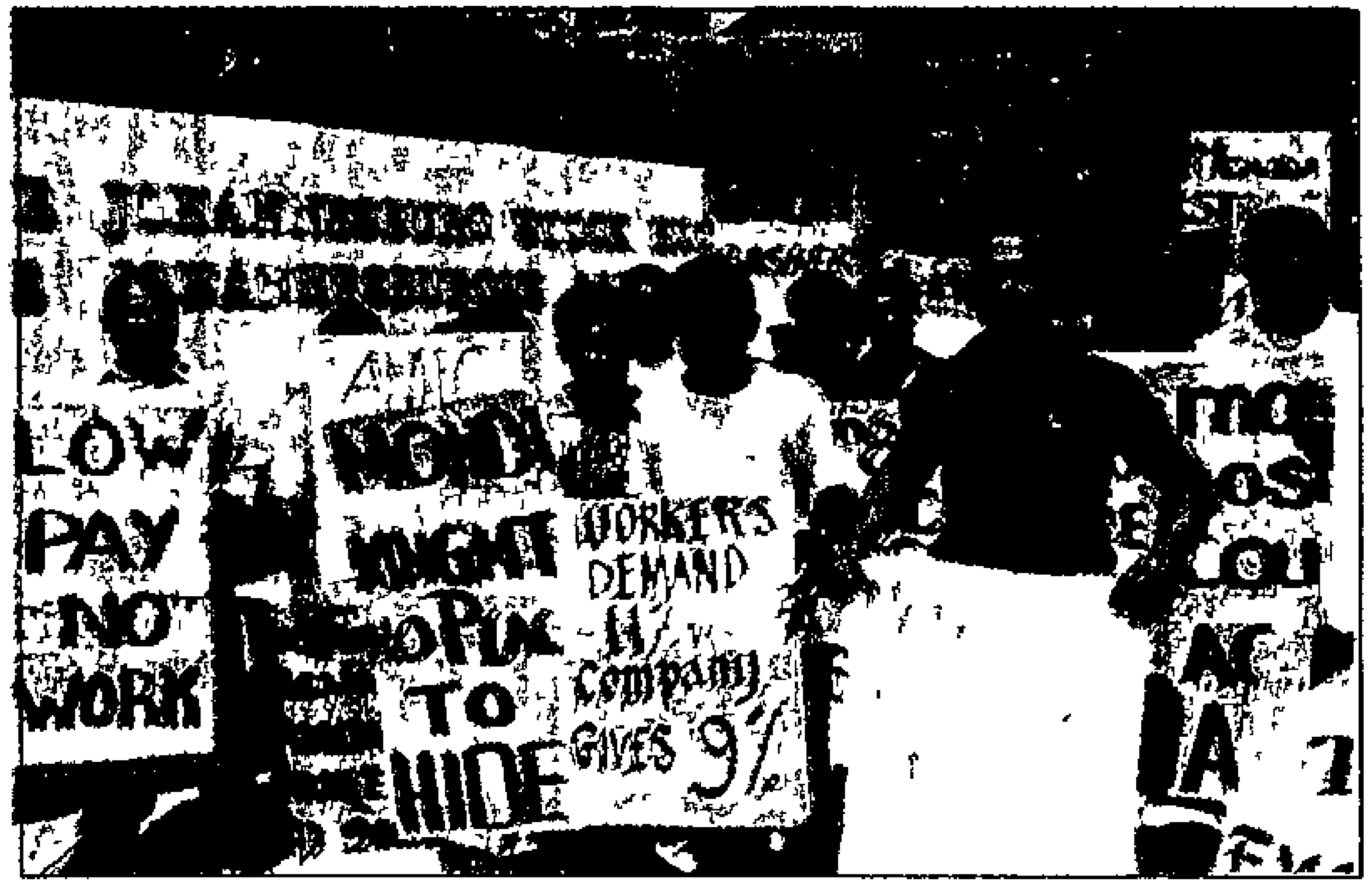
Jonathan Rosenthal reports from Johannesburg that employees of SD Warren, the US subsidiary of paper and pulp producer Sappi, staged protest pickets at Warren's facilities on Saturday, the United Paperworkers International Union said at the weekend.

Warren and the union have deadlocked in negotiations over flexibility provisions of a new work contract at Warren's Somerset mill. The protest follows solidarity protests against Sappi by Ppwawu last week.

Eugene van As, the chairman of Sappi, has previously slated productivity at the Somerset mill. He said the new work contract Warren was trying to implement had already been accepted by unions in other workplaces.

The union said its members had ratified a new agreement last week that "made significant economic gains but failed to address workers' concerns over Sappi's so-called flexibility proposals".

Sappi could not be reached for comment.



THE PEN IS MIGHTY *Mondi workers picketed outside the JSE on Friday to draw attention to the plight of the 650 workers at Mondi Papers' Merebank mill who have been locked in a wage dispute with management since January 15*

PHOTO JOHN WOODROOF

(162) (194) CT (BR) 10/2/97

Mondi nonstriker killed

(194)

DURBAN — A 60-year-old worker who refused to join a strike at the Mondi Paper [illegible] Mill was shot dead at his Umlazi home on Monday evening, the company said yesterday.

[illegible] shot minutes after company [illegible] finished a shift at the mill, where more than 600 Paper, Print, Wood and Allied Workers' Union members had been on [illegible] and the homes of other nonstriking Mondi workers were also shot [illegible] and stoned.

[illegible] related to the [illegible] day for the labour [illegible]

[illegible] The union [illegible] spokesman said the union distanced itself from the murder and intimidation. — Sapa, Reuter

BO 12/2/97

Union condemns worker's murder

(194)

CT(BR) 12/2/97

STUART RUTHERFORD

Durban — The Paper, Printing, Wood and Allied Workers' Union yesterday condemned the murder of a 60-year-old Mondi employee, who was shot outside his Umlazi home on Monday night after completing a shift at Mondi Papers' Merebank mill.

Mhlaba Mkhize, the union's regional organiser, would not be drawn on speculation that the murder could have been the work of strikers, and said the union would gladly help the police in their investigations.

"The strikers are frustrated by the fact that they have not earned a salary for about a month, but they know they have taken a risk to further their aims," he said.

Derrick Minnie, Mondi's managing director, said that if the shooting proved to be strike-related it would be a "very sad day" for the labour bargaining process, and the incident could have wide-ranging implications for the strike.

About 650 union members at Mondi Papers' Merebank mill in Durban went on strike on January 15, after a deadlock in wage negotiations.

Mkhize said strikers had received numerous threats from the non-strikers. Yesterday the union had been told the workers inside the plant were planning to attack the strikers, he said.

He said the union was talking to the police about the incidents, and the police had begun guarding the union's marquee outside the paper plant this week.

Mondi wage dispute moves to mediation

Vuyo Mvoko (194) BD 13/2/97

Mondi and the [illegible] Wood and Allied Workers' Union [illegible] ap- [illegible] Conciliation, Mediation and Arbitration [illegible] Merchant Mill in Durban [illegible] strike at Mondi's [illegible]

About [illegible] Mondi [illegible] workers [illegible] strike. The company is still in production. [illegible]

[illegible] Labour Relations Act [illegible] dispute [illegible]

Although the parties [illegible] pute met on the [illegible] both parties left to consult their principals and planned to meet [illegible] sion.

[illegible] regional organiser and head of the negotiating team, Mhlaba Mkhize, [illegible] demand for pay increase [illegible] across-the-board and R1.50 [illegible] shift [illegible]

[illegible] across-the-board [illegible] shift allowance [illegible] two days [illegible]

[illegible] made [illegible] Mondi [illegible] R7.5m [illegible]

Mondi [illegible] comment.

Union threats and worker strife await Sappi and Mondi

CT (BR) 17/2/94 (194)

Jonathan Rosenthal

Johannesburg — Sappi and Mondi, South Africa's two private-sector forest products-producers, are bracing for a further week of labour disputes as a strike by 600 Mondi workers enters its fifth week and the Paper, Printing, Wood and Allied Workers' Union has threatened to escalate a one-week-old strike affecting four Sappi plants in Mpumalanga

About 600 Mondi workers have been on strike since January 15 over a wage dispute at the Merebank mill in Durban

Last week, about 400 workers at four of Sappi's mills in Mpumalanga downed tools over a wage dispute Bengeza Mthombeni, the general secretary of the union, said the union had called for solidarity action to take place this Wednesday He said workers at the Ngodwana mill, which employs about 1 000 people, "will go out" next week" A Sappi spokesman said at the weekend that the union had informed the company of the possibility of a sympathy strike at the Ngodwana mill

Mthombeni said the union was demanding a pay increase of 10 percent but the company had offered 7 percent He said some workers earned about R30 a day at Sappi sawmills

"We are convinced this offer is from the head office because Sappi forced a settlement of 7 percent on the Saiccor workers," he said A Sappi spokesman confirmed the company's offer averaged about 7 percent but said it was determined at a plant level "We definitely do not negotiate from head office," he said

Sappi said the matter would be referred to the Commission for Conciliation, Mediation and Arbitration "We are hopeful of resolving it," a company spokesman said

Meanwhile, Mondi and the union failed to resolve their deadlock at a meeting of the commission last week, with both sides accusing the other of intransigence John Barton, the general manager of Mondi Paper, said at the weekend that the union had clung to its previous demand for a 13 percent wage increase

"Our offer of 9,5 percent is in line with settlements concluded with (the union) and (the commission) at three other manufacturing divisions within the Mondi group," he said Mthombeni accused Mondi of a lack of commitment to resolving the strike He said the union had demanded an 11 percent increase, not 13 percent as stated by Mondi

Sappi and Mondi said the strikes had had a minimal affect on production Sappi said the production of mining timber was not affected as other sawmills had increased production Mondi said production at its Merebank mill this month was running at 95 percent budget

Sappi shares fell 90c to R39,90 on Friday

Consol feels the effects of fruit industry's woes

BD 20/2/97

Lukanyo Mnyanda

PACKAGING group Consol reported a 16% decline in earnings before exceptional items to R101,42m in the six months to December, after unseasonal weather exacerbated weaker demand from the fruit industry

The Anglovaal subsidiary, which recently sold 60% of tyre company Contred to Goodyear Tyre and Rubber Company, suffered a corresponding drop in earnings a share to 157,6c, compared with 187c in the corresponding period last year

Group chairman Jan Robbertze said yesterday packaging turnover was unchanged in the period under review, while the packaging volumes were lower across the board, except for markets served by direct exports

"In addition, unseasonal weather conditions adversely affected the established ordering pattern for deciduous fruit packaging," Robbertze said.

"Plastic volumes were generally down with the exception of Plastform and flexibles."

The group's comparative results with the same period last year had been restated to reflect a change in its accounting policy.

MD Piet Neethling said the group did not expect the economy to improve significantly and earnings for the year were unlikely to show significant growth on the interim performance Group turnover was slightly up at R1,78bn (R1,69bn), with the rubber business — excluding tyres — increasing its share by 11%.

The competitive tyre market contributed to a 9% drop in operating profit before depreciation to R244,08m.

The slump in activity was reflected in lower corrugated volumes compared with buoyant demand during the peak of the economic cycle last year. But the plastic division had returned to profitability.

Higher interests, coupled with increased borrowings as a result of the required higher level of expenditure helped push net financing costs 30% to R56,72m This was partially offset by a lower effective tax rate, which saw the tax bill drop sharply to R23,2m compared with R44,83m in the corresponding period last year

Neethling said the funds accruing from the sale of its tyre interests would lead to the group's net borrowing of R694m — at a 48% borrowing ratio — being transformed into a R441m net cash position

"These funds will be utilised to complete the capital investment programme and develop packaging opportunities."

The restructuring which would result from the sale of Contred would not prejudice investors but would ensure that the group became a focused packaging company, Neethling said

~~RUTF~~ (194)

Mondi puts R150m into paper mill

(194)

STUART RUTHERFORD

ET(BR) 20/2/97

Durban — Mondi, the pulp and paper manufacturer, said yesterday it would invest R153 million at its Merebank mill in Durban to convert two paper machines to an alkaline sizing process in order to improve quality

John Barton, the general manager of Mondi Paper, said the company would also upgrade one of the paper machines to increase capacity by about 15 000 tons a year

At present the machines produce a total of 165 000 tons of uncoated woodfree paper each year for use in laser printers and photocopying machines

"There is now a major shift to this technology by international paper makers because of the quality enhancements, particularly in paper brightness, and improved production efficiencies," said Barton

The company needed continually to improve the quality of its paper and boost capacity to extend its competitiveness in local and export markets, he said

The conversion and upgrade are expected to be completed by October next year.

SAPPI

STRUGGLING WITH MARKETS

(194) FM 21/2/97

Sappi has proved once again to be a victim of circumstances beyond its control In the two months after Eugene van As signed his chairman's statement in January 1996, pulp prices fell by more than 50%

- **ACTIVITIES** *Integrated paper and pulp producer with interests in southern Africa, North America and Europe*
- **CONTROL** *Sanlam 26%*
- **CHAIRMAN** *E van As MD I Forbes*
- **CAPITAL STRUCTURE** *157,6m ords Market capitalisation R6,48bn*
- **SHARE MARKET** *Price R41,10 Yields 3,4% on dividend, 5,6% on earnings, p e ratio, 17,9, cover, 1,6 12-month high, R57, low, R38 Trading volume last quarter, 12,6m shares*

Year to	Feb 28 '94	Feb 28 '95	*Sep 30 '95	Sep 30 '96
ST debt (Rm)	822	902	1 100	1 303
LT debt (Rm)	1 946	7 318	7 221	8 295
Debt equity ratio	0,25	1,19	0,97	0,99
Shareholders' interest	0,60	0,39	0,40	0,41
Int & leasing cover	4,3	4,2	4,0	1,8
Return on cap (%)	2,0	4,8	15,1	5,5
Turnover (Rbn)	5,54	7,80	9,29	15,27
Pre-int profit (Rm)	192	821	1 666	1 215
Pre-int margin (%)	3,5	10,5	17,9	8,0
Earnings (c)	90	352	600	230
Dividends (c)	nil	120	120	140
Tangible NAV (c)	3 482	3 761	4 260	4 401

* Seven months

Prices of Sappi's core product, coated paper, then fell 35% in Europe and 25% in North America Another key product, dissolving pulp, peaked at the beginning of the financial year at US$1 150/t but its price had dropped below $600/t by July 1996

This market downturn could not have come at a worse time for Sappi, which started the year with 97% gearing It had funded its December 1994 acquisition of SD Warren, the US fine paper producer, entirely with debt And locally it was completing an ambitious R1,2bn upgrade of its southern African mills — which meant the southern African operations had a negative cash flow during the year

Interest cover fell to 1,8, or as low as 1,3 if the capitalised interest on forestry operations are included

Sappi compounded its problems by hedging one third of its foreign exchange contracts Because of the collapse in the value of the rand and in the dollar selling price of the company's products, as well as commercial downtime which reduced the volume produced and sold, the contracts represented 100% of the dollar proceeds from exports in the second half The effect was that the group did not benefit from the collapsing rand

It cost Sappi SA R177m, which would have added 33% to group EPS This was fully provided for in the 1996 year

Van As argues the group did reasonably well to maintain operating income at R1,2bn in a collapsing market Sappi SA, Warren and Sappi Trading, which handles exports outside Europe and North America, all contributed to operating profit (see chart)

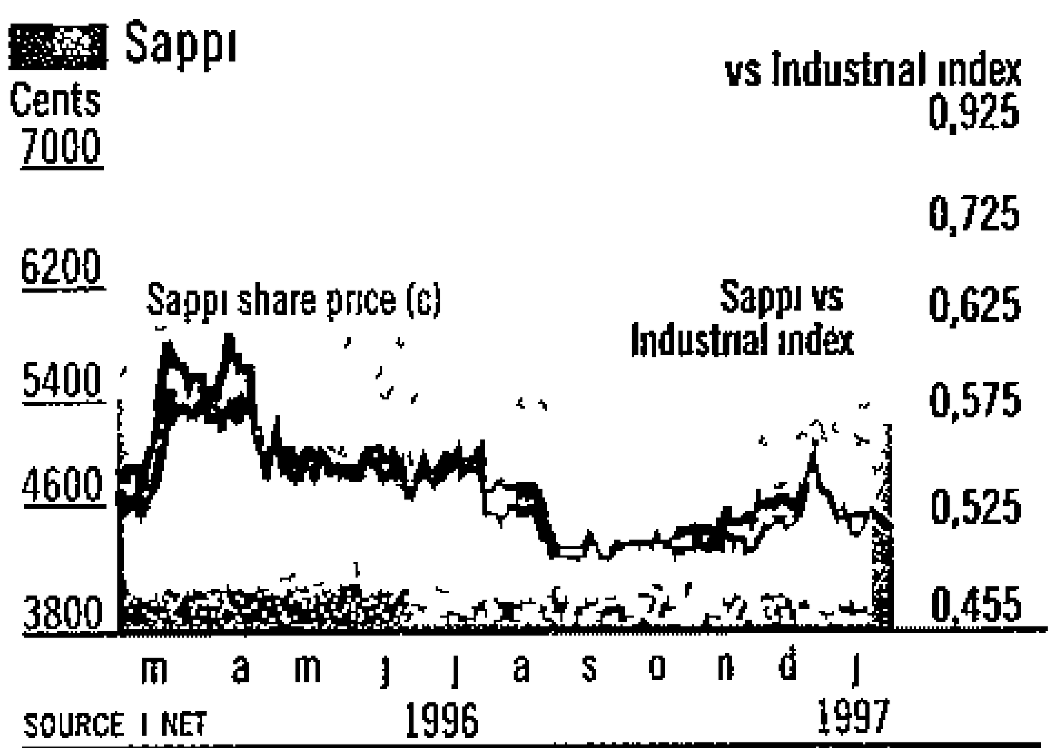
Sappi Europe made a R2m operating loss overall, though it broke even in cash flow terms Merchants sharply reduced their stocks until May 1996 Sappi UK, which has suffered from quality problems for some years, was brought under the control of Hannover Papier CE Franz Neudeck and the European sales operations have been centralised The Blackburn mill is being converted from uncoated paper to coated paper production to complement Hannover's coated paper production

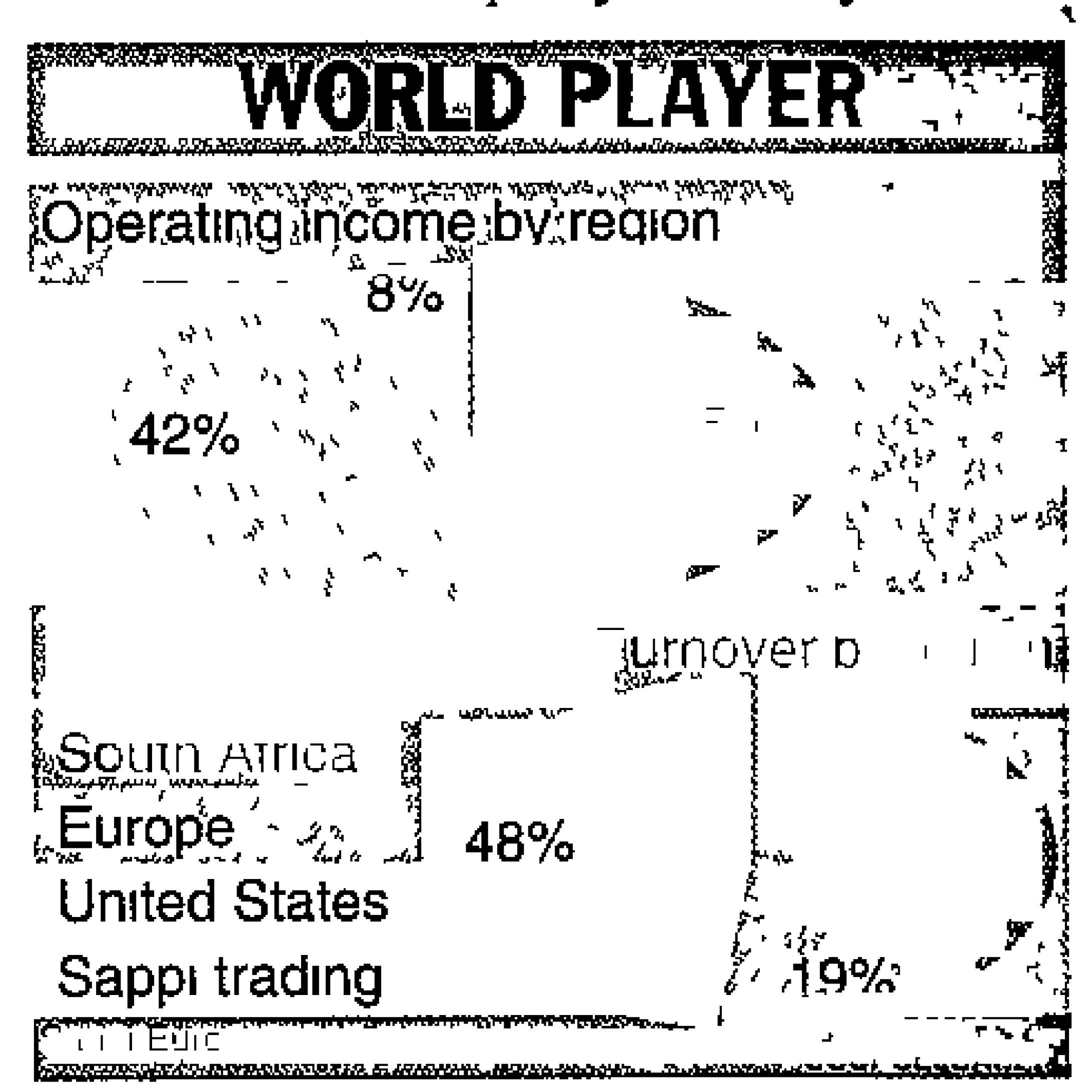
Eugene van As *demand fundamentals are good*

Though demand picked up strongly from July, a significant increase in coated paper capacity is coming on stream from KNP and Enso in the second half of the year and will affect prices

In SA operating income of R612m was about half of the previous 12 months' As in the rest of the world, there was destocking of paper and pulp products and sharply reduced demand The only area of the market in which demand rose was scholastic and office paper

The dissolving pulp business, Saiccor, which produces pulp for conversion to viscose, had an equally difficult year, but





Van As says prices have edged up from \$560/t to \$610/t A major producer in Indonesia converted to paper production last year, and two American mills are closing before the end of March

SD Warren now accounts for almost half of group turnover Unlike the other group businesses, whose sales declined, its sales revenues rose 21% in rand terms, though only 8% in dollars Its operating income fell by a third to R509m

Most of Sappi's debt is held in Warren, without recourse to the SA operations

Warren recently ended a dispute at its Somerset mill which has introduced full flexibility of work practices, a 3% fixed wage increase for six years and a no strike clause

During the work to rule while Warren was in dispute with the union, daily production at Somerset fell from 1 950 t to 1 650 t It has since recovered to previous levels

In May, Sappi will acquire the outstanding 22% of Warren for \$138m (about R600m) Van As says it's highly unlikely that Sappi will issue paper for this deal at the current share price, so the cash payments will further strain the group balance sheet unless Sappi can issue new shares and warehouse them with a bank

Sappi's gearing, at close to 100%, is high by SA standards but Van As says paper companies like International Paper, Georgia Pacific and Kymmene have ratios which are similar or worse Warren's interest rates are significantly below SA levels, averaging about 9%

Van As has made predictions on market trends in the past which proved to be overoptimistic He is more cautious now The price of benchmark NBSK (northern bleached softwood kraft) has increased from \$450/t in the second quarter of 1996 to about \$560/t, but the industry was unable to implement a price increase to \$610 on February 1 Van As believes it might not happen until April

He says the demand fundamentals are good, particularly in magazine publishing, now Sappi's core market Increased demand may absorb the new capacity entering the coated paper market

Many brokers treat Sappi as a trading share rather than a long-term hold The outlook for the 1997 financial year must be better, if only because of the benefits of the weaker rand (on a year-on-year basis) If Sappi has a reasonably good performance, with the forex losses out of the way it could lift EPS by 40% to 322c giving a forward p e of 12,8 — fair value rather than cheap

Sappi looks like a hold, but it is worth nibbling on if it falls to the R35-R38 range *Stephen Cranston*

HUDACO

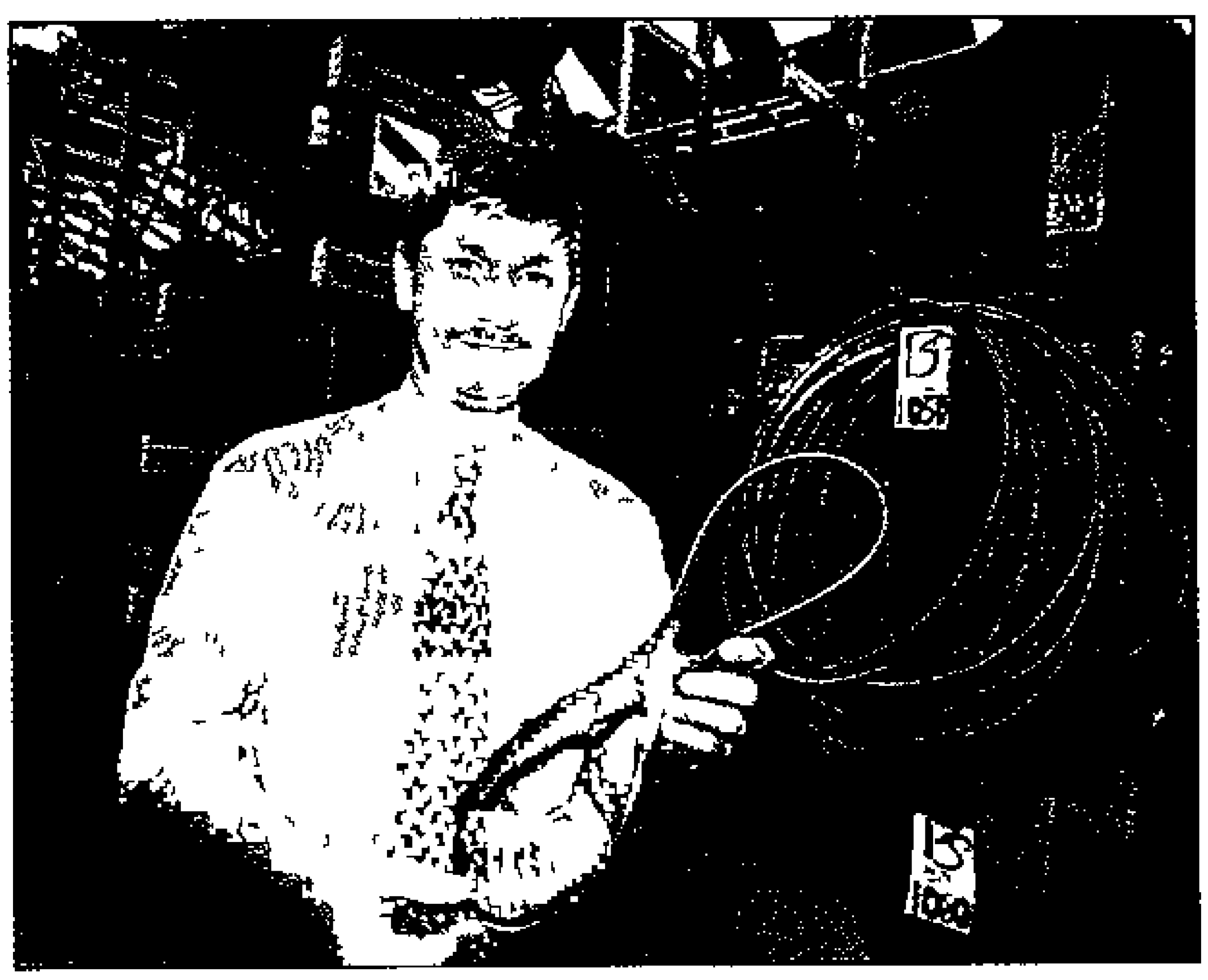
TURNING TO DISTRIBUTION

Just when Hudaco had secured a range of distribution interests to ease the exposure to industry cycles, the group faced a tougher economy than expected and a year of worsening competition

This may have depressed the share price But management's close attention to operating efficiencies and a better economic climate in 1997 should help towards a favourable rerating

The year to end-November was a landmark year for the group, turnover reached R1bn for the first time The automotive division — mostly new addition Transportation Motor Spares (TMS) — was the largest contributor About a quarter of sales were generated through acquisitions, particularly TMS which distributes world-branded automotive parts sourced locally and internationally

The automotive spares market should grow strongly in SA as vehicle numbers rise and their average age increases But this industry's operating margins are lower than in Hudaco's other interests — stock turn is higher



Stephen Connelly *still expects real growth this year*

Before Hudaco went on the acquisition trail in 1995 (R113m was spent) and embarked on a capex programme to upgrade plant and machinery, cash flow per share usually exceeded EPS

In financial 1995 and 1996, relatively high investment in working capital cut cash generation CEO Stephen Connelly says stock was about R20m too high at year-end Cash flow per share is 116c compared with headline EPS of 206c

ACTIVITIES *Sells and distributes industrial and automotive consumable products sourced from international principals or local manufacturers including its own plants*

CONTROL *SA Mutual 24,8%, Liberty Life 11,4%*

CHAIRMAN *K Williams CEO S Connelly*

CAPITAL STRUCTURE *29,6m ords Market capitalisation R681m*

SHARE MARKET *Price 2 300c Yields 3,9% on dividend, 9,0% on earnings, p e ratio, 11,2, cover, 2,3 12-month high, 3 100c, low, 1 825c Trading volume last quarter, 2,14m shares*

Year to November 30	'93	'94	'95	'96
ST debt (Rm)	16,7	39,7	18,5	31,9
LT debt (Rm)	9,5	33,6	27,2	61,0
Debt equity ratio	0,01	n/a	n/a	0,31
Shareholders' interest	0,55	0,45	0,47	0,38
Int & leasing cover	13,9	29,4	41,9	6,6
Return on cap (%)	17,5	14,5	17,3	18,8
Turnover (Rm)	556	645	787	1 106
Pre-int profit (Rm)	62,5	67,6	79,6	105,4
Pre-int margin (%)	11,2	10,5	10,1	9,5
Earnings (c)	123	140	180	206
Dividends (c)	59	66	80	90
Tangible NAV (c)	638	680	675	646

Turnover came from five divisions automotive parts (R323,2m), bearings and power transmission (R329,8m), diesel engines and spares (R139,7m), fluid power and control (R174,2m), light industrial R126,2m and the 50% share in abrasives (R19,5m)

Manufacturing now generates only 8% of sales During 1996 the under-performing Abcor — an abrasives joint venture with Murray & Roberts (M&R) — was sold to M&R Abcor was losing market share and experiencing labour problems Mintex Don, the remaining manufacturer, is now the only nonperformer

The core competence of the group is management of distribution logistics "We always start by saying we are deeply unhappy with our service The question is how to improve it," says Connelly

International competition is steadily increasing The assumption that small

MONDI WORKERS RETURN TO WORK TODAY AFTER CCMA SETTLES STRIKE

~~93~~ 194

Durban — Strikers at Mondi Paper's Merebank mill in Durban will return to work at 6am today after an agreement on wages reached between Mondi and the Paper, Printing, Wood and Allied Workers' Union on Friday. CT(BR) 24/2/97

In terms of the agreement reached through the Commission for Conciliation, Mediation and Arbitration (CCMA), Mondi will increase its basic wage by 9 percent and the shift allowance to R1,20 an hour John Barton, Mondi Paper's general manager, said the settlement was very much in line with earlier settlements at three other manufacturing divisions at Mondi

Mhlaba Mkhize, the union's regional organiser, said yesterday that while the union had been pushing for an 11 percent increase and a shift allowance of R1,50 an hour, the strike succeeded in advancing some of its demands – Stuart Rutherford

Consol appears to have begun putting things right on all fronts

(194) BD 24/2/97

WITH a price-to-earnings ratio of 9,5, packaging group Consol's rating is about half that of sector leader Nampak, on 18,7

The share price, which peaked at R57 about two years ago, is languishing at R32

There has been little response by the market to the announcement late last year that Consol would shed its rubber operations in a deal which saw parent Anglovaal Industries buy Consol's tyre and rubber business and sell 60% of it on to US multinational Goodyear.

The mix of rubber with packaging was one reason Consol fell out of favour with investors, particularly given severe competition in the tyre market. The other concern about the group was that it was slow to start modernising its plants, lagging behind Nampak and Kohler on this score. Its high gearing — 48% at end-December — was also against it

But there is progress on all fronts, although this is not yet evident in Consol's December interims earnings fell 16% on an operating profit that was down 8% in packaging and 20% in rubber (tyre maker Tycon's operating income fell 36% as margins were slashed by competition)

The sale of the rubber interests, which took effect on January 1, leaves the group about R1,1bn better off Added to the R728m price tag are R369m of borrowings, which have been taken off the balance sheet.

The group has used proceeds to repay as much debt as possible and is holding R400m-R500m in cash, earning interest at 17,4% This will more than offset the loss of profits from rubber in the year to June, says Consol MD Piet Neethling

There are no plans for the money in the short term Neethling says the group will look at new projects (one option is Zimbabwe, where it operated until about 10 years ago), but wants first to consolidate after a period of major change

In its core glass business the group has closed one of its five plants and is midway through a three-year, R1bn capex programme. The process has been disruptive, Neethling says And in the six months to December, problems with three furnaces came on top of a downturn in the market Glass volumes were 9% down in the six months and profits fell

Consol's share of the glass packaging market is about 75% to Metal Box's 25%, and glass traditionally contributes three quarters of its packaging profit

Corrugated packaging volumes were down 4% and operating profits fell 6% The main culprit was the late start to the agricultural season because of heavy rain in the Cape, but raw material prices also rose

The plastics division, however, swung from an operating loss of R4,5m to an operating profit of R4,5m as it benefited from completion of its re-engineering programme

Second half earnings are not expected to be significantly better than those of the first half But as Consol gains from its transformation in the next couple of years, Neethling hopes to get the share's rating back up to the 15 p e at which he believes a good packaging group should trade.

Hilary Joffe

□□□□

FOOTNOTES

PICK 'n Pay pioneered no-name brand grocery products in SA It is now doing something not dissimilar with financial products

The retail group, which announced last week that it had chosen Boland Bank to back up a new (as yet unspecified) consumer banking product, plans in time to introduce a range of such products into its stores And, says Pick 'n Pay group enterprises MD Gareth Ackerman, it will choose the best provider for each service.

So Boland will not necessarily be chosen for future products, which could include unit trusts. And the group's arrangement with Absa, which runs Pick 'n Pay's private label card, is unchanged

The group intends, then, to shop around It probably does not have the clout with banks that it has with soap powder makers But it is taking advantage of technological advances, which mean customers have no need of "bricks and mortar" banking branches — and, Pick 'n Pay believes, would like the convenience of doing their banking when they do their grocery shopping

As it is, Ackerman notes, every store is already an ATM — they accept all debit cards except those of First National Bank and Nedbank, and customers can pay many of their bills using this facility.

The new banking product, to be launched in July/August, was designed by Pick 'n Pay, which will do the marketing and have its own call centre Boland simply "manufactures" the product and provides the backup The connection between Boland and Shoprite-Checkers, via Christo Wiese, is not an issue — Ackerman says in terms of the agreement Boland undertakes not to produce an identical product for Shoprite, or anyone else.

There are dangers for retailers going the financial services route· Pick 'n Pay presumably would not want its customers blaming it for hikes in mortgage payments or for not paying out on insurance claims

Ackerman says the group will keep away from products which might create customer negativity to the brand.

Sappi nears deal with Mpumalanga strikers

Reneé Grawitzky

(194) BD 26/2/97

IN THE wake of the resolution of the five-week-long Mondi strike in KwaZulu-Natal, there are early indications of a resolution to the Sappi strike in Mpumalanga

The Paper, Printing Wood and Allied Workers' Union said yesterday that after last week's demonstration against Sappi, there were indications negotiations were back on track

The union said it was demanding a 10% increase against the company's offer of 7%.

Mediation had been accelerated by the death of a worker during the Mondi strike, the union said.

Eugene van Zuydam, senior convening commissioner for the Commission for Conciliation Mediation and Arbitration in KwaZulu-Natal, said yesterday an agreement was reached under amicable circumstances after eight days of mediation

The final agreement provided for an across-the-board increase of 9%, a shift allowance of R1,20/hr and a once-off payment of R650 for workers who would not benefit from the shift allowance

Sappi hit by pulp slump

(194)

SAPPI's earnings a share for the year ending last month should be more than the 230c recorded last year, provided there was no further deterioration in market conditions, the SA-based paper and pulp producer said yesterday

Chairman Eugene van As told the firm's annual general meeting that depressed pulp prices were hitting the industry. "Paper markets continue to be uncertain and strong demand is not reflected in price increases, mainly because of depressed pulp prices," he said

He warned that pulp price rises, expected this month, had been delayed The price might dip in the short term, but would be on a rising trend over the next two years, he said

Sappi has also been hit by industrial unrest, especially in Swaziland where strikes closed the firm's Usutu Pulp unit for a month at a cost of R1m in sales a day

The share price closed 50c lower at R35 yesterday, just off its 12-month low of R34,25 recorded last month —Reuter

17/10/89

Labour unrest and low pulp price take their toll

Slim earnings hit Sappi share price

CT(BR)6/3/97(194)

ANN CROTTY
CONSUMER INDUSTRIES EDITOR

Johannesburg — The Sappi share price shed 50c to R35 yesterday following reports from chairman Eugene van As at the group's annual meeting yesterday morning that this financial year's earnings would only reflect a small increase on the 230c a share achieved in financial 1996

By the end of the day, most analysts had revised their financial 1997 earnings forecasts from about R4,50 a share to R3,00

Van As said that first-half earnings would be severely affected by a number of adverse factors, including labour unrest in various parts of the group's operations and a weaker than expected international pulp price

"As a result of all of these factors, we are expecting only a small increase in first-half earnings" He added "At this stage we are still confident that the earnings for the year will be better than last year The internal budget established by the company will, however, not be achieved in current conditions"

In the recently released annual report, Van As had expressed optimism about pulp prices rising over the coming two years

However, he said at the meeting that the strength of the dollar and high operating rates had turned sentiment negative and price increases seemed unlikely

"We had expected a pulp price of about $610 in March, but it is now possible that it could drop from the current levels of around $560"

He said that pulp was in a rising trend and believed prices would rise in the next two years

On the labour front, the political strike in Swaziland, which had lasted more than four weeks and ended yesterday, had effectively closed Usutu Pulp at a cost to the group of R1 million in sales a day

Sappi was subjected to wage related strikes in its particle board and saw milling operations, and sympathy strikes at various operations in sympathy with the Timber Industries division strike.

A work-to-rule at the Somerset mill belonging to US-based subsidiary Warren severely affected productivity

While all of this would have an adverse effect on the company's first-half earnings, Van As said the South African stoppages and the Somerset dispute as well as Swaziland had all recently been resolved.

□ Business Watch

Sappi will lose R4,7m as result of Prima loan

CT(BR) 18/3/97 (194)

ANN CROTTY

Johannesburg — Sappi, the paper and pulp group, which was battling through another period of weak pulp prices, incurred a loss of R4,7 million as a result of a R10 million loan from Prima Bank several years ago, the company said yesterday

Analysts said the loss, which was taken in last year's accounts, was not a serious amount in Sappi's life, but that it was significant as it suggested evidence of slack management controls

Sappi sources said that several years ago, as part of a policy of helping emerging banks, it raised a five-year loan of R10 million from Prima Bank.

The note issued to Prima Bank by Sappi was subsequently discounted in the money market, but it seemed it was also sold to a third party One of the two parties was Syfrets, the second was unnamed but was said to be a "large company"

Sappi said the sale of the claim by Prima Bank to two parties had been irregular, resulting in Sappi being approached for two claims of R10 million each This led to a court battle between Sappi and Syfrets The judgment was in favour of Syfrets, which received R10 million from Sappi. Liability for the second R10 million was settled between Sappi and the third party.

"The worst situation for us would have been to pay out R20 million, after paying Syfrets we settled and paid out an additional R4,7 million to the other company," Sappi said

Sappi was adamant that there was no wrong-doing or carelessness on its part But a leading analyst said the loss reflected poorly on management.

Prima Bank went into curatorship in mid-1991 and was later taken over by Unibank

Strike shackles exports

Nicola Jenvey (194) BD 18/3/97

DURBAN — The recent six-week strike at paper and pulp manufacturer Mondi Papers saw the Merebank mill lose 10 000 tons of production from an annual production of 500 000 tons, but the effect on bottom line profit has yet to be determined.

Mondi's mill manager Peter Lynch said yesterday the mill had operated at full capacity from three weeks into the strike, while four of the five machines had been running within seven days.

The export market had been affected, and Lynch said arrangements were being made to reschedule export requirements to overseas clients.

The mill exports about 30% of production to Australia, South America, the Far East, Europe, India, Singapore, Hong Kong and the rest of Africa.

Mondi marketing and sales manager Mike Stewart said the mill was investing about R230m in capital expenditure this year, aimed predominantly at improving quality consistency, capacity and efficiencies New products would also be launched this year.

Mondi holding company Anglo American Industrial Corporation yesterday reported that the paper and pulp manufacturer had achieved "satisfactory" results in the year to December with earnings falling to R484m from R501m The year had been characterised by a weak first half and better second half in terms of prices and product demand.

(194)

PAPER

Strike at Sappi's Adamas mill continues

The strike by 200 members of the Paper Printing Wood and [illegible] Workers Union at Sappi's Adamas mill in Port Elizabeth [illegible] unresolved yesterday.

The workers went on strike last Wednesday demanding a 10 percent yearly wage increase. Sappi is offering an increase of 6 percent followed by a further 4 percent in six months.

The mill was quiet with no incidents reported. Its two paper machines were running and customers' supplies were unaffected. [illegible] union representatives had not yet made [illegible] submissions. — Frank Nxumalo [illegible]nnesburg

CT(BR) 6/5/97

Paper workers strike over Sappi lockout

(194) CT (BR) 6/5/97

Frank Nxumalo

Johannesburg — Workers allied to the Paper, Printing, Wood and Allied Workers' Union are planning a nationwide strike in support of more than 200 of their colleagues who have been locked out for weeks at the Port Elizabeth Sappi Adamas plant, Alfred Tshabalala, the union spokesman, said yesterday.

Tshabalala said Sappi was granted an interdict by the Port Elizabeth supreme court to have the strike declared illegal, saying in his view the matter should have been taken to labour court in terms of the new Labour Relations Act.

"We are fairly disappointed by the fact that Sappi prefers to deal with the union through court orders instead of negotiations

"In our view, Sappi's approach complicates matters and the industrial relations between the company and the union. At the moment, owing to the manner of approach from the company, workers throughout the country are planning the secondary strike action in support of their colleagues in Port Elizabeth," said Tshabalala

Meanwhile, the countrywide strike by 900 Paper, Printing, Wood and Allied Workers' Union workers at Federated Timbers over an impasse to establish a company negotiation forum continued yesterday.

Union says Sappi strike to spread (194)

Sakhiwo Zako, a spokesman for The Paper, Printing, Wood and Allied Workers' Union, said yesterday the wage strike at Sappi's Adamas mill in Port Elizabeth remained unresolved and would spread to other mills in sympathy He said they were also negotiating with other paper factories related to Sappi in the country and in the United States to refuse to handle Sappi products. Negotiations broke down on April 23. — *Reuter, Johannesburg*

CT(A) 9/5/92

- **ACTIVITIES** *Screen printers and manufacturers of corrugated containers, paper cores and tubes*
- **CONTROL**· *Directors and families 50,1%*
- **CHAIRMAN** *Eric Kohler MD Dieter Neckel*
- **CAPITAL STRUCTURE** *11m ords Market capitalisation R24m*
- **SHARE MARKET** *Price 204c Yields 5,4% on dividend, 16,8% on earnings, p e ratio, 6,3, cover, 3,1 12-month high, 400c, low, 184c Trading volume last quarter, 1,17m shares*

Year to December 31	'93	'94	'95	'96
ST debt (Rm)	0,67	0,58	0,32	0,11
LT debt (Rm)	1,41	0,83	0,52	0,42
Shareholders' interest	0,66	0,66	0,74	0,73
Int & leasing cover	11,1	7,45	6,77	5,11
Return on cap (%)	30	30	31	23
Turnover (Rm)	33,1	36,2	41,8	42
Pre-int profit (Rm)	4,54	5,58	6,23	5,57
Pre-int margin (%)	13,7	15,4	14,9	13,2
Earnings (c)	19,7	31,1	35,6	34,3
Dividends (c)	6,0	9,0	10,5	11,0
Tangible NAV (c)	89	111	137	160

ARIES PACKAGING (194)

EARNINGS FLATTEN

FM 11/4/97

Shareholders will be encouraged to learn that departing non-executive chairman Eric Kohler is not keen to offload his 31% stake and that if he does it will be at a market-related price

Kohler says the 204c price, with the p e at 6,3, is far too low and he would start considering offers around R3

Aries has taken a hammering on the JSE since September when it emerged that Kohler, a founder shareholder, was looking to sell his interest in Aries to Lenco Investors apparently feared Kohler would sell at a discount

Another negative was the weakening packaging market Aries' 1996 operating income fell 10,7% to R5,6m The drop in attributable earnings was held to 3,6% thanks to higher interest income, and the dividend was lifted on reduced cover of 3,1 (3,4 times) CE Dieter Neckel says cover probably won't drop below 3,0

Neckel says there are indications of a stronger market so far this year, with sales up 20% in the first two months "We hope we will return to 1995 profitability, with a 10%-15% improvement," he says

The company may acquire other packaging manufacturers that would enable it to extend its product range and relieve pressure on product margins

Earnings had grown consistently until the marginal drop last year Fundamentals appear to be sound and the share looks cheap *Stuart Rutherford*

Nampak margins 'likely to remain under pressure'

(194) BD 13/5/97

Edward West

PACKAGING group Nampak lifted headline earnings a modest 8% to 56,1c a share in the half-year to March following lower-than-expected sales volumes and "relentless" pressure on selling prices by customers, chairman Brian Connellan said yesterday.

Attributable profit was up by the same percentage to R283,4m. The interim dividend was lifted 5% to 14,4c a share.

Connellan predicted little chance of an improvement in sales volumes this year due to poor consumer demand. Margins were expected to remain under pressure. Improvement in some areas of operation and falling interest payments were expected to help offset these adverse factors, but the full year could end only marginally above that of 1996. The outlook for the 1998 financial year was much better, said Connellan.

Turnover increased 8% to R3,66bn. Market share gains were made, but overall, average sales volumes fell 0,5%, with the decline sharper in the latter half of the interim period. Operating profit grew 9% to R458,5m. "We saw the pressure coming, but it happened harder and faster than expected... we were hoping for a 4% to 5% growth in margins," said MD Trevor Evans.

At it turned out margins were maintained due to tight control over expenses and further productivity gains which offset increased depreciation charges arising from high levels of capital expenditure in the previous year.

Finance costs grew by R11,5m to R20,5m due to the previous high level of capital expenditure incurred. These costs were expected to decline as benefits of strong cash flow began to take effect.

Cash available from operations rose to R191,6m (R66,5m). Capital expenditure fell to R132,4m (R284,6m) and gearing declined to 13% from 16% at the end of the previous financial year and 24% at the interim stage last year.

A further reduction in gearing to about 5% was expected in the second half.

Evans said the beverage division had reasonably good volumes for the first five months of the interim period, but March had seen dramatic reductions due to rainy weather. Market share gains had compensated for increased depreciation and pressure on selling prices.

Non-beverage packaging improved operating profit mainly through the Divpac and flexible divisions. The paper and printing divisions benefited from restructuring. Improved technology in the corrugated division helped offset pricing pressures.

There was a decline in earnings in the tissue division due to a slower-than-expected start-up of new capacity, but this situation had been corrected. The Polyfoil operation had production problems due to a failed attempt to start a fourth shift. Megapak sales volumes were lower due to the cyclical nature of purchasing by SA Breweries, while exports fell.

PACKAGING *Headline earnings increase despite a shrinking market*

Nampak's interims buck the trend

CT(BR) 13/5/97 (194)

ANN CROTTY
CONSUMER INDUSTRIES EDITOR

TIN MEN *Brian Connellan, the chairman of the Nampak group, and Trevor Evans, the group's managing director, show off some of the wares that helped push earnings up despite a drive by consumers to keep packaging costs down* PHOTO: JOHN WOODROOF

Johannesburg — Despite the marginal shrinking in the packaging market, Nampak managed to report a 7 percent increase in headline earnings a share to 56,1c for the six months to March from 51,9c for the previous interim.

An interim dividend of 14,4c a share has been declared, 5 percent up on last year's interim dividend The earnings performance was in line with most analysts' expectations, but the share price shed 85c to close yesterday at R17,80

Group turnover was up 8 percent to R3,6 billion from R3,4 billion.

Brian Connellan, the chairman, said management had expected a real increase of about 4 to 5 percent in the packaging market, but instead experienced a marginal decline

Connellan said there was a continued drive by customers to reduce packaging prices in real terms Despite the increase in market share, there was a marginal decline in sales volumes

Group operating profit was up 9 percent to R458,5 million from R418,8 million, reflecting a slight improvement in margins to 12,5 percent.

Connellan said margins had been maintained thanks to tight controls over expenses and further productivity gains, which offset increased depreciation charges arising from high levels of capital expenditure in previous years

Financing costs more than doubled to R20,5 million from R9 million, reflecting high capex previously

Connellan said these costs were expected to decline as the benefits of the group's strong cash flow began to take effect and as capex moved to a lower level.

After tax profit was up 8 percent to R293,5 million from R271,3 million and attributable profit was up the same percentage to R283,4 million from R263,6 million.

Looking at the divisional performances, Trevor Evans, the managing director, said the group's beverage operations, which reported a modest improvement in operating profit, had enjoyed reasonably good volumes for the first five months "but March has seen dramatic reductions due to the wet weather"

Non beverage packaging improved operating profits primarily through recoveries in the Divpac and Flexible divisions The paper and printing divisions benefited from restructuring, and improved technology in the corrugated division helped to offset pricing pressures.

The group's tissue operations showed a fall in earnings because of production problems and a highly competitive market.

Volume growth in the second half is expected to be disappointing, with continued pressure on margins.

(194)
FM 16/6/97

NAMPAK

Foreigners squeeze margin

But a major capital spending programme has modernised the plant

The industry is getting tougher Not so long ago, if times were good for the man on the street SA packaging groups could raise their forecasts It was (almost) that simple

Now, says chairman Brian Connellan, customers demanding price parity with global producers are squeezing trading margins "Volumes are down because of poor consumer spending But that's cyclical Price pressures were the other main cause of disappointing interim results — and that factor isn't likely to improve "

This price pressure is a worldwide phenomenon "We reckon we compete with global prices now The important point is whether customers agree "

The situation would have been worse had Nampak not embarked on an extensive capex programme to modernise plant Productivity continues to improve and costs to be cut — the group has cut 6 000 from its

22 500 work force since 1990

But the upgrades have cost R2bn over six years In the interim period alone, funding cost R36m in finance charges and depreciation increases The programme is almost complete Fortunately, cash flow is strong and, says Connellan, the group should be net interest positive by financial 1998

Problems in various local divisions should be ironed out during the year But the fate of newly acquired UK group BlowMocan is less certain Though he doesn't admit it, Connellan (and investors who financed the deal) must be displeased about the quality of advice

"BlowMocan manufactures plastic milk cartons Since we acquired the group, deregulation has changed the whole nature of the UK milk industry Our customers no longer have advantages of protection Some have gone belly-up "

The picture doesn't encourage short-term optimism But this doesn't imply that the counter is losing its appeal (see page 119) Market hesitancy until operational problems are rectified may provide an opportunity to acquire the share

Michelle Joubert

Packaging sector feels pressure

BD 19/5/97 (194)

Janet Parker

INCREASED competition from imports, depressed consumer spending, high interest rates and tight operating margins had resulted in downward pressure on packaging and print sector company earnings, and could result in smaller operators being "shaken out", industry sources said at the weekend

Kohler CEO Richard Bruyns said the packaging industry was "not getting much worse", but was "unexcited and not extremely buoyant", with most companies trying to cut costs and maintain margins The industry could expect consumer spending to increase only once interest rates dropped

"Packaging is a dynamic and fluid industry, and as we gain entry to the global economy, we would like to see the industry grow faster than its current 2%-3%," Bruyns said However, Kohler was not expecting markets to improve in the short term

Lithosaver Systems MD Neil Birch said although the industry had cooled off in March and last month, "it has not fallen away" The market was increasingly competitive, with increasing imports adding to pressures Lithosaver, which manufactured business forms, cheques and labels among other products, was competitive relative to global pricing structures, he said

Bowler Metcalf (Bowcalf) financial director Michael Brain said the company, which specialises in rigid plastic packaging, manufacturing mouldings for containers for liquids, mostly in the toiletries and essential household lines, was upbeat about the industry Rigid plastic packaging was "one of SA's guaranteed growth industries, and is likely to exceed GDP growth"

However, there had been excess capacity for converting rigid plastic into containers, resulting in aggressive pricing This had led to Bowcalf not being able to achieve the price increases it had expected, Brain said He believed the overall pressure on the packaging and print sectors, coupled with the high cost of entry, would result in the industry polarising into six or seven key national players

Directors of both Nampak and Consol, on releasing their latest figures, commented that margins were tight and consumer demand depressed

Philippi factory workers strike as wage increase talks collapse

ARG 22/5/97 ~~183~~ (194)

THABO MABASO
BUSINESS REPORTER

Nearly 200 workers at a Philippi veneer manufacturing factory have gone on strike following a dispute over wage increases.

The workers went on strike on Monday after negotiations between Finewood Veneers and the Paper, Printing and Allied Workers Union (Ppawu) failed to reached agreement

The Commission for Conciliation, Mediation and Arbitration (CCMA) also failed in its attempts to broker a solution

The factory manufactures veneer from sliced logs and sells the product locally and overseas.

The negotiations had been going on since February, Finewood Veneers' industrial relations officer David Roberts said, adding that the talks deadlocked at the end of March

The union has demanded an overall wage increase of 25 percent while the company has offered 11 percent.

A skeleton staff was manning machines at the plant, Mr Roberts said He added that production had been affected by the strike

"The company is holding out and the union is doing the same I do not see an end to the strike in the near term," he said.

Union officials could not be reached.

Sappi sees earnings plummet by 90%

Janet Parker

BD 2/6/97 (194)

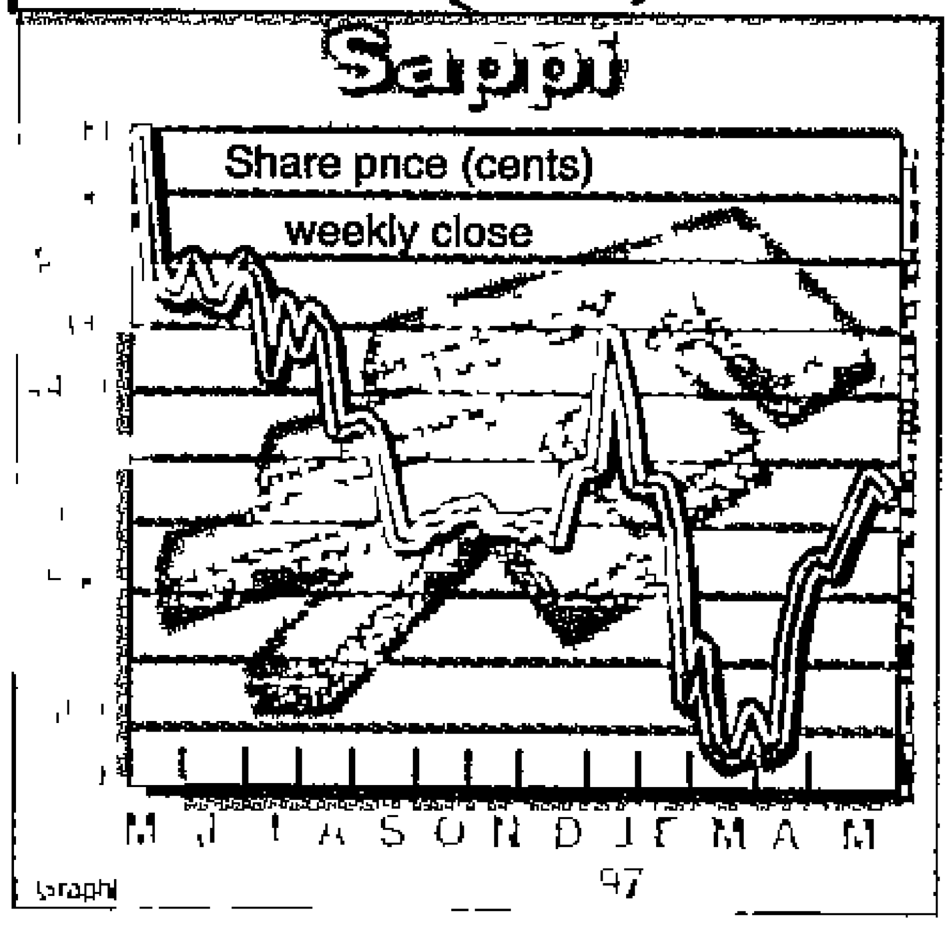
PAPER and pulp group Sappi reported a 91,2% slide in attributable net income to R31,5m for the six months to March, following continued poor trading conditions and tight margins.

However, the disappointing results were expected as Sappi chairman Eugene van As had cautioned shareholders in March that share earnings for the first half of the year would be similar to the 15c a share reported for the second half of financial 1996

Share earnings were 16c, a 92,6% drop from the 215c a share reported for the previous interim period Sappi has deferred a decision on a dividend until the end of the year.

Van As said share earnings would have been 35,5c if the convertible notes issued in July 1995 to fund the SD Warren acquisition had been converted into shares Had it not been for non-recurring restructuring costs amounting to R66,7m, share earnings would have reached the 50c mark

While the second half was expected



to improve "it is not expected that earnings for the whole 1997 financial year will match those of last year", he said.

The group's turnover rose 8,5% to R7,2bn from R6,6bn and operating income slumped 30,6% to R551,1m. US subsidiary SD Warren contributed 43% to operating income and southern

Continued on Page 2

Sappi

(194) BD 2/6/97

Continued from Page 1

African operations — which were affected by exchange rate translations — added 40%. European operations contributed 8% and trading activities 9%

Van As said costs were well controlled but unit cost reductions were insufficient to offset the sharp drop in selling prices. Operating income was also affected by a national strike in Swaziland and a flood at a US mill.

Finance costs paid rose to R568,1m (R463m), and finance costs capitalised relating to the holding costs of forests and the precommissioned periods for major projects, increased to R173,1m (R144,3m) Pretax income dropped 83,4% to R79m and the group's tax bill was R27,3m (R57,7m) as a result of tax allowances on recent major capital projects initiated in SA

Sappi's debt to equity ratio remained high at 0,96 compared with 0,99 for the previous interim period; but debt reduction, with a target of R1bn, was a primary focus

Market conditions remained weak, but while there was a healthy demand for paper, selling prices were low except in Europe where substantial increases over last year's depressed closing prices were achieved.

Poor prices shred Sappi profit

CT (BR) 2/6/97 (194)

Marc Hasenfuss
Cape Editor

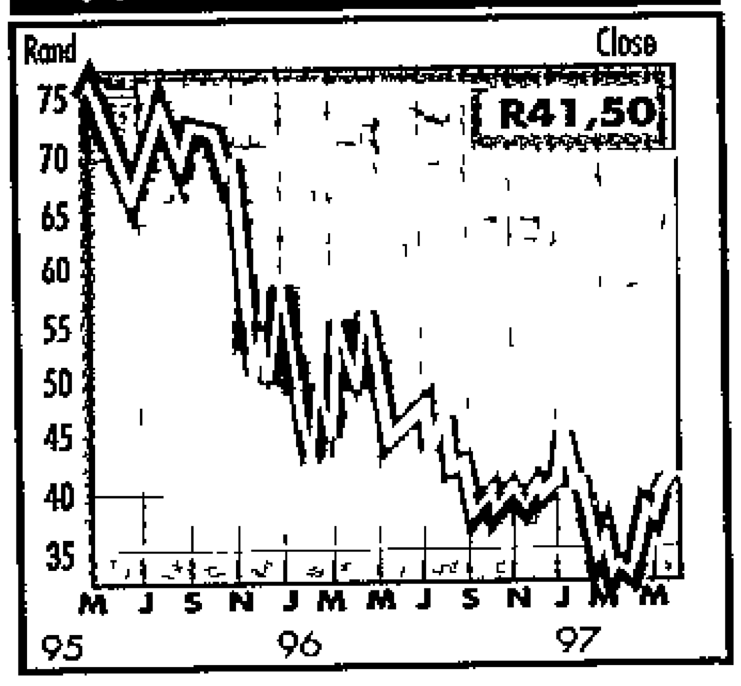
Cape Town — Sappi, the paper and pulp producer, yesterday reported a slump in profit for the half-year to March 31, with attributable profit coming in at R31,5 million, less than a tenth of the previous interim period's R356,3 million

The market was expecting poor results, which came after continued poor trading conditions and low prices

Bottom-line profit translated into earnings of 16c a share — from 215c in the same period last year — after the additional shares issued to the IDC for Sappi's investments in Bonuskor and Saiccor were included

The dividend consideration was deferred to year-end. Eugene van As, the chairman of Sappi chairman, warned that despite an improved outlook for pulp and paper prices, the company had decided to rationalise its assets worldwide and sell off non-core holdings He said the move would reduce Sappi's debt by about R1 billion

Sappi



Sappi notched up an 8 percent increase in turnover to R7,16 billion, which weaker trading margins translated into a 30 percent lower operating income of R551 million

Van As said SD Warren, the company's American subsidiary, contributed about 43 percent of operating profit, while South African operations chipped in 40 percent, with the balance coming from its European operations and trading activities Costs were well controlled, but the unit cost reductions could not offset the sharp drop in selling prices

"Operating income was further affected by a national strike in Swaziland at the Usutu pulp mill for five weeks, and an unprecedented flood at Westbrook in the US which shut parts of that mill for up to six weeks"

Commenting on market conditions, Van As said generally there was a healthy demand for paper but selling prices languished at low levels, except in Europe.

"Prices for dissolving pulp were low for the full period, reflecting the hesitant stage for the viscose market, and were currently only marginally above paper pulp prices'

He added that demand for Sappi's products varied from strong for certain paper categories to soft for dissolving pulp

Looking ahead, Van As noted pulp demand in recent months had been strong but prices were still low "Producer stocks have shown an important decline in recent months, and price increases have been announced by most of the major suppliers from May this year"

Sappi holds steady in credit storm

(194) (C 31)

Marc Hasenfuss

Cape Town — Sappi, the paper and pulp company, held its ground yesterday on the JSE after its dismal interim showing and the subsequent warning of a possible downgrading of its long-term credit rating

After dipping below R40 earlier, the share finished at R40,75 with 284 000 shares traded, only slightly off Friday's R41 close

Some market watchers were heartened by the fact that demand was firmer, but others griped about Sappi once again getting the commodity cycles "spectacularly wrong"

Duff & Phelps, an international credit rating agency, announced yesterday that it had placed Sappi in credit watch, with a possible downgrade in the company's current long-term A rating

Dave King, the chairman of Duff & Phelps, said the move followed the sharp slump in Sappi's earnings to 16c a share in the half-year to March 31 and its decline in key credit protection ratios He said Sappi's interest cover ratio had dropped to a marginal position from three times in 1995 and 1,3 times last year The company's cash flow/ debt ratio had declined to 8 percent on an annual basis compared with 19 percent in 1996 and 32 percent in 1995, he added.

King said Sappi's commitment to raise about R1 billion by selling non-core assets would not substantially improve the company's credit protection ratios

Bill Hewitt, the financial director of Sappi, said yesterday the planned disposal of non-core assets would not yield any short-term results but would be felt only in the next 12 months. He declined at this stage to identify which assets could be sold off.

☐ Business Watch

CT(BR) 3/6/97

Veneer factory strike continues

(152) (194) 27/5/97

BUSINESS REPORTER

The strike by close to 200 workers at Philippi-based Finewood Veneers entered its second week yesterday with no sign of an end in sight.

The personnel manager of the veneer manufacturing plant, Clarence Caswell, told Business Argus that a meeting had been arranged for Thursday with worker representatives

He, however, held out no hope of a quick end to the strike

"At this stage we have no idea of what is happening or what is going to happen," Mr Caswell said

Workers at the factory went on strike on Monday last week after negotiations with the company failed to break a deadlock over wage increases

The Paper, Printing and Allied Workers Union is demanding a 25 percent increase while the company is offering 11 percent

Mr Caswell said the strike had affected the company's productive capacity

Sappi links up with Norwegian company (194)

SHIRLEY JONES
KWAZULU NATAL EDITOR

CT(BR) 9/6/97

Durban — Sappi, the paper and pulp producer, has signed a strategic joint venture with Borregaard, a major Norwegian chemicals company, for the establishment of a R100 million, 55 000 tons a year lignosulphate plant on the KwaZulu Natal south coast.

The plant, which will come on stream during the second half of next year, will be the largest lignosulphate operation in the southern hemisphere.

It will be located at the Sappi Saiccor mill at Umkomaas, which has recently been at the centre of a pollution furore.

The new plant, which will process effluent created during the manufacture of dissolving pulp for the textile industry, is expected to reduce ocean discolouration and foam by between 8 percent and 10 percent.

Ian Forbes, the managing director of Sappi Southern Africa, said last week that the joint venture partners intended expanding capacity later to match growth in world markets.

The world market for lignosulphate, which is used as a dispersing agent in concrete, textile dyes, pesticides, ceramics and as a binding agent in briquetting, animal feed and dust suppression, is estimated at 1,1 million tons a year.

Forbes said most of the lignosulphate produced at Sappi Saiccor would be exported and would probably generate about R15 million a year in foreign exchange. The main markets are North America, Europe, and Asia.

He said work on the plant would begin towards the end of this year.

Borregaard is part of the giant Orkla group and is the world leader in the production of lignin-based products. The company operates 11 plants in Europe, America and Asia.

manufactured products for ...

PULP AND PAPER *'Industry upturn likely'*

Sappi says next wave of price rises will stick

(94) CT(BR) 26/6/97

PAUL HARRIS

Johannesburg — Sappi, the pulp and paper company, said yesterday that the notoriously cyclical industry looked to be finally turning up and a second wave of pulp price rises was set to stick

The sector has been hit by one of its most vicious bouts of price turbulence recently, but a first set of price increases effective in May have now been accepted by the market

Eugene van As, Sappi's chief executive, said another set of pulp price rises, effective from July and announced by leading US and Scandinavian firms, were also likely to hold, with paper-grade pulp probably settling at about $610 a ton.

"The first ones have stuck That is now fact. The indications are that most of the second ones will too," he said.

Sappi recently posted a dismal set of half-year results with earnings a share coming in at 16c, down from 215c last time.

The vagaries of the price cycle was the main culprit behind the profit drop as an unusually speedy cycle saw a rapid profit rise followed by an even steeper drop

On the way down, pulp prices fell from $925 to $450 in 50 days.

But Van As said he had become cautiously optimistic the sector was on the upturn again. "I think so It is very difficult to be confident about anything in this industry, but all the indications are there that the prices that have been announced in pulp are sticking," he said.

Sappi was also firmly set to take advantage of the upturn. "When the cycle turns we are going to do very well and we'll have an above average performance," he said.

The pulp and paper industry has had difficulty controlling its roller-coaster cycle because of its highly fragmented nature The top 10 firms control 15 percent of the world market

The problem is particularly acute in Europe and an industry shake-out is widely predicted with a wave of mergers and consolidations in the region seen as likely to come sooner rather than later.

"It is long overdue. Everybody is under a strained balance sheet so it is difficult for someone to trigger off the consolidation, but it is going to happen," Van As said.

He said it was vital to cut unnecessary capacity and any acquisitions must involve the permanent closure of plants.

"We don't want to do something that would simply increase the size of our problem in Europe. Everybody is talking to everybody else." — Reuter

Upturn for pulp, paper industry

BD 26/6/97 (194)

SA PULP and paper group Sappi Ltd said yesterday that the notoriously cyclical industry seemed to be finally turning up, and a second wave of pulp price rises was set to stick.

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"The first ones have stuck That is now fact The indications are that most of the second ones will too," he said

Janet Parker reports analysts were upbeat about the pulp prices, with one analyst saying the strengthening of the price over the last weeks had offset previous predictions of a continuing decline. "Prospects are looking good and the industry should see sustainable recovery through to the 98/99 financial year," he said.

Another analyst said although companies were starting to push the pulp prices up, inventories were still too high for the $610 a ton mark to be reached by next month

"That price level will probably only be fully realised towards the end of the year," he said

Sappi recently posted a dismal set of half year results with earnings per share coming in at 16c, down from 215c last time

The vagaries of the price cycle were the main culprit behind the profit drop as an unusually speedy cycle saw a rapid profits rise followed by an even steeper drop. On the way down pulp prices fell from $925 to $450 in just 50 days.

Van As said he was now cautiously optimistic the sector was on the upturn again "It is very difficult to be confident about anything in this industry, but all the indications are there that the prices that have been announced in pulp are sticking"

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The pulp and paper industry has had difficulty controlling its rollercoaster cycle owing to its highly fragmented nature The top 10 firms control just 15% of the world market. The problem is particularly acute in Europe and an industry shakeout is widely predicted with a wave of mergers and consolidations in the region likely to come sooner rather than later.

"It is long overdue Everybody is under a strained balance sheet so it is difficult for someone to trigger off the consolidation, but it is going to happen," Van As said

He said it was vital to cut unnecessary capacity and any acquisitions had to involve closure of plants "We do not want to do something that would simply increase the size of our problem in Europe Everybody is talking to everybody else." Sappi has interests in Europe, the US, SA and Swaziland, but Van As said the firm had few plans to expand operations into new areas of its home continent. — Reuter.

Typographical union seeks new statutory council in paper industry

CT (BR) 4/7/97 (~~195~~) (194)

Frank Nxumalo

Johannesburg — The South African Typographical Union (Satu) has applied to the ministry of labour for the establishment of a Statutory Council in the Printing, Newspaper and Packaging Industry (PNPI), Martin Deysel, the union's general secretary-organiser, said yesterday.

Satu, established at the turn of the century, is the country's oldest trade union. Deysel said it had grown from "modest beginnings" to become the leading union in the PNPI and it commands a financial base able to comfortably provide for its members

"Its pension fund has assets exceeding R2 billion, contribution income for its medical aid scheme exceeded R58 million in 1996 and reflected net assets in excess of R11 million and, in addition, the Employee Benefit Fund reflects assets in excess of R13 million," Deysel said.

He said that until the end of 1989 the union had played an active role in collective bargaining for the industry through the National Industrial Council. He said when the council was dissolved, Satu and the Printing Industries Federation of South Africa (Pifsa) procured a determination by the former minister of manpower, in terms of the Labour Relations Act, to ensure continuing contributions to the various funds for its members.

"The present application is supported by the two recognised employer organisations in the industry, Pifsa and the Newspaper Press Union of South Africa, representing about 1 400 employers

Deysel said Satu was "adamant" that the demarcation of the industry should remain as it is He said there had been attempts to broaden the demarcation of the industry by including pulp, paper, paper board and dissolving pulp, tissues, paper merchant, recycling, saw-milling, particle board and wood distribution. He said expanding to include further industries would detrimentally affect Satu's members because of the substantial differences in working conditions, wages, hours of work and benefit structures.

IBCA reaffirms Sappi's credit rating

CT(BR), 22/7/97 (194)

Jonathan Rosenthal

Johannesburg — IBCA South Africa, the rating agency, reaffirmed the domestic credit ratings of Sappi, the forest products producer, amid market concerns that Sappi's long-term credit rating would be downgraded

IBCA said in a statement yesterday that Sappi's domestic short term rating remained A1 and its long-term rating remained A

"The outlook for the group's main product markets appears more positive than negative, with the rate of recovery expected to be gradual in the near term before accelerating in the latter part of 1998," it said

The market had accepted list price rises for benchmark paper pulp and coated woodfree paper grades in the middle of this year

But it warned that the market for dissolving pulp, a key product for Sappi Southern Africa, was likely to remain depressed

IBCA said Sappi's capital expenditure requirements would fall from the past few years and profitability should benefit from cost cutting measures

"In addition, the group is committed to realising approximately R1 billion from no-core asset disposals over the next 12 to 18 months

"All these should assist with debt reduction and consequently alleviate the heavy finance costs and bolster coverages"

UNITED FRONT *Albert Tshabalala, the principal officer of the Sappi Workers' Provident Fund, left, and Alfred Tshabalala, the union's media officer*

PHOTO JOHN WOODROOF

Sappi faces further union anger over pay

ST (BE) 8/7/97 (194)

FRANK NXUMALO

Johannesburg — The Printing, Wood and Allied Workers' Union yesterday warned of further industrial action if Sappi management at the Adamas plant in Port Elizabeth did not resolve the 11-week-old strike over wage demands

The threat was contained in a memorandum handed to Sappi's Johannesburg office during a solidarity march by hundreds of union members yesterday

In the document, the union said it observed with "dismay the unwillingness and unpreparedness of management to accept change"

Penelope Gracie, a spokesman for the company, said some of Sappi's operations, including the Stanger and Tugela mills in KwaZulu Natal, the Enstra works in Gauteng, and Ngodwana and its sawmills operations in Mpumalanga were (adversely) affected

However, Gracie was optimistic that a settlement was imminent at Adamas

"Less than 0,5 percent now separates the two parties Sappi has made a final offer of a 7,5 percent increase plus a R150 signing bonus, which makes up more than the difference separating the parties," she said

Rob Stehouwer, the general manager of Adamas mill, said all the other Sappi operations had accepted similar increases. He said he hoped the mediation talks on Thursday would result in agreement between the two parties

Sappi had also denied a dispute existed with the union in connection with "the other issues which were raised by the union in a memorandum handed to management this morning"

Sapa. ... rolling mass ... representing Zimbabwe's
d other pork products. large-scale producers.

Exclusion of domestics from fund is criticised

(194) ([illegible])

Jacob Dlamini

CAPE TOWN — The labour department has come under attack from the Black Sash over its failure to extend the terms of a new bill on compensation for occupational injuries to cover domestic workers.

The Compensation for Occupational Injuries and Diseases Amendment Bill, tabled in Parliament yesterday, seeks to bring old legislation into line with the 1996 Unemployment Insurance Act.

In terms of the new bill, decision making and the 595-strong staff of the compensation commissioner will be transferred to the labour department's director-general.

The new bill makes provision for the payment of benefits and medical expenses to the dependants of people who sustain fatal or disabling injuries in the course of their duties. The Black Sash said the failure to extend the bill to cover about 860 000 domestic workers was a serious mistake.

Spokesman Laura Best said domestic workers would not be able to claim benefits from the Compensation Fund as a result of their exclusion. Best said this was an infringement of their constitutional rights.

However, Best welcomed the bill's redefinition of "dependants", which took into account an employee's extended family, illegitimate children or a common-law partner.

Compensation Fund senior deputy commissioner Jan Koekemoer said that the provisions of the new bill were not extended to cover domestic workers as it would be hard to enforce them.

BD ~~30~~ 30/7/97

Shrinking state of economy to blame

Packaging sector prospects bleak

CT (PR) 5/8/97 (194)

NCABA HLOPHE

Johannesburg — Prospects for the packaging industry look grim this year because of the combined effect of lower personal consumption expenditure and the flood into the country of imported goods that are already packaged, industry sources said at the weekend

"The general trends have been somewhat negative for the industry in the past year or so and there has been no change thus far," Keith Fisher, the public affairs manager at Consol, the packaging group, said yesterday

Fisher attributed the dire prospects to the state of the economy, in which the spending power of consumers has shrunk and the doors have opened for a flood of imports into the country

"The packaging industry is the barometer of the economy and, if we experience a slump, it is usually because there is a slump in the economy The opening of barriers has had its advantages and its disadvantages" he said

Consol had experienced a decline since last year when the company's glass, corrugated and plastics packaging volumes were lower than expected.

It had to get rid of its rubber business, which had been hard hit by the negative developments

Nampak had felt the pinch and was bracing itself for a "disappointing year"

Earnings for the full year were forecast to come under even greater pressure and could be only marginally above those achieved last year

Though turnover increased by 8 percent, trading had shown a decline in volume because of poor performance of its Megapark, Polytoil, Tissue and Blowmocan divisions "If the economy is lousy, then personal consumption expenditure will be lousy and packaging volumes will be lousy," he said

However, the industry could see a change for the better after a year if it succeeds in controlling its costs and the economy improves

Terry Kane, the managing director of Alex White, agreed with the bleak prognosis for the packaging industry He said the the flood of illegal imports was one of the principal causes

"The issue of imports is a huge problem for the industry and checks need to be improved at our entry ports to ensure that the goods are properly controlled But the demand for most consumables has also declined," he said

Background facts on Sappi no pulp fiction

CT(BR) 6/8/97 (194)

Sappi, of which Enstra Mill is a key component, is a global forest products group with manufacturing facilities on three continents and an international sales network that markets the group's products to over 70 countries

With a production capacity of over 3,2 million tons of paper, and 2,6 million tons of pulp, the group is the leading exporter in South Africa of these products Fine paper, much of it manufactured at Enstra, contributes 72 percent and pulp 12 percent to total turnover

Sappi was registered as South African Pulp and Paper Industries in 1936 with an authorised capital of about R1,5 million It began construction of its first mill at Enstra, near Springs, in 1937

It commissioned a second mill in 1950 on the banks of the Tugela River In 1966, Ngodwana, in Mpumalanga, produced its first pulp and further expansion took place there in 1985

The company acquired Saiccor, the world's single largest producer of dissolving pulp, in 1988 and the following year took over the Usutu Pulp Company, following up in 1991 with the purchase of Hong Kong's Speciality Pulp Expansion into Europe took place in 1990

Expansion into the US began in 1994 when S D Warren, a 143-year-old paper manufacturing company, became part of the group

The group is the world's largest producer of woodfree coated paper, and has a total fine paper capacity of 2,3 million tons It employs 23 000 people globally

Sappi Southern Africa is Africa's largest, fully integrated producer of pulp, paper and timber products It owns 420 000ha of plantations, eight pulp and paper mills, eight saw and mining timber mills, and two particle board plants with upgrading facilities

Mondi buys slice of Polish paper firm

CT (BR) 26/8/97 (194)

Jonathan Rosenthal
Industrial Editor

Johannesburg — Mondi Minorco Paper, the paper and pulp producer, had signed an agreement to acquire a $157,6 million majority stake in Poland's largest pulp and paper company in a joint venture with Frantschach of Austria, Anglo American said on Friday

The joint venture company will acquire a 65 percent stake in Zaklady Celulosy I Papieru w Swieciu "Celulosa", which has capacities of 300 000 tons of pulp, 430 000 tons of paper, 130 million paper sacks, 75 million M2 corrugated sheets and 47 million M2 corrugated boxes

Last year Swiecie reported turnover of $260 million

Members of the FraMondi consortium include FraMondi BV, which will have a 59,9 percent stake in Swiecie; Bank Handlowy, which will have a 5 percent stake, and the state forest company Lasy Pantswowe, which holds about 0,1 percent.

Of the balance, 15 percent is listed on the Warsaw stock exchange. The employees of the company will receive 15 percent and 5 percent will remain with the Polish state treasury

The FraMondi consortium will have management and shareholder control of Swiecie and will arrange for the company to undertake an investment programme over the next six years amounting to $175 million, to expand capacity and enhance the company's product quality and environmental standards

Swiecie will also be integrated into the international sales and marketing network of the Frantschach and Mondi groups

"The acquisition is a further step in Frantschach and Mondi's expansion strategy in central Europe and takes FraMondi into the corrugated packaging industry," Anglo said

"Frantschach is already the second largest producer of paper sacks and related packaging products in Europe and, through its interest in Bischof + Klein, also has interests in the flexible packaging sector"

Mondi Minorco Paper is 60 percent owned by Minorco Anglo American holds a direct 20 percent stake and Mondi, a wholly owned subsidiary of Anlgo American Industrial Corporation, holds a further 20 percent stake

Mondi's turnover rose 28 percent to R2,4 billion for the six months to June 30 and its total net earnings rose 31 percent to R232 million

Tony Trahar, the chairman of Mondi, said international paper and pulp prices were rising, although demand in the domestic market was weakening

Packaging 'faces tough year'

Lucia Mutikani BD 25/8/97 (194)

THE packaging sector, currently undergoing a difficult phase, was waiting for an interest rate cut to stimulate demand and avoid massive retrenchments, analysts and industry sources said at the weekend

The industry, which generated a turnover of about R13bn annually and contributed about R500m in taxes, had been hit by slack demand and low volumes since March this year This was attributed to diminishing levels of disposable income, analysts said

"The industry is in a flat phase at the moment because of the general poor consumer demand for nondurable goods and the likelihood that gross domestic product growth will slump to about 2,5% this year," said Mark Rule, an analyst with Société Générale Frankel Pollak.

"It is a growth-related industry and an interest rate cut will act as a catalyst to stimulate consumer demand."

He said small companies operating in niches would be worst hit by the decline in consumer demand However, big companies such as Nampak, which had a share of more than 40% of the local market, and Kohler would survive the harsh conditions

"Consol's high exposure to glass has created major problems for them and will continue to be a problem for some time Big companies will survive, but Consol still has a while to go before it starts making a decent profit."

Another analyst said the biggest problem facing the industry was a slowdown in the volume of growth This, combined with price decreases and disappointing price increases, had put pressure on the margins Most firms in the sector had reported disappointing results and the industry was unlikely to see a turnaround next year.

However, the analyst said the sector was expected to experience a recovery in earnings in 1999 provided interest rates were slashed significantly.

This was echoed by Bowler Metcalf financial director Michael Brain who said the sector had experienced depressed consumer demand over the past 18 months, putting the industry under pressure.

Concurring that an interest rate cut was vital for the sector's growth, an industry analyst said the drop would have to be about 3% to benefit manufacturers. Although the industry would not collapse if interest rates were not lowered significantly, performance would have to take more costs out of the business. Further massive retrenchments could not be ruled out.

COMPANIES

Sappi division sells to 23 African countries

(194) BD 26/8/97

Claire Pickard-Cambridge

SAPPI Trading Africa, which sells Sappi's forestry, paper and pulp products to the rest of the continent, has more than doubled its sales over the past 10 years.

Sappi Africa GM Anton van Rooyen said the rapid expansion of sales meant that Sappi now supplied goods to 23 countries in Africa, although it had already begun supplying Botswana, Namibia, Swaziland and Lesotho 25 years ago.

About 10%-15% of Sappi Trading's overall sales went into Africa — including Mauritius and Reunion — amounting to annual turnover of about $80m from the region.

Sales growth was mainly attributable to expansion at Sappi and the easing of political relations with many African countries.

Although Sappi does not have mills or production facilities in the rest of Africa — barring its Usutu pulp mill in Swaziland — it has sales offices in Nairobi and Harare and is about to establish one in Abidjan, Ivory Coast.

It sells into Africa either directly to big end-users; through commissioned agents serving as middlemen; or to traders who buy the goods

Van Rooyen said goods were delivered by road or rail into southern Africa but had to be shipped to other countries In areas where there was a poor infrastructure, products were usually sold to traders who were best able to distribute them

He said the key problem with trading to the north was securing payment. Sappi Trading needed to be conservative in its dealings and spent a lot of time credit screening while a deal was going through It was also necessary to visit customers and their banks to assess risks

Facilities at certain ports, such as those in Angola and Kenya, were not always up to scratch and damage could occur While insurance cover was essential, the "hassle factor" remained

"Corruption is another problem We cannot be party to corruption, so our decisions on how to sell in these countries are governed by this consideration," Van Rooyen said.

Political instability was always a factor to consider — the company had been compelled to reduce its exposure to the former Zaire towards the end of the war, and was becoming concerned about the safety of its staff in Nairobi.

Mitchell Cotts named as shipper's SA agent

Nicola Jenvey

DURBAN — Mitchell Cotts Maritime has been appointed SA agent for the French shipping line Compagnie Générale Maritime (CGM), with CGM concurrently announcing the introduction of a fortnightly service between northern Europe and SA

The new service is in co-operation with German ship owner Maritime Carrier Shipping, using the six vessels already deployed by Maritime Carrier Shipping on this trade. The arrangement follows CGM's decision to leave the SA European Container consortium at the end of July to establish its own commercial presence on this route in a strategy to restore CGM's independence and trade name

A further service linking the western Mediterranean with SA in both directions via CGM's Indian Ocean island service has been initiated with the introduction of four self-sustained container vessels. These ships will connect at Mayotte or Reunion to two smaller vessels for Durban in a service jointly operated by CGM and Indian Ocean interests.

Mitchell Cotts Maritime GM Allister Donald said SA exporters to the Indian Ocean islands would benefit as cargo would be accepted from Durban to Mauritius, Reunion, Madagascar and the Comoros

CGM is part of the Marseilles-based CMA group Donald said CMA/CGM operated on a global scale and substantial synergies existed for developing the trade between SA, Europe, the Mediterranean and the Indian Ocean islands in line with CGM's revised strategy of promoting their presence on the routes

CSIR profits from contracts

BD 26/8/97

Business Day reporter

THE CSIR had underlined its growing independence from government by posting higher income from contracts in the 1997 financial year, the research body said in its annual report

Income from contract research rose 11% in the year to March, which meant 60% of turnover was derived from sources other than its parliamentary grant About 1 700 jobs at the CSIR were now sustained by these external sources, it said

Turnover increased 14% to R641m against a background of higher efficiency levels.

Total operating income rose to R655m from R566m. Expenditure increased to R646m from R562m Net operating surplus before investment income rose from R4m to R9m.

CONSOL

(194) FM 12/9/97

More pain than gain so far

Market share was lost as the huge capex programme ran into trouble

Consol's bleak 1997 year was as much a result of self-inflicted problems as of poor economic conditions

The packaging industry is generally considered a barometer of the economy, so one could argue the group couldn't do much about falling demand from customers, who mostly sell products to the consumer market

But avoidable manufacturing disruptions and furnace failures caused the group to lose market share in the painful process of restructuring its business to become globally competitive

When Consol realised it had to improve efficiencies to succeed in its new environment, it embarked on a huge capital investment programme of about R1bn to upgrade production facilities, particularly in the glass division, which contributes 54% of turnover and 71% of operating profit

However, disruptions and an inability to meet customers' demands contributed to a 6% downturn in volumes in this division The wine industry was particularly peeved when the group couldn't produce the dark green colour demanded It didn't count on the Western Cape sand having a different chemical make-up to that further north Customers moved elsewhere, particularly to competitor Nampak

"The impact of restructuring has been worse than expected," says group MD Piet Neethling "We've taken lots of pain and quality has been affected"

To be fair, poor economic conditions also played a role Customers such as SA Breweries face a slowing economy For example, says Neethling, beer consumption growth grew only 1%, while soft drinks grew 10% and wine consumption 1,3% And because the economic outlook is poor with no signs of interest rate cuts, customers have been running down inventories

Glass was not the only division that performed poorly The paper and board division also saw subdued demand while plastics made an operating profit of R6m after a R9m loss a year ago

Overall, turnover fell by 24%, affected by the sale of the rubber business, for which about R1,1bn was realised

On top of declining market share and poor turnover came the move from a partial deferred tax basis to comprehensive tax, in line with parent Anglovaal On the partial method, headline earnings fell 17%, on comprehensive deferred tax, they fell 27%.

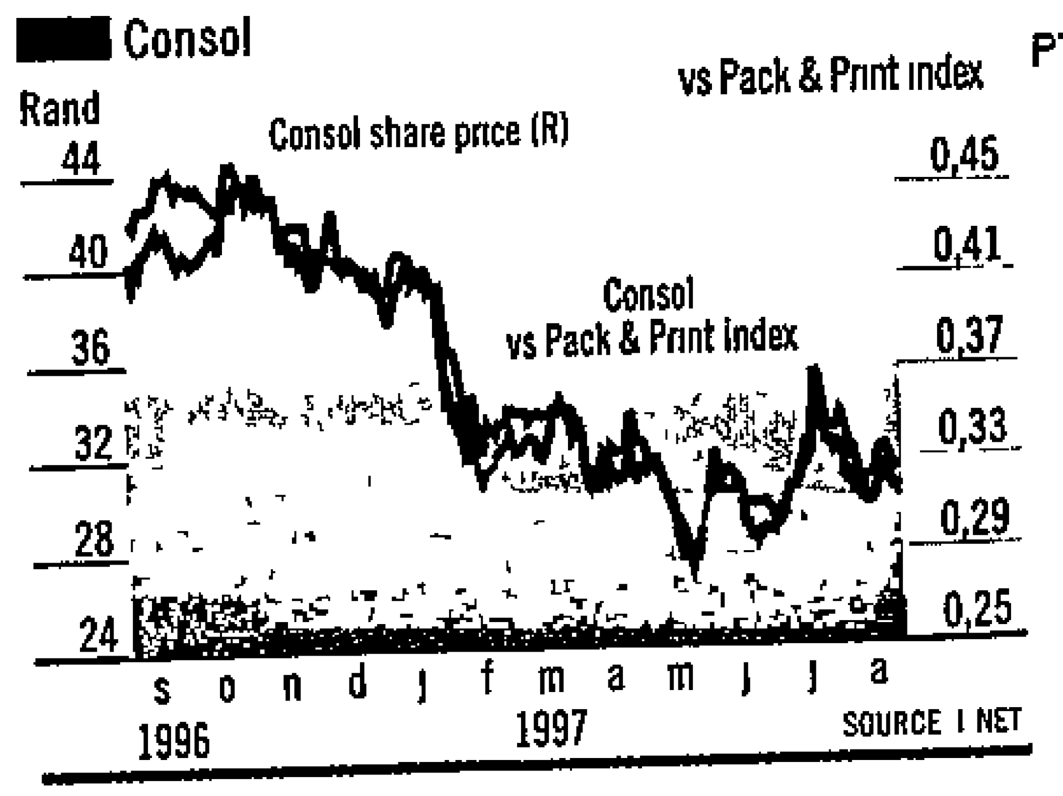
Consol has much pain still to bear "We need time to turn the ship around," Neethling says "We're being pressurised by customers who are benchmarking international packaging groups and asking why we can't produce the same here"

With the economic outlook dim and the restructuring slow, Neethling is expecting efforts to kick in only in 1999-2000 However, Consol wants to regain lost market share sooner by improving service

Consol's debt has shrunk significantly and it has cash to make acquisitions should it find something tempting Much hope is being placed on new glass division MD Simon Crutchley

However, the packaging group has a long way to go before it will produce the returns expected by shareholders Its p e is about average at 11,5, but it's not yet a turnaround stock

Heather Formby



Year to June 30	'94	'95	'96	'97
ST debt (Rm)	107,5	230,5	313,9	139,3
LT debt (Rm)	169,4	270,4	236,5	32,9
Debt equity ratio	0,34	0,37	0,41	—
Shareholders' interest	0,37	0,41	0,52	0,74
Int & leasing cover	10,1	5,9	4,71	9,7
Return on cap (%)	17,6	13,6	14,5	21,6
Turnover (Rm)	2 443	2 979	3 320	2 509
Pre-int profit (Rm)	285,5	339,5	410,2	458,3
Pre-int margin (%)	12,2	11,5	11,8	12,3
Earnings (c)	257	224	343,8	251,4
Dividends (c)	74	88	102	102
Tangible NAV (c)	538	1 173	1 434	2 038

- **ACTIVITIES:** *Manufactures and markets glass, paper and plastic packaging*
- **CONTROL:** *Anglovaal Industries (64,1%)*
- **CHAIRMAN** *D C Robbertze Group MD P Neethling*
- **CAPITAL STRUCTURE:** *64,4m ords Market capitalisation R1,87bn*
- **SHARE MARKET:** *Price R29 Yields 3,5% on dividend, 8,7% on earnings, p e ratio, 11,5, cover, 2,5 12-month high, R45, low, R23,80 Trading volume last quarter, 842 085 shares*

Competition 'is fierce'

Janet Parker

BD 28/8/97 (194)

THE packaging industry was in the grip of the fiercest competition the sector had yet experienced, depressing already ailing earnings growth potential, Nampak group MD Trevor Evans said yesterday

Sales volumes had come under negative pressure from April to June and were not expected to improve much in the current quarter The group's results for the year to end-September were likely to provide evidence of continued poor consumer demand and the pressured margins being experienced by the industry as a whole, Evans said

He attributed the extremely competitive environment to general overcapacity in the industry and an increase in imports.

ING Barings industrial analyst Paul Carter said he forecast Nampak's share earnings for the year to September to be flat, with perhaps a marginal increase to around 108c a share (1996 104c)

Nampak could expect a "flat to moderately better first half of 1998, following which the group should experience volume gains due to rebuilds in the inventory pipeline in anticipation of increased consumer spending towards the back end of 1998".

Earnings growth for the full year to September next year was forecast to be in the 15%-17% range for the full year, he said

Sappi deal makes it world market leader

BD 16/9/97 (194)

Janet Parker

GLOBAL paper and pulp company Sappi Limited has acquired a 91,5% interest in KNP Leykam, the leading European producer of coated woodfree paper and lightweight coated paper, in a R3,5bn deal from Dutch group NV Koninklijke KNP BT

Sappi said the deal, which would be completed this year, positioned it as the world's largest producer of coated woodfree paper, holding a 26% market share in the US, 22% in European markets and 60% in Southern Africa.

Analysts said the deal would aid the consolidation of Europe's paper industry which in the past few years had been typified by many small producers, and overcapacity in the industry had placed pressure on manufacturers.

The R3,5bn purchase price would be settled by the issue of shares and zero coupon notes Structured as a vendor placing, new Sappi shares valued at R1,9bn would be issued to KPN BT, effectively giving it about a 15% stake in Sappi. KNP BT would also receive zero coupon notes with a par value of R1,6bn, which mature after 24 months.

Sappi chairman Eugene van As said the merger would lead to market rationalisation and grade optimisation which was "expected to result in significant earnings benefits to Sappi"

KNP Leykam, which has annual sales of R5,1bn and production facilities in the Netherlands, Belgium and Austria, had already implemented a rationalisation programme which included closing four paper machines, rationalising grades and laying off 25% of its workforce. This would eliminate R250m in costs annually, and it was estimated the deal would add R500m a year in post-tax benefits, Van As said

Sappi would incur a one-off cost of R150m in realising the savings, and share earnings would be diluted next year. However, in 1999, after-tax benefits were expected to be more than R500m a year The debt equity ratio was expected to fall to 78% from 96%, boosting cash flow

See Page 13

(194)

LABOUR *Municipal workers sue union for R5m, but union blames Springs council for losses*

Samwu task team to investigate allegations

CT 29/8/97

Frank Nxumalo

Johannesburg — The central executive council of the South African Municipal Workers' Union (Samwu) has appointed a five-member task team to "directly investigate" the events leading to 583 Springs municipal workers suing it for more than R5 million in damages

The damages are to compensate for lost employee benefits after the union allegedly incited them to go on an unprotected strike in June 1993

The workers were fired but later re-employed after a protracted legal wrangle, but lost their long-term benefits in the process Some of them had worked for the council for more than 30 years

Anna Weekes, the Samwu spokesman, said the team would look into allegations of intimidation against union members who were not supportive of the court action, and the apparent direct involvement of certain Springs Town Council officials.

She said the task team would also investigate allegations that "some of the workers are not aware that they are suing the union" but were under the impression that they were suing the Springs Council.

"The matter at hand is not so much about members of Samwu suing the union as it is another attempt by certain elements to destroy the union in Springs

"The action must be located within the attitude of local government employers in general towards Samwu when we first started organising in the sector, including the wholesale opposition to our registration."

She said: "The strategy encompassed among other things, the widespread dismissal of workers during the dark days of apartheid and now in the era of enlightened industrial relations, the strategy seeks to turn workers against their own union"

The applicants' attorneys have requested that the case be postponed to January after three council officials, whom Weekes claimed were instrumental in the wrangle, conceded under cross-examination that "the union had not initiated the strike and that it had acted responsibly to resolve it"

A spokesman for the Springs town clerk declined to comment, saying "the matter was between the municipal workers and Samwu".

Paper union cries foul

CT (BR) 29/8/97

Frank Nxumalo

Johannesburg — The Paper, Printing, Wood and Allied Workers' Union said yesterday efforts to set up a centralised bargaining process for the industry were being frustrated by "the lack of co-operation from the main companies organised by the union, including Sappi, SA Timbers and Republican Press"

The union said these companies had taken it upon themselves to "derail the progress about the establishment of the centralised bargaining"

Alfred Tshabalala, a union spokesman, said this had raised serious concerns as to whether these companies were committed to forging harmonious industrial relations at all.

Tshabalala said their apparent refusal to establish a bargaining chamber for the industry was the main cause of wage deadlocks, national strikes and poor worker-management relationships

He said these companies were opposed to a central chamber because main agreements would benefit all the workers of a given grade regardless of race

"We believe the government has a duty to assist in enforcing at least part of the law in the whole scenario We find it quite amazing that such companies should be allowed to operate in South Africa.

"In our view they should be closed down because they belong to the old order of racism," Tshabalala said.

But Anton Lombard, the Sappi Group industrial relations manager, denied that the company was opposed to the establishment of a centralised bargaining chamber "We are participating in the negotiations and we are not trying to prevent the establishment of a central bargaining chamber. All we have asked for is that we should establish different models of bargaining chambers"

FOOTNOTES

With latest acquisition, Sappi is poised to reach global targets

Hilary Joffe

WITH its R3,5bn acquisition of Dutch paper producer KNP Leykam, Sappi has the key assets in place required for it to reach the goals it set in a strategic planning exercise in the early 1990s.

The group — which is the number one producer of coated paper in the US — now also becomes the dominant player in that market in Europe, in line with its objective of being a global player by 2000

The work now begins on turning those assets to account — by no means guaranteed, given the risks in the latest acquisition

Coated paper is only a small part of Sappi's business in southern Africa But it was chosen as the target for offshore expansion because it is the fastest growing of the paper markets

With the acquisition of KNP Leykam — which follows the purchase of Hanover Papier in 1992 — and the $1,4bn acquisition of US manufacturer SD Warren in 1995, Sappi has become the leading producer of coated woodfree paper in the world, with market shares totalling 26% in the US, 22% in Europe — up from 7% — and 60% in southern Africa

Sappi chairman Eugene van As points to the advantages of size market share and profitability tend to go together, the top three in the market tend to earn better returns than the rest

He expects the Dutch acquisition to lower unit costs and provide greater influence over market pricing "At the very least we will not compete with each other," he says

In some European markets — most importantly Germany — Sappi and Leykam are the top two players Across Europe, the enlarged Sappi, with one to two different players, becomes half of the market in almost every country

BD 18|9|97 (194)

But is the European coated paper market the place to be? It is more fragmented than that of the US, and substantial excess capacity has dampened prices Although analysts like Sappi's strategy, at least one questions the timing of the acquisition and doubts the extent to which Van As can influence prices. Countering this is a view that Sappi is in a position to ensure prices stay low for long enough to drive the higher-cost European producers out of the market — and reap the benefits in about a year to 18 months' time

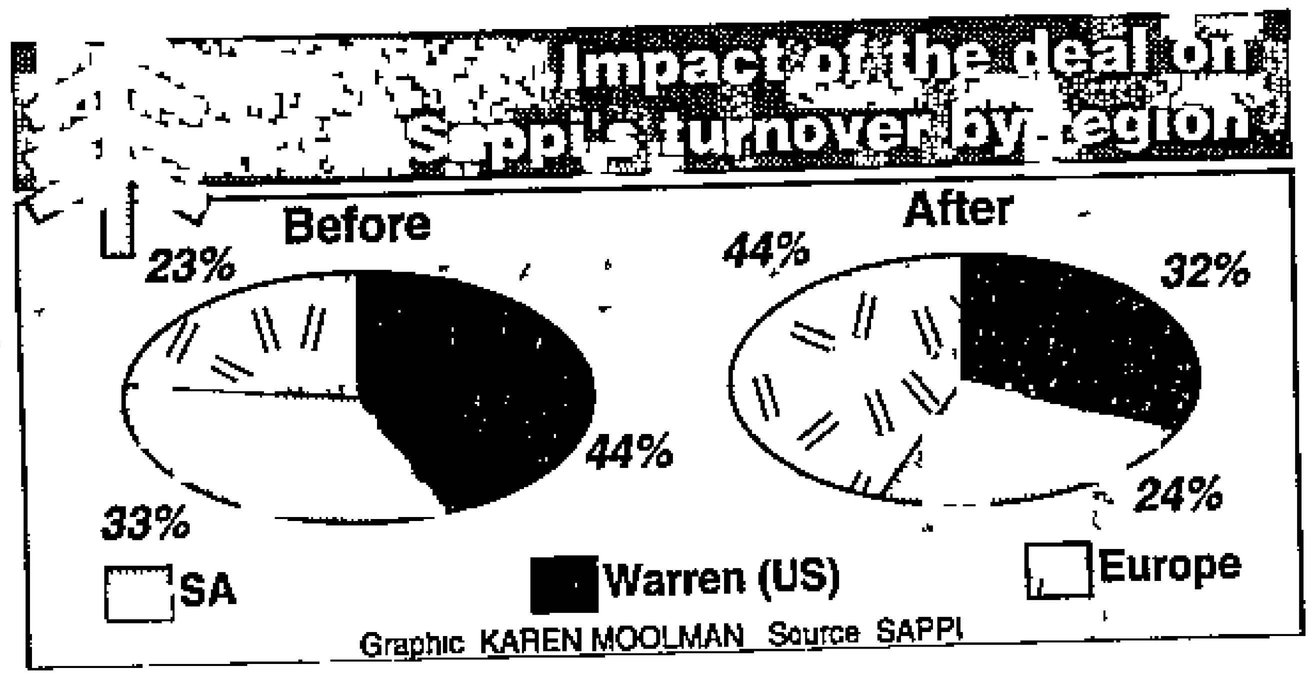
Van As's view is that the industry is becoming more concentrated anyway and prices must tend upwards He expects the market to be in balance by end-1999, with a shortage emerging in 2000 And he argues that those with the new capacity — Finland's Enso and UPM Kymenn, and Sappi/Leykam — are all large players with a vested interest in ensuring the stability of the market.

The last new piece of capacity due to come on stream is KNP Leykam's huge new paper machine in Gratkorn, Austria, with an estimated capacity of 470 000 tons a year It is due to start up in November and should take two years to reach capacity

Although analysts view a startup on this scale as a risk factor, Van As says Gratkorn, a "Rolls-Royce" machine, is known technology in a business familiar with the group, and he does not see unexpected problems in commissioning it

The group's net addition to Europe's capacity will be well below 470 000 tons· Leykam had already announced plans to close four existing machines, removing 230 000 tons of capacity from the market

Rationalisation is also likely in some of Sappi's



Graphic KAREN MOOLMAN Source SAPPI

European operations, removing further capacity. This is apparent from R150m in "closure costs" mentioned in the Sappi announcement — analysts speculate about plant closures in the UK. But Van As will not reveal plans at this stage

There are several likely areas of synergy between Leykam and Sappi Europe — distribution, logistics, systems — and Van As expects synergy benefits of about 200c a share in the next two to three years

Leykam made a loss last year — as did other European producers — but turned to profit in the six months to June Van As expects the deal to dilute Sappi's 1998 earnings "moderately".

The deal will give Leykam's parent, KNP BT, a 15% stake in Sappi, making it the second-largest shareholder after Sanlam/Sankorp, which will hold about 17% after the transaction

The other chunk of Sappi's payment is a R1,6bn two-year zero-coupon note repayable at par.

Sappi also plans a global equity issue later this year to reduce debt and is disposing of R1bn of non-core assets. Van As wants to see gearing drop below 70% — from about 100% — by the 1998 year-end.

Sappi a 'leading player' after acquiring Leykam

BD 16/9/97 (194)

Janet Parker

SAPPI's R3,5bn acquisition of Europe's largest producer of coated wood-free paper, KNP Leykam, had accelerated the consolidation of Europe's fine paper industry and placed Sappi as a leading player in the global market, chairman Eugene van As said

Sappi announced yesterday it had agreed to buy the NV Koninklijke KNP BT 91,5% stake in KNP Leykam, a company which owns mills in the Netherlands, Belgium and Austria and has an annual capacity of 1,7-million tons of coated wood-free and lightweight paper, and a pulp production capacity of 360 000 tons a year

Analysts said Europe's fine paper industry was characterised by a number of small players and looming overcapacity Rationalisation of the industry had been delayed by the sharp price drops in the highly cyclical sector.

Analysts have forecast the industry can expect an upturn from the end of the year.

Van As said Sappi had a positive outlook on prices, expecting an increase in December.

Although the market still was not good, it was getting better It was a "good time for deals", and the Sappi acquisition could stimulate other deals to take place, further decreasing the industry's overcapacity, he said

"Any new capacity coming onstream will be ours, and we have a vested interest in not disrupting the industry .. The greater concentration of manufacturing capacity will add stability to what has become a volatile market responding to an excess capacity and price pressures," Van As said

He said Sappi had also begun its billion rand sell-off of its noncore operations and an announcement on progress could be expected soon More major acquisitions were unlikely

There were no formal plans to enter Asia yet, but Sappi had expressed interest in a joint venture possibility in China which was still "in the air".

Initially Sappi would go into a period of consolidation to achieve organic growth, he said.

The Leykam deal put Sappi in a position to approach global equity markets later this year, and two local institutions had indicated their intention to take up the full amount of the proposed local tranche of any placing

The capital raised would finance Sappi's debt.

SAPPI

FM 19/9/97

(194)

Building a paper empire in Europe

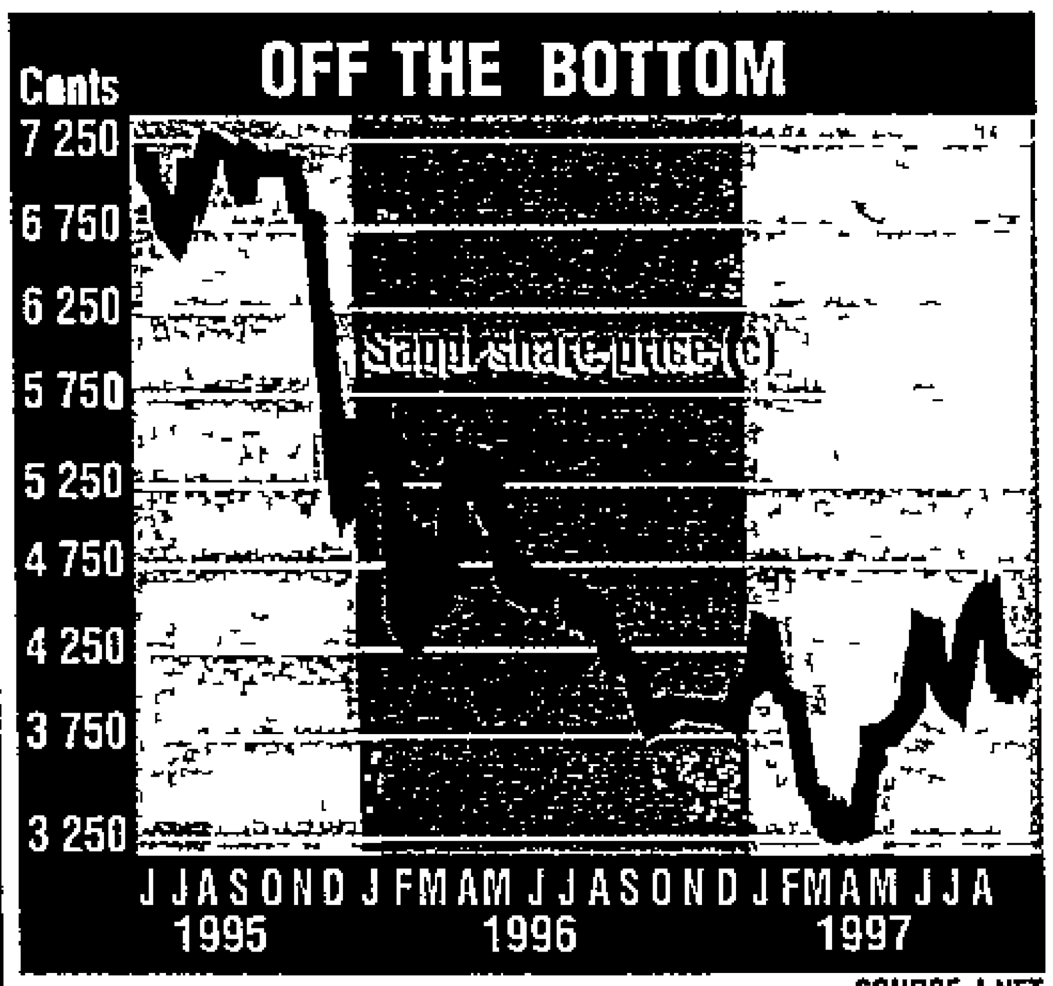
Sappi has become a leader in Europe. Now it must produce the profits and cut back borrowings

Sappi has reached yet another milestone in its journey to be a world player by 2000, with this week's purchase of an effective 91,5% stake in KNP Leykam, operating in Austria and Europe's largest producer of coated woodfree paper, for R3,5bn (US$746m)

While the price is substantially less than the $1,6bn it paid for US-based SD Warren, the acquisition is hugely significant for Sappi, giving it control over 22% of the coated woodfree market in western Europe and increasing its total assets from R22bn to R29bn

The price is similar to the book value of the net assets being acquired by Sappi as at December 31 1997, and will be settled through the issue of R1,9bn new Sappi shares (15% of the share capital) to holding company KNP BT The balance will be paid through the issue of zero coupon deferred loan notes payable on December 1999

Sappi chairman Eugene van As is pleased with the price and the company, which he says is the best invested fine paper company in Europe The average price paid for the purchase is around $800/annual ton, well below the prices paid in other deals in Europe, all of which exceeded $1 200/annual ton



SOURCE: I NET

Analysts agree it is a good price, but voice concern particularly about debt levels — which Sappi has been struggling with since the SD Warren acquisition

Sappi will be taking on KNP Leykam's total debt of R2,6bn, which will be added to its existing borrowings, amounting to R8,9bn in the year to March 1997 Gearing will fall however, purely because of the increase in shareholders' funds

The SA aversity to debt primarily accounts for the market's rather frigid response to the deal The share gained 0,7% on the Monday (the day of the announcement) before falling 1,6% on Tuesday

Sappi says it intends to approach global equity markets later this year to raise capital to address debt, and that its R1bn disposal of noncore assets is on track

Another key concern seems to be KNP Leykam's shaky profit record In financial 1996 it recorded a R30m operating loss before recovering to a R51m profit for the first half of 1997

One analyst says "KNP BT has gone on record that they were selling KNP Leykam, because they believed it would not bring in decent returns on investment " He says the 10% surge in the foreign counter after the deal is evidence of the problems

Van As is obviously bullish about the prospects for KNP Leykam and the European coated woodfree market He says R723m/year should be realised from 1999 onwards, as synergistic benefits, rationalisation and cost reduction kick in

The acquisition will lend mass to the fine paper side of Sappi — which could be spun off and listed separately later

Sappi expects the highly fragmented European coated fine market to go through a period of rationalisation and grade optimisation, which will benefit the company "There is no new capacity coming or on order in the western hemisphere, and that situation is likely to prevail for a few years," says Van As

***Eugene van As** this is the last piece of a jigsaw puzzle*

Assuming the deal is consummated around December, Sappi projects that the impact on the group's EPS for the year to September 1998 will be marginally diluting (less than 5%), and that from 1999 onwards it will be positive

"This deal is the last piece of a jigsaw puzzle We will now grow organically with some smaller acquisitions When the time is right we will invest in a paper machine in Asia, and to fill the machine we will draw from exports," says Van As Van As has been accused in the past of being too optimistic Sappi's high exposure to fine paper and an unpredictable product price cycle suggest a cautious approach is required

"I think in five years we will turn around and say Sappi did the right thing But for now, it is a bold move and there is a lot of risk," says Smith Borkum Hare analyst Graeme Wald

What Sappi needs to do in the next few years, more than anything else, is stand and deliver, and turn the sceptics into believers

Stuart Rutherford

Clothing industry expecting to increase exports

BD 8/10/97 (184)

Samantha Sharpe

CAPE TOWN — The clothing industry expected to increase exports to 10% of an estimated R7bn in turnover this year, compared with 8%, or R620m, last year, Clothing Federation (Clofed) president Bernard Richards said yesterday

Announcing the results of the industry's first official survey of business confidence, Richard said about 41% of the respondents surveyed in September expected an increase in their export product in the next year

It had taken time for the industry to take advantage of the weaker rand, but it was clear activity in the export market was increasing

Richards said the results of the survey, conducted in April and again in September, showed a move towards higher employment, improved forward orders, increased exports and more capital spending

"On the back of this has come the good news that government has seen fit to extend the life of the duty credit certification scheme beyond March next year to March 2000. The extension will be a welcome boost to manufacturers striving to adapt to international competition"

He said increases in the work force, compared with a year ago, were reported by 35% of the respondents in September, against 28% in April And 50% said in September that employment was at the same level as last year This compared with 37% in April"

The increased employment levels were supported by reports that forward order books were up for 49% of respondents in September compared with 47% in April, and stock levels of finished goods were lower or the same for 73% (62% in April)

Local fabric prices had risen in line with, or less than, inflation, Richards said

Pulp and paper duo storms world stage

Sappi and Mondi have leapfrogged over each other in their vastly different drives for international power, reports **Hilary Joffe**

BD 15/10/97 (94)

SA's two pulp and paper groups — Sappi and Mondi — have gone about internationalising their businesses in very different ways over the past seven years But after hefty acquisitions this year, both are substantial players in an increasingly global industry

That they could achieve this status reflects the nature of the industry, which, for a variety of reasons, was "world class" before the 1990s opening up of the economy forced many industrial companies into a sudden and painful drive to become competitive

Both Sappi and unlisted Mondi stand to benefit from the expected upward move of paper and pulp prices in the next couple of years How much money they make — and when — will, in a sense, be the test of their different approaches Sappi has attained leadership in a single product category worldwide, while Mondi-managed Mondi Minorco Paper has four broad global thrusts

Sappi's offshore subsidiaries are wholly owned while most of MMP's are partnerships And Sappi has taken on large quantities of offshore debt while MMP's growth has been financed using the resources of the broader Anglo American group and gearing is much lower

MMP has already proved its ability to make money even when prices are poor Sappi's strategy is a lot more risky but could pay off handsomely once the cycle turns

Sappi's $746m (R3,5bn) acquisition of Dutch paper producer KNP Leykam, announced last month, raised the group to first place in the European market for coated woodfree paper, with a market share of 22% It was already the largest producer of coated papers in the US (with 26%) after its $1,4bn purchase of SD Warren in 1994

The Leykam deal coincided with other moves to consolidate the industry, most notably Finnish giant UPM-Kymmene's purchase of Blandin Paper in the US and its tie-up with Singapore-based April.

Sappi's strategy, with its focus on world leadership in coated papers, is part of a trend by big players seeking to dominate particular product lines globally, in the hope that consolidation will bring greater market stability

Meanwhile, Mondi Minorco Paper accelerated its expansion this year with a series of smaller "bites" In recent months MMP has announced about $200m worth of acquisitions in eastern Europe. These include control of Swiecie, Poland's largest pulp and paper facility, and of Hungarian pulp producer Dunaujvaros, and a 19% stake in Russian producer Syktyvkar

The deals follow last year's $250m purchase of a 12% equity (28% voting) stake in Brazil's Aracruz, the world's largest and lowest-cost producer of bleached eucalyptus pulp BoE Natwest analyst Barry Sergeant estimates that MMP's worth has risen to at least $1,1bn.

Both groups began their offshore expansion drives in 1990, leapfrogging each other as Sappi bought control of five UK paper mills while Mondi, with Anglo American, De Beers and Anglo's offshore arm Minorco, formed Mondi Europe to buy joint control of Austrian group Neusiedler Then Sappi bought Germany's Hannover Papier, while Mondi Europe bought 44% of Neusiedler's parent Frantschach and entered into a 50/50 joint venture with Swedish group SCA to build a huge new newsprint machine at Aylesford in the UK.

Sappi proceeded to collect the assets it needed to reach its stated objective of being a global player by the year 2000 with the two mega-acquisitions, Warren and Leykam, while Mondi Europe (which became MMP at the beginning of this year after a restructure which raised Mondi's stake from 5% to 20%) ventured into South America and into eastern Europe, where it already had a paper merchanting network.

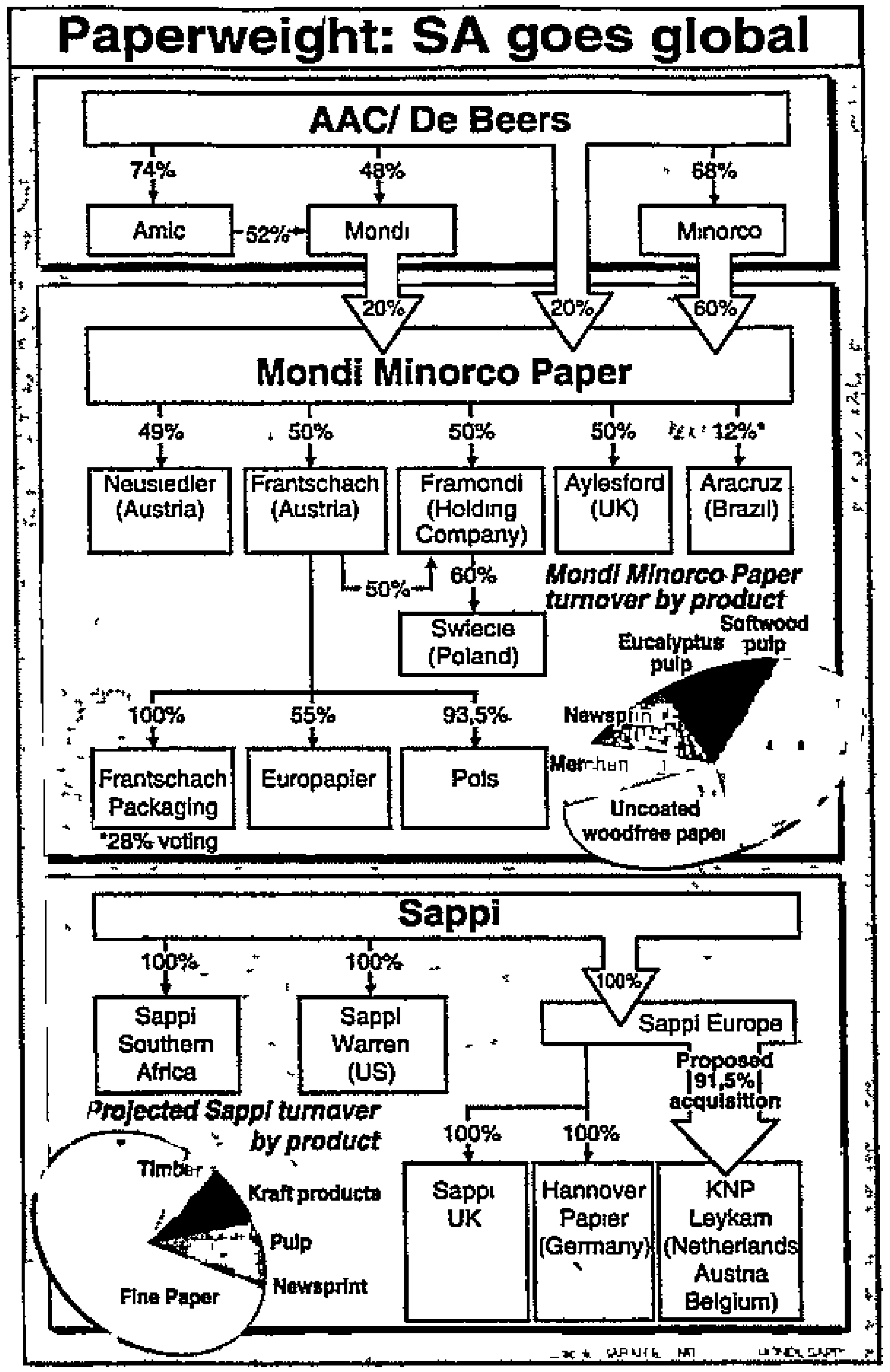
Similar reasons drove the two groups abroad.

A long upswing in paper and pulp markets had meant strong cash flows and high returns for the SA producers, but domestic expansion opportunities were limited, especially given their dominant market positions They could not get the timber required to build new pulp and paper mills, nor could they go downstream into packaging, as this would have meant competing with large customers Buying overseas would provide international technical links and some guaranteed sales for their pulp

They were better placed than were many other SA industries to enter the world stage Relatively low import protection on paper and pulp had helped keep them competitive And both groups had kept up technologically, with the support of rich parents (Anglo, in Mondi's case, while Sappi was part of Gencor before the 1993 unbundling)

But if the factors which drove Sappi and Mondi were similar, their strategies are diametrically opposed. UBS Securities analyst James Twyman describes the Sappi approach as "more strategy-based, where MMP's is more value-based. HSBC Simpson McKie's Jay van Deventer points to the contrast between consolidating in one grade in the hope of gaining leverage over prices — as Sappi did — against accepting that one is subject to the vagaries of the cycle and managing this by diversification — as in the case of Mondi. Van Deventer argues that Mondi has the sounder approach.

To detail the contrasts



□ PRODUCT PROFILES Coated paper — used in magazines and annual reports — accounts for less than 5% of Sappi's SA sales But Sappi chairman Eugene van As says the group chose to focus on it globally because it wanted a market which was growing rapidly — demand is estimated to be rising at 6%-7% annually — but was small enough for a new entrant to gain a leading position Van As notes that the top two or three players in a market tend to be more profitable than the rest, and he hopes to gain some influence over European coated prices, which have been depressed by overcapacity

MMP has gone into a more diverse range of businesses, mainly reflecting its areas of expertise in its home market. Mondi chairman Tony Trahar identifies MMP as having four broad thrusts A4 copy paper, pulp, newsprint and paper packaging (with the Swiecie deal it has for the first time ventured into corrugated packaging) Trahar says the group would like to expand further in those four product categories, as attractive projects present themselves He is more interested in creating value than in market share, he says, though MMP has gained leading shares of niche markets such as paper sacks and office paper

□ STAKES Almost all MMP's operations are joint ventures with local partners It has been content to take minority stakes, as at Aracruz and in Russia. Trahar says. "We are prepared to move a step at a time, rather than pay a price premium for control."

Sappi, however, rejects the partnership route Van As argues wholly owned subsidiaries simplify technology transfer and transfer pricing within the group One reason the KNP Leykam deal took more than a year to conclude was that the Dutch parent, KNP-BT, originally sought a partner in the operation.

Instead, Sappi persuaded it to sell, taking on some of the risk of the acquisition by becoming a partner in Sappi Ltd, of which it will hold 15% after the deal, giving it the second largest stake after Sanlam's 17%

□ DEBT Sappi's total borrowings are expected to rise to R10,5bn after the Leykam deal, with gearing at well over 100% Most JSE analysts find such levels frightening, pointing to the extent to which interest eats up operating profits Van As argues gearing is not way out of line by the standards of the industry globally, adding that at US operation Warren, Sappi has traded borrowings down by $400m since the purchase date

MMP, by contrast, is debt-free at the centre though gearing is 40% on a consolidated basis It has drawn on Minorco's and Anglo's offshore cash and borrowing facilities, but the result is a complex ownership structure (see diagram) Trahar concedes it would make sense for all the Anglo group's paper and pulp interests to be housed in Mondi, especially as Minorco turns its attention to new mining projects, but this may not be possible given exchange control The group does not rule out listing MMP and/or Mondi

Analysts are impressed at the quality of MMP's assets and the prices paid. Aracruz and Aylesford (which relies entirely on recycling waste paper) are both lowest-cost producers Sergeant notes MMP bought its eastern European assets at well below replacement value and is positioned to make further strategic acquisitions "MMP's strategy is geared to global growth and it could produce substantial profits in the next firm upcycle in the pulp price But it is sufficiently integrated to produce profits when the pulp price is lean," he says

Sappi is not seen as having bought any bargains. Analysts say it paid "full price" for Leykam (some say it paid too much) But, Twyman says, it has bought good assets The US coated paper market is healthy and Warren will come right. Leykam, the European market leader, is well run and a good strategic fit for Sappi's global ambitions, which in time are likely to include the fast-growing Asian market.

While sceptics such as Van Deventer doubt Van As's ability to influence coated paper prices, others believe consolidation in the European market should improve profitability And Leykam could do well for the group if it achieves the expected synergies with its existing operations Sappi expects the acquisition to dilute 1998 earnings, but to enhance profits from 1999

Paper and pulp markets are notoriously volatile and difficult to read. But after two depressed years, the cycle, key to both groups' prospects, may have turned Pulp prices have risen from a low of $380 a ton to $540-$550 Both Trahar and Van As expect a better year in 1998

Pulp industry must look at return on investment to stabilise

As he takes a hard look at pulp and paper industry, Sappi chairman **Eugene van As** feels like a man from Mars

PD 6/11/97 (194)

WHAT would happen if a man from space were to arrive on Earth and look at the pulp and paper industry. Assume he was an investor and started examining the investment opportunities. What would he find?

He would find an amazingly stable, growing demand for almost all pulp and paper products. It would be a typical business in which he would want to invest because it has an extraordinary high cost of entry, the product is based on a renewable resource, the industry's consumption is global, and the products move across borders at relatively low duties and relatively low transport costs.

Our man from Mars would find that this industry supplies basic needs. It has some environmental problems, but, on balance, it is better off than most smoke stack industries.

The amazing thing he would find is that demand for the product is not cyclical, particularly not when he compares it with the demand for products such as automobiles, fibres and others.

He would call his Wall Street adviser to discuss how he could invest in this industry and, to his surprise, would be told: "Don't touch it, they've destroyed value for over a decade, we've changed our buy/sell recommendation four times in the last 12 months. Try Atlantic City, it might be a better bet."

Our man from Mars would be confused, but because the basics seem to be right he would do further research and would find that this is a highly fragmented industry, trying to be all things to all people.

Consumption is global, but the companies are trying to make all the products rather than focusing. The industry's market research is driven strongly by rumour, not by fact. Although the consumption is global and many of the customers are becoming global, the industry is still strongly regional, even local. The demand on the paper and the pulp companies is extraordinarily volatile, with prices oscillating more fiercely than with almost any other product. The industry measures only apparent consumption and generally has extremely poor information.

Our man from Mars therefore goes to speak to a consultant to find out more because he finds these trends surprising. He discovers that the industry uses as its economic consultants, not economists, but frequently people who sell engineering and have enormous conflicts of interest. They advise the industry on the great "potential" markets that exist and the great advantages of the constructing new facilities — which they would be most happy to design and construct. He finds that the industry spends a fraction on economic consultancy compared to what it pays (often to the same people) for new facilities.

He would go and talk to one of the market consultants, of which there are many, particularly in the pulp market, and he would find that they concentrate largely on something called "market pulp supply and demand". To his surprise he would find out that that is less than half the total market for pulp and that the consultants pay little heed to the real underlying capacity increases and demand increases, but spend their time focusing on that half of the market which is traded.

He would find that very often the same suppliers are in the other half of the market, the integrated half, and, of course, use their own product first and put all their swings onto the balance — the "market pulp market".

The man from Mars therefore discovers that this is not an industry to invest in, this is truly a casino! This is a business in which you place bets and gamble because the fluctuations in the apparent demand are caused, not by the actual consumption of the product, but by positions taken along the pipeline by various consumers and manufacturers in holding inventory.

It is an industry where you bet against your customer and your customer bets against you, where pulp makers bet against paper makers, paper makers bet against pulp makers, paper makers bet against merchants, merchants bet against paper makers and publishers bet against all of us.

Printers, generally, do not really enter the fray, normally because they need a great deal of credit to do so.

Even in the container board business, the man from Mars would find the box makers bet against paper makers and vice versa.

I have some sympathy for our man from Mars in not being able to understand this, because frankly, nor do I.

He would find that the consultants tell him that some of the reasons for this fluctuation and for the taking of positions are the huge difference in the cost of making pulp in the Pacific Rim, the huge cost advantage of the southern hemisphere and fear of what the Finns might do.

Further investigation would establish that most of this discussion about cost and cash cost ignores some things which one would have thought were also paid in cash, such as interest, freight and all the infrastructural cost that is needed to support mills in remote areas. A study of some of the income statements of the various companies would show that people with these incredibly low costs make no money or make losses, and that their costs are not significantly different from those in the northern hemisphere.

Although the southern hemisphere producers and people in other low-cost countries do have a cost advantage on a delivered basis, it is not nearly significant enough to justify the wild price fluctuations.

Do I have a solution? There are some things I think would help. We need a fundamental cultural change in the business. It is the only industry I know of where when the customer does not want or cannot use the product, we keep making it because of our total fascination with unit cost of production. We keep running the mills until our warehouses are bulging, and then slash the price and try to force the product down the customer's throat to get rid of the inventories. This is the fundamental cause for the position-taking in the industry.

If the industry had taken enough down time at the end of 1995 to adjust the inventory it had built up when its customers, the paper makers, took down time because their customers could no longer absorb their full output, it would have cost the industry about $800m across the world pulp business. It took the down time in any case some months later, but only after it had slashed prices to try to get rid of this excess inventory.

Our man from Mars would have found that an extraordinarily stupid action.

This syndrome is not confined to the pulp business. The cycles, the culture and problem are exactly the same in the paper business. We cannot have a stable pulp business without a stable paper industry. The question is how can this be achieved?

The only way is to gain focus and really understand the state of our markets.

We have to recognise that our customers are beginning to become more regional, some of them even global, and if you doubt that, look at what is happening in the publishing business. Magazines like Cosmopolitan, Elle, Marie Claire and Vogue are no longer of domestic markets, they are now published and printed in many countries.

We have to sit down with our customers, understand their needs and build partnerships in which we rely on each other rather than bet against each other. This also means that we have to consolidate and have fewer players.

Most of the world's major industries are very concentrated, with the top 10 producers representing 40%-80% global market share. In our industry the largest company has less than 4%, and then of a very diverse set of products.

VAN AS

We have to develop financial discipline. We have to retrain our managers to understand that if we wish to create shareholder value, we cannot continue making what we cannot sell. We have got to kill preoccupation with unit cost and look at return on investment.

The irony lies in what the man from Mars saw: we can have a good, reasonably stable market. If we manage the business differently, we could provide a good return to shareholders.

The investment industry is telling us that they do not wish to give us new capital for growth, and maybe that is a good thing because it might avoid the increase in capacity which, in turn, might improve the performance of the business.

We have to take care of our environment and the communities we operate in. But we must also start taking care of our shareholders and change the culture of our business so that people who work in it start thinking of making money rather than making paper or pulp, and making return on investment rather than margin and simply lowering unit costs. We must discipline our consultants to start thinking in those terms too, not in some spurious fear-driven definition of the cash cost of some island in the Pacific that is going to overtake our world without establishing whether these legends are true. Unless we make these changes, we are headed for disaster.

□ *This is an edited version of a speech made at the American Forest and Paper Products Association annual conference in Washington, DC, last month.*

Nampak ends tough period with profit up 4%

BD 7/11/97 (194)

Lucia Mutikani

PACKAGING group Nampak increased attributable profit 4% to R566,6m for the year ended September despite low levels of consumer spending, blamed on high interest rates, the company said yesterday

Turnover increased by 8% to R7 070,7m, while earnings a share rose 4% to 108c A final dividend of 27,1c was declared, bringing to 41,5c the total distribution for the year

Chairman Brian Connellan said that because of the difficult market experienced during the year, volume growth was minimal at 0,3% and cost increases were not fully recovered in selling prices. "Tight expense control and further gains in productivity and manufacturing efficiencies helped cushion these impacts However, operating margins declined to 11,8% compared with 12,2% last year," he said

Finance costs rose 31% because of higher borrowings in the earlier part of the year "But strong cash flows and good working capital management resulted in the balance sheet showing net surplus funds of R38m at year end"

MD Trevor Evans said packaging sector subsidiaries Bevcan and MB Glass increased volumes through market share gains, but margins fell as cost increases were not fully recovered in selling prices

"Foodcan, Blow Molders, Divpac and Flexible increased earnings mainly as a result of rationalisation actions taken last year," said Evans.

Subsidiaries Petpak, Liquid Packaging and Tufbag experienced volume declines and reduced profits, while earnings in the Megapak, Polyfoil, BlowMocan and Mono Containers subsidiaries declined sharply, but significant rationalisation and cost reductions have already been implemented in these operations, he said

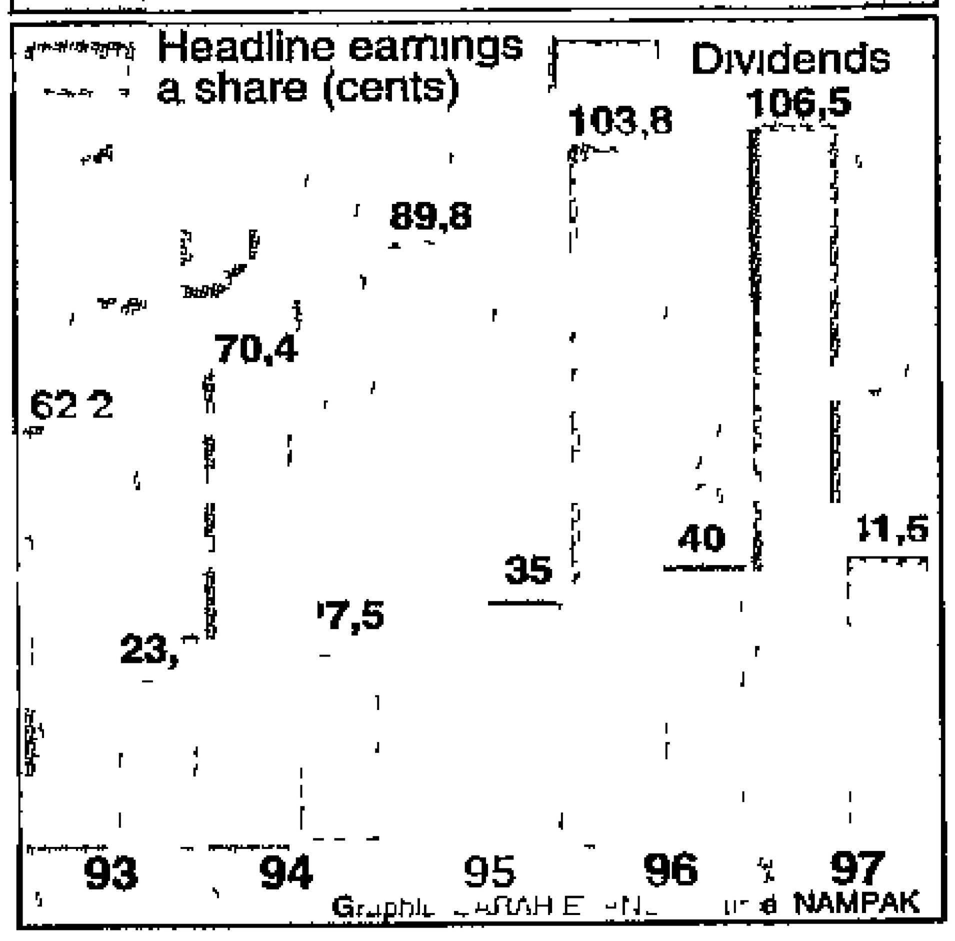
He said that in the group's paper and printing sector, Corrugated, Merchants and Printing had improved profits despite margin pressures due primarily to increased volumes and efficiency gains

Sacks and Printpak subsidiaries earnings declined on lower volumes, while Tissue's profitability fell because of production problems earlier in the year and price erosion

Nampak has a 42% share of the packaging and printing market

On future prospects, Connellan said the recent fall in interest rates was expected to offset a slightly higher consumer demand for nondurable goods

Nampak



Sappi's second half swings up

CT(BR) 9/11/97

(194)

Jonathan Rosenthal

Johannesburg — Sappi, the South African-based paper and pulp multinational, yesterday reported a significant swing in second-half earnings after first-half earnings slumped by 90 percent

Full-year headline earnings of 187c a share were down 4,1 percent on last year's 195c a share, but higher than a Reuter consensus poll showing market expectations of attributable earnings at between 130c and 145c a share

Eugene van As, Sappi's chairman, said that selling prices were generally soft during the year, that prices in Europe had shown an early recovery and that the group's other markets had improved in the final quarter of the financial year

"The dissolving pulp market, which is the market served by our Saiccor operation, remained soft, largely as a result of poorer viscose demand, and prices declined year on year Customers were, however, able to absorb a small price increase in the final quarter," Van As said

He said the group's earnings had been knocked back by the five-week national stayaway in Swaziland, which disrupted production at Usutu and sliced about 10c a share off the group's earnings

Van As said Sappi was accelerating its programme to dispose of non-core assets to reduce debt.

"The programme is well under way, and we can announce a couple of moves in this direction We are at an advanced stage in selling the pressure-sensitive business located at Westbrook in Portland, Maine, in the US This is a converting business, not directly related to Sappi's core business of paper making," he said

Van As said the outlook for the world economy looked positive, although he was concerned about the near-term future of Asian economies

"Paper consumption worldwide shows steady growth, and pulp and paper prices are improving slowly Based on present trading conditions and our improved competitiveness following the KNP Leykam acquisition, the Sappi board believes 1998 will show a marked improvement in earnings over 1997," he said

FOOTNOTES

Hilary Joffe

Packaging sector may take consolidation route

(194) BD 18/11/97

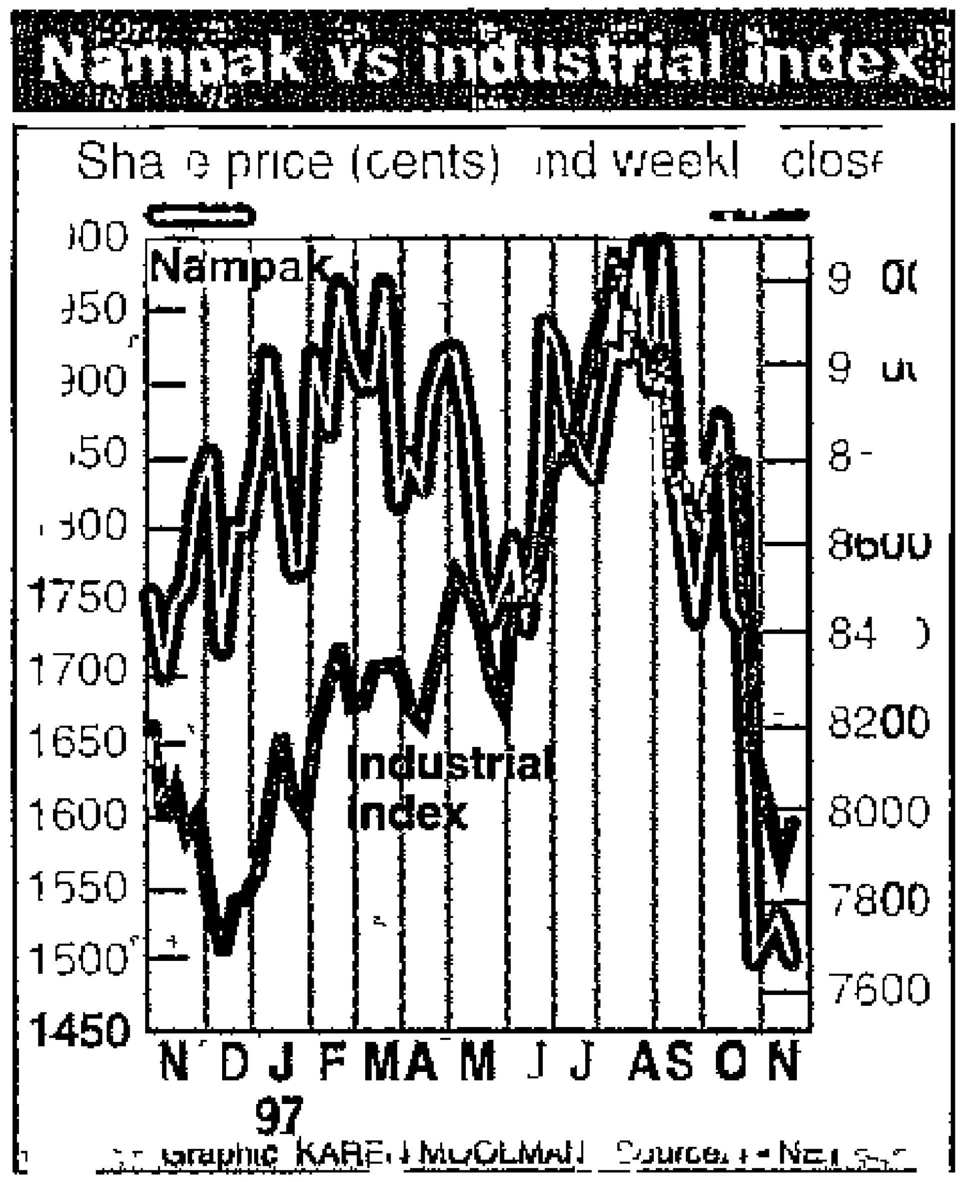
THE world's packaging groups are going through turbulent times as globalisation, low growth in mature markets, spare capacity and pressure from powerful retailers squeeze margins

Consolidation and rationalisation in the past 18 months have seen only six companies emerge as dominant players in Europe and the US, Nampak chairman Brian Connellan said

Although the trend had been less pronounced in SA, the JSE's packaging sector was in line for some significant changes Connellan said the SA industry was in greater flux than it had been for at least a decade. He raised the question of whether consolidation had started here too, pointing to Rembrandt's proposed takeover of Malbak and the planned merger of its packaging interests in Lenco and Printpak with those of Kohler, as well as to Nampak's acquisition of Quix and newly listed Astrapak, which brought together some smaller packaging companies.

In addition, a cautionary by Consol has led to speculation of a delisting, which would reduce the JSE's "big three" packaging companies to the "big two" Analysts believed the cautionary related to plans by parent Anglovaal Industries, which held 64% of Consol, to take out minority shareholders.

Consol's headline earnings fell 27% to R162m in the year to June. Traditionally one of Anglovaal's chief contributors, Consol had been spending heavily to modernise its glass plants and the resulting disruption had severely affected profit It was also hit by depressed demand for key products.



The poor state of the market was also the theme of profit figures from the sector Nampak's earnings rose only 4% to R547m for the year to September, and Kohler's earnings rose 7% to R153m for the year to August. Headline earnings a share rose 1,3%

Nampak CE Trevor Evans told analysts the low volumes and surplus capacity had led to tough bargaining with customers which had prevented the group recovering cost increases fully "We estimate we left R150m-R175m of profit on the table in 1997," he said

But after a 5 to 6 year "relentless" efficiency drive, Nampak's prices were coming down to world levels, and this could enhance bargaining power with customers, who could no longer reject increases because of high SA prices

Tight controls helped the group generate R121m in cash from working capital over the year, and for the first time in some years, it ended financial 1997 net cash positive, with cash resources of R237,5m on the balance sheet.

Evans estimated cash resources could rise to R800m-R1bn by the turn of the century. So the big question is what acquisitions it plans. Evans believed there were still some smaller opportunities in SA as well as in the rest of sub-Saharan Africa But pursuing all these would not stretch the balance sheet. Blow-Mocan, Nampak's packaging operation in the UK, had given it an appetite for "something bigger — but nothing huge" in that region. It also planned to venture into China, in collaboration with a "a major customer" — one presumes SA Breweries But essentially, Nampak is still shopping

BoE chairman Bill McAdam said he would be disappointed if the financial services group did not double its rand profits in the current year, after more than doubling attributable income in the year to September

Analysts expected this should not be too hard to achieve BoE, which did not include a set of pro-forma results with its 1997 figures, was now an entirely different animal, following the complex deals which gave it control, via Orion Selections and Orion Selections Holdings, of the merged NBS-Boland Bank, as well as stakes in property and leisure group Monex, retail group Pepgro, Rand Merchant Bank Holdings and R3,5bn in cash

There were likely to be more structural changes ahead First, the unwieldy pyramid structure, was likely to be tidied up, analysts said Control of NBS-Boland went through about six levels, beginning at the top with unlisted CFC, which held a private company "My Prize", which controlled BoE Corporation, which controlled BoE, which held just over 50% of Orion Selections Holdings, which owned 50% of Orion Selections, which in turn held 73% of NBS-Boland.

Second, the intention was to bring black partners into the group, specifically into NBS-Boland McAdam said 26% of the banking group's shares had been placed: Orion had wanted to place up to 35% and was negotiating with a black empowerment group

Sappi results will be down on last year, say analysts

(194)

BD 18/11/97

SAPPI's earnings would have received a welcome boost in the final quarter of the financial year to end-September as improved paper and pulp prices kicked in, analysts said

However, a poor first half performance, when earnings plunged to 16c a share compared with 215c in the same period a year ago, would keep full-year profit well below those of last year

"Even though the price increases came in from May, the impact on Sappi was very muted up until the last quarter," ING Barings analyst Paul Carter said

Analysts forecast earnings between 130c and 145c a share, with consensus at 136c compared with 230c last year, a year-on-year slide of more than 40%

But they said it was difficult to predict earnings due to uncertainty over inventory levels and the timing of sales and receipts "Their earnings could be anything between 100c and 150c a share," one analyst said

Sappi was expected to declare a dividend in a range of nil to 70c a share, with expectations averaging 40c

Sappi chairman Eugene van As said in June the cyclical industry looked to be turning up, and a second wave of pulp price rises, from May, were set to stick

Carter said that in terms of pure operations the company was on a significantly better footing than a year ago But analysts also warned that the company could face further price turbulence, fuelled by currency and stock market slides in the Far East Both China and Japan are important markets "It may reverse the gains in their product prices and hurt them in the new financial year," one said —Reuter

Packaging industry faces a tough year

(194)

Lucia Mutikani

BD 18/11/97

THE packaging industry, currently suffering from low volumes due to slack demand, was heading for another bleak year, with big companies' earnings growth not expected to exceed 8%, analysts said.

The outlook for the industry, which generates an annual turnover of about R13bn and contributes about R500m in taxes, had been worsened by the uncertainty over the economy's direction.

"There is uncertainty regarding where the economy is going over the next 12 months. A growth rate of 2.5% is expected for 1998 but there is a risk that it might be as low as 1,5%," one analyst said.

He said the toughest period would be during the first half of next year, when a price squeeze was expected. "No significant widening of margins is expected during this period, but some relief can come through in the second half of the year. However, it will not be enough to have any meaningful effect on the industry."

Analysts expected big companies such as Nampak to increase earnings slightly because of their positive cash position. They said the recent single-point cut in interest rates was not enough to increase demand.

However, the cut in interest rates was positive in that it would improve sentiment and probably mark the beginning of a downward trend in rates, although this had probably been delayed by the recent market turmoil.

Nampak, which reported a 4% rise in year-end attributable profit achieved in a tight market characterised by minimal volume growth, is optimistic about the future. Chairman Brian Connellan expects "satisfactory" growth in earnings next year based on an improvement in demand for nondurable goods, better cost recoveries off Nampak's pricing base and a lower interest charge.

Sappi results hit by poor paper prices

BD 19/11/97 (194)

Janet Parker

PAPER and Pulp group Sappi reported a 4,1% drop in headline share earnings to 187c in the year to September, reflecting the poor prices in the paper products and dissolving pulp markets which typified most of the year.

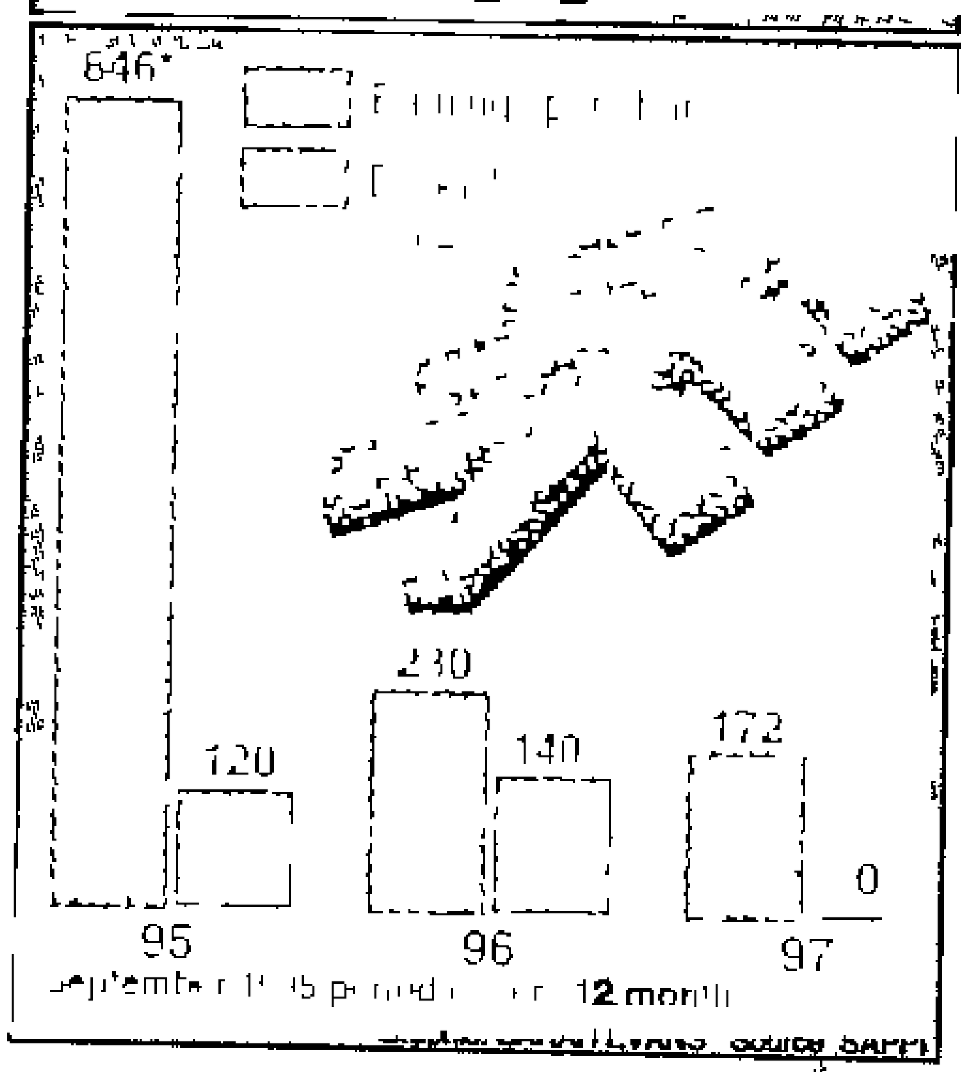
Although the earnings figure was ahead of market expectation, the group did not declare a dividend, contrary to its stated dividend policy.

Sappi chairman Eugene van As said this was due to the group's need to reduce debt following its recent R6,5bn KNP Leykam acquisition, and it was "expected that dividend payments will be resumed next year".

However, an analyst said the move indicated to the market that the group was cash strapped and concerned about the forest products industry. "At best, the results are unexciting, at worst, disastrous if the pulp cycle turns down." The analyst said it was likely there would be another downturn in the pulp industry early next year.

However, Van As was bullish about

Sappi



the industry, saying the group expected the recent steady growth in the pulp cycle to continue for the next two years.

Continued on Page 2

Sappi

(194)

Continued from Page 1

BD 19/11/97

The group also had an "enormous" capacity for cash generation, he said In the year under review Sappi generated R2,45bn cash from its operations, which after investment in its businesses and financing of its activities, resulted in a positive cash generation of R597m by year-end Van As said the KNP Leykam paper machine would allow cash generation to rise to about R3bn a year before costs.

Sappi's consolidated net turnover increased 16,3% to R16,2bn, while operating income declined 9,5% to R1,1bn Van As said the strengthening of the pound sterling and dollar against other currencies during the year, and the "remarkable stability" of the rand against the dollar at the end of last year helped erode margins.

The financing costs declined 10,6% to R612m due to lower borrowings in SD Warren, while the tax bill rose to R94m (1996· R36m) due to offshore investments subject to minimum tax charges Net share earnings fell 25,2% to 172c a share

Van As said Sappi had reduced its gearing to 85% from 99%, and hoped to bring it down to 80% by the end of the calendar year. However once KNP Leykam was on board, next year, gearing would hike back to 97% The group hoped to bring the figure down to 75% "soon" and below 50% at the peak of the pulp cycle in 1999, he said The group had also accelerated its disposal of non-core assets to further eliminate debt and was at an advanced stage of selling its US "pressure sensitive" business at Westbrook in Portland, Maine

Sappi to list in New York

Hilary Joffe BD 20/11/97 (194)

SAPPI intended to list on the New York Stock Exchange (NYSE) in the coming year, chairman Eugene van As said yesterday.

The group, 75% of whose assets are offshore, gained NYSE approval to list in 1995, the first SA firm to do so, but had shelved its plans because of the downturn in paper and pulp markets

In a presentation to the Investment Analysts' Society yesterday, Van As dispelled a series of "illusions" which had contributed to the sharp decline in the Sappi share price, showing that Sappi's offshore subsidiaries were doing significantly better than its operations in SA and arguing that the group's free cash flow was more than adequate to cover its debt

Debt was expected to rise to R12,7bn after its recent acquisition of Dutch paper manufacturer KNP Leykam, but Van As said the group's free cash flow was about R1,5bn in the "awful" year to September, more than enough to meet anticipated net financing costs of R1,1bn

Van As said it was an "illusion" that Sappi's southern African operations were holding up the group while it messed up its businesses offshore.

US subsidiary Warren had reduced debt by R558m since its acquisition in 1995 and its value had risen from the $1,5bn Sappi paid to about $2bn A new labour agreement would save it at least $14m annually, and unit costs had come down over the past two quarters. In the year to September, Warren's return on total assets was 8,7% against US inflation of 2,6%, while in German subsidiary Hannover Papier, which had also raised productivity, return on total assets was 5,5%, against German inflation of 2%, Van As said

By contrast, Sappi Southern Africa's return on total assets was only 5,5%, against inflation of 8,7% and interest rates of about 15%. The problems experienced by the SA business were being addressed and it was regaining market share. Capex of R3bn over four years was yielding negative returns, and the SA operations had had negative cash flows for the past four years. This would change dramatically now that the high capex phase was over, Van As said. At normal returns of 15%-20% gross, these assets could add R600m-800m to group profit

Sappi's paper trail leads offshore

(194)
ST (BT) 23/11/97

PULP AND PAPER

By JABULANI SIKHAKHANE

JANUARY 1998 marks an important date for pulp and paper producer Sappi. Then a big chunk of Sappi's shares — about 40% — will be owned by offshore shareholders, the largest being Dutch distribution, packaging and paper group NV Koninklijke KNP BT with a 20% stake.

KNP BT will acquire the shares as part of the deal whereby Sappi bought Europe's leading producer of coated woodfree paper, Austrian-based KNP Leykam, from the Dutch group. Before this deal Sappi estimated its offshore shareholding to be about 22%.

The changes in Sappi's ownership structure will mark the metamorphosis of Sappi from a South African paper and pulp producer into a multinational corporation which, as Sappi chairman Eugene van As said this week, "happens to be domiciled in South Africa". A total of 75% of Sappi's assets are already offshore.

Sappi's foreign shareholding is likely to increase even further when the group lists on the New York Stock Exchange (NYSE) next year. Sappi is already listed on the Johannesburg, London, Paris and Frankfurt stock exchanges.

Sanlam is the current major shareholder, but the mutual assurer has indicated it intends scaling back its Sappi shareholding. The Industrial Development Corporation, another sizeable shareholder, may in future sell shares to fund new projects.

Van As said now that Sappi had achieved its objective of being a dominant player in the fine paper and pulp markets of Europe and the United States, the group was unlikely to make big acquisitions similar to US-based SD Warren and KNP Leykam.

Sappi now holds 26% of the US coated woodfree paper market and 22% of the European market.

Van As said future acquisitions — there were none on the horizon — were likely to be of single mills. Also, in the new millennium, Sappi may go for greenfield operations in Southeast Asia, but these would be done with local partners.

In the short to medium term, Sappi would focus on reducing debt in its offshore operations and improving returns from southern African operations.

Van As said Sappi was a strong generator of cash, having managed in financial 1997, a year he described as "awful", to generate free cashflow of R1.5-billion. These cash flows, taken with proceeds from the planned sale of non-core assets, would be used to reduce the debt in Warren and other offshore-based businesses.

Earlier this month Sappi said its R1-billion divestment was proceeding as planned. The group has a further R1 5-billion of non-core assets which could also be sold.

In 1994 and 1995, Van As said, Sappi's costs in southern Africa had gone up rapidly, quality standards had declined and the group had lost market share to competitor Mondi.

Sappi had, however, regained lost ground in every sector of the market, and would focus on improving returns on the R3-billion it had invested in the operations over the past four years.

"Some of the capex had negative returns, but we are solving it," Van As said. The rate of growth in costs was beginning to fall below that of inflation. Productivity was also improving, having risen steadily during financial 1997.

For the year to end-September, Sappi Southern Africa achieved a return on total assets of 5 5% against inflation of 8 7% and an interest rate of 18%. This compared with Hannover Papier, the German-based operation, which achieved a return of 5 5% against German inflation of 2% while Warren's return on total assets was 8 7% against US inflation of 2.6%. German and US interest rates were 4% and 6% respectively.

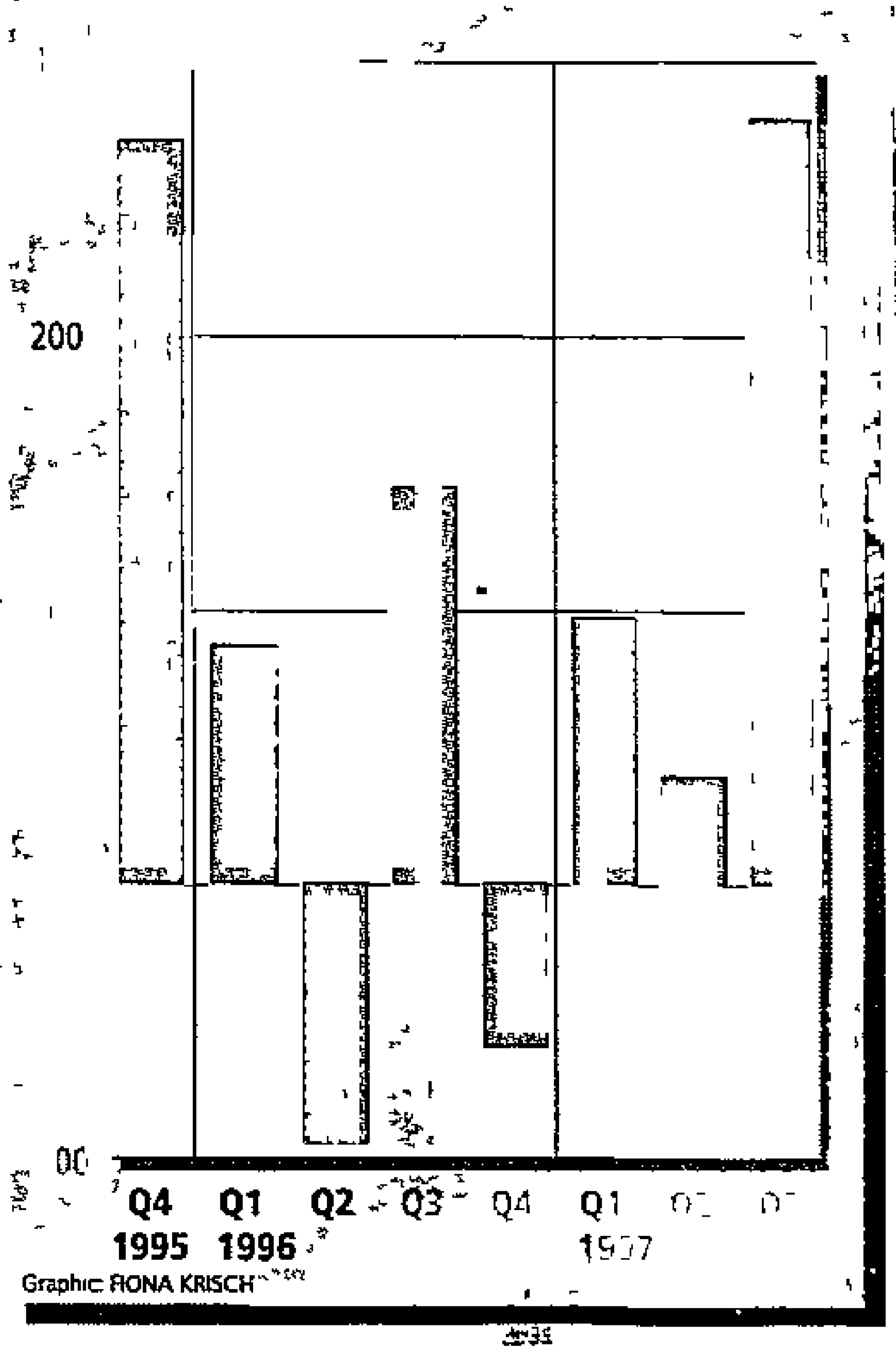
By achieving normal returns of between 15% and 20%, Van As said the southern Africa operations could add R600-million to R800-million to profit.

Van As also sought to convince investors of the "huge hidden" value in Sappi. Using multiples at which similar companies trade, Sappi values SD Warren at more than $2-billion against the $1 5-billion it paid for the group in 1994.

Converting these figures at a rand/dollar exchange rate of R4 50/$1, Sappi estimated after deducting the remaining debt and initial equity, it had created value of some R1.15-billion in Warren, or about R5 75 a Sappi share. The Sappi share price is currently below R30.

Given that Sappi management are also owners of shares, and some of these were bought at R56 each, they have even more reason to unlock that hidden value. Otherwise Sappi may lose one of the few remaining aspects of its South African heritage, its Braamfontein-based leadership, to its increasingly active offshore shareholders.

SAPPI'S NET INCOME



Graphic: FIONA KRISCH

Kohler says trading conditions will be poor

Packaging slackens

CT (BR) 25/11/97 (194)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Kohler, the country's second largest packaging group, said trading conditions in the packaging sector would be poor over the next half-year because of poor consumer confidence, increased competition and pressure on margins.

"Increased earnings under such conditions will be difficult," Richard Bruyns, Kohler's chief executive, said in the group's annual report, released yesterday

But he said the group's recent capital expenditure and productivity programmes would assist earnings

Bruyns said it was hoped that Kohler would start reaping the benefits of its R600 million capital investment programme of the past three years

"The efficiency and cost benefits have been dissipated by the competitive market conditions and margin pressures, but what this programme of plant upgrades and modernisation has done is equip the group for the future," he said

"Kohler's plants are able to compete with the best in the world from the viewpoint of quality and cost," he said

In the past year the group invested R276 million in modernising and expanding its plant

The capital programme included a R35 million upgrade of its corrugated operations and R40 million on the relocation of Kohler Flexibles' Pinetown factory

Kohler hopes to reap the benefits of its R600m, 3-year capital investment programme

Bruyns said the commissioning of Crown Cork's new R160 million beverage-can line had been successful and the R133 million de-inking line at Kimberly-Clark, which would lower the cost of production, was officially opened in July

A further R45 million was invested in rebuilding Kimberly-Clark's number two tissue machine to expand capacity, reduce costs of manufacturing and improve efficiencies

Kohler operates in the market segments of corrugated, cartonboard, cores, plastics and metal packaging, and has a joint venture with Kimberly-Clark to produce tissue-based personal care products business

Sappi to form London-based fine paper

(194) BD 23/12/97

Janet Parker

SAPPI has announced a comprehensive restructuring, placing its fine paper businesses — including 16 paper and pulp mills which together would generate $4bn in annual sales — into a newly formed company which will be based in London

The move reflects Sappi's intensified focus on the production of fine paper and follows its R3,5bn acquisition of Europe's leading coated, woodfree, fine paper maker, KNP Leykam, in September The group said the acquisition was due to be finalised by December 31, while the restructuring was intended to be completed by the beginning of the second quarter of next year

Sappi chairman Eugene van As said it was estimated that the new company, which would produce about 4-million tons of fine paper a year, would hold a 25% share of the western world's market for coated, woodfree fine paper and be "the largest single exporter of these grades to southeast Asia"

The new company would house all fine paper interests in the Sappi group, which consists of Warren in the US, Sappi Europe — including Hannover Papier and the recently upgraded Blackburn Mill in the UK — KNP Leykam and Sappi's fine paper interests in southern Africa.

Analysts said the move was likely to be followed by a separate listing of Sappi's fine paper interests on bourses in the UK, the US, or both

One analyst said the restructuring was "a clever move" and would give financial markets the opportunity to put a specific value on Sappi's two different interests — the fine paper division, and Sappi Southern Africa The possibility of listing Sappi Southern Africa on US markets had also been "talked about".

Sappi Southern Africa includes the pulp division, Sappi Saiccor, packaging paper and newsprint paper interests, among others. Sappi Saiccor supplies about 15% of the world's dissolving pulp, which is used in the production of viscose.

Van As also announced the Sappi Europe mills at Nash and Transcript, which did not form part of the core coated-paper business of the Sappi group, would be managed separately as Sappi UK, which would report directly to the new fine paper business head office in London

An analyst said this move paved the way for a disposal of the businesses of Sappi UK, and the group would, in time, "probably look around for a buyer".

Van As said the group wanted to make its fine paper business "more visible and give the financial markets a clear understanding of the keen focus we now have on fine paper making within the Sappi group". In the coated woodfree paper industry Sappi now has a 60% share in the southern African market, with 26% and 22% shares in the US and European markets respectively

Van As would be CEO of the fine paper company, spending a week a month in London until the restructuring was complete, while Sappi financial director Bill Hewitt would be appointed chief financial officer of the new entity. Other directors, drawn from KNP Leykam and Sappi Europe, have already been appointed

MANUFACTURING — PAPER & Products

1998

Sappi share falls as pulp prices slip

BD 8/1/98

(194)

Janet Parker

SAPPI's share price tumbled again yesterday, reflecting concerns about its financial health in the face of falling pulp prices and its heavy debt burden

The paper and pulp group's share price, which has more than halved since July, fell another 4,8% or 110c on the Johannesburg Stock Exchange yesterday to close at R21,75

About R5,3m worth of shares traded in 70 deals

The pulp downturn, triggered by the financial crisis in Asia, has taken the industry by surprise Pulp prices had started to firm at the end of last year.

Sappi chairman Eugene van As predicted in November the upturn was likely to continue for about two years

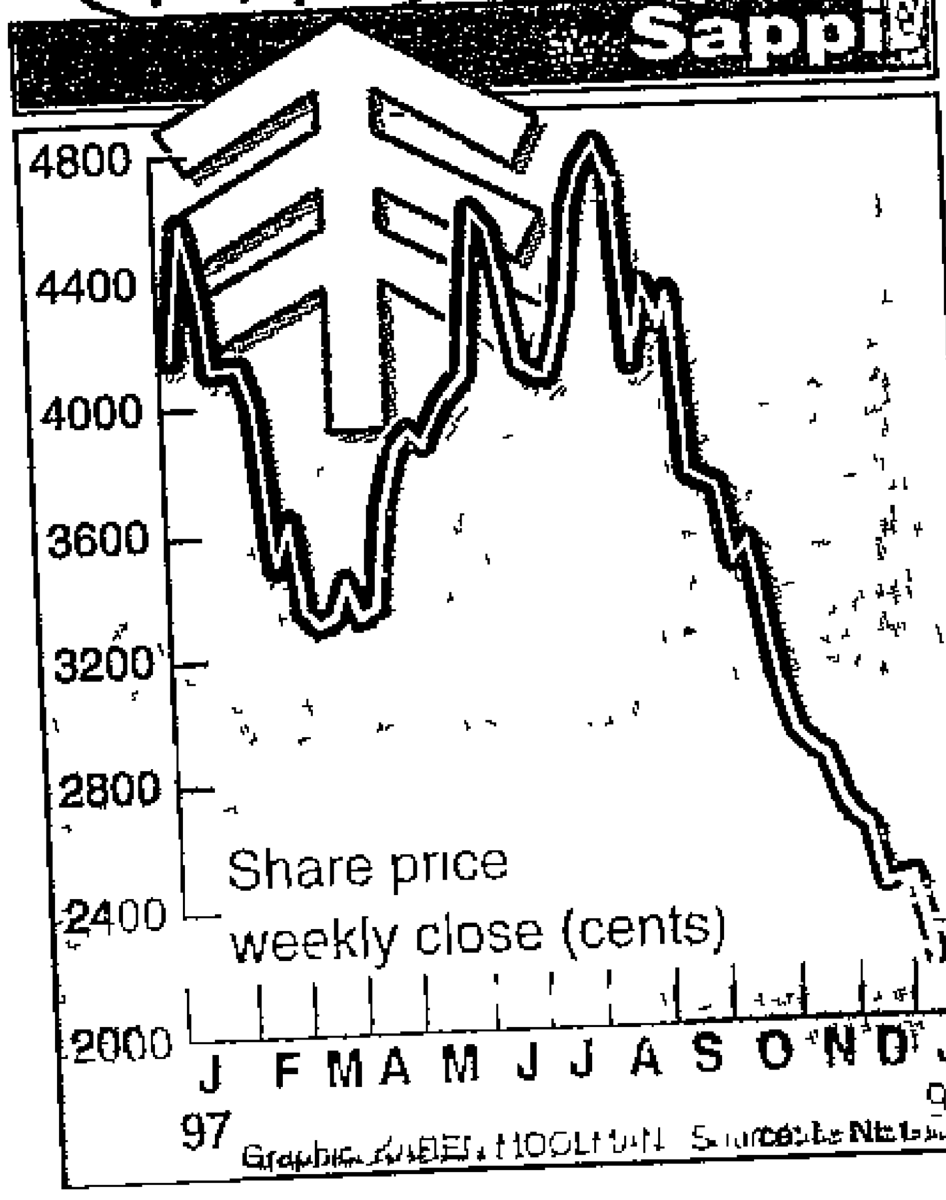
However, the price for the industry staple pulp, Northern Bleached Softwood Kraft, has slipped to $550 to $560 a ton from $600 a ton in November, with analysts predicting futures to March at $517 a ton UBS Securities analyst James Twyman forecast an average of $520 a ton this year

However, analysts have forecast an upturn in the second half of this year

Twyman said it was possible Sappi could slip into the red, but its cash generation was good and there were disposals the group could make. These included Sappi UK and Timberland in the US which alone is worth $200m "We are positive on Sappi to withstand difficulties, but openly negative about the sector," Twyman said.

After its acquisition of European fine paper manufacturer KNP Leykam last year, Sappi's gearing has topped 100%. One analyst said Sappi was vulnerable and if the situation worsened could be open to a hostile takeover.

Sappi and Anglo French paper group Arjo Wiggins Appleton were in detailed merger negotiations in 1996, but a deal fell through due to disagreements on value Sappi outbid Arjo for SD Warren in 1994



London's Sunday Telegraph recently speculated that Arjo might renew its interest in Sappi The report said "supposing Arjo offered Sappi hard cash for its fine paper interests, including SD Warren, Sappi would be pressed by its disgruntled shareholders to accept"

However, Sappi financial director Bill Hewitt said there were no talks taking place He said the restructuring of the group's fine paper interests, with the new entity's head office in London, was on track to be completed by the second quarter.

Late last year Sappi announced an intention to list on the New York Stock Exchange. Hewitt said yesterday the listing would probably take place by mid-year

He said this was not likely to be a good year.

SAPPI

Looking forward to a better year

(194)

Market waits for signs of recovery

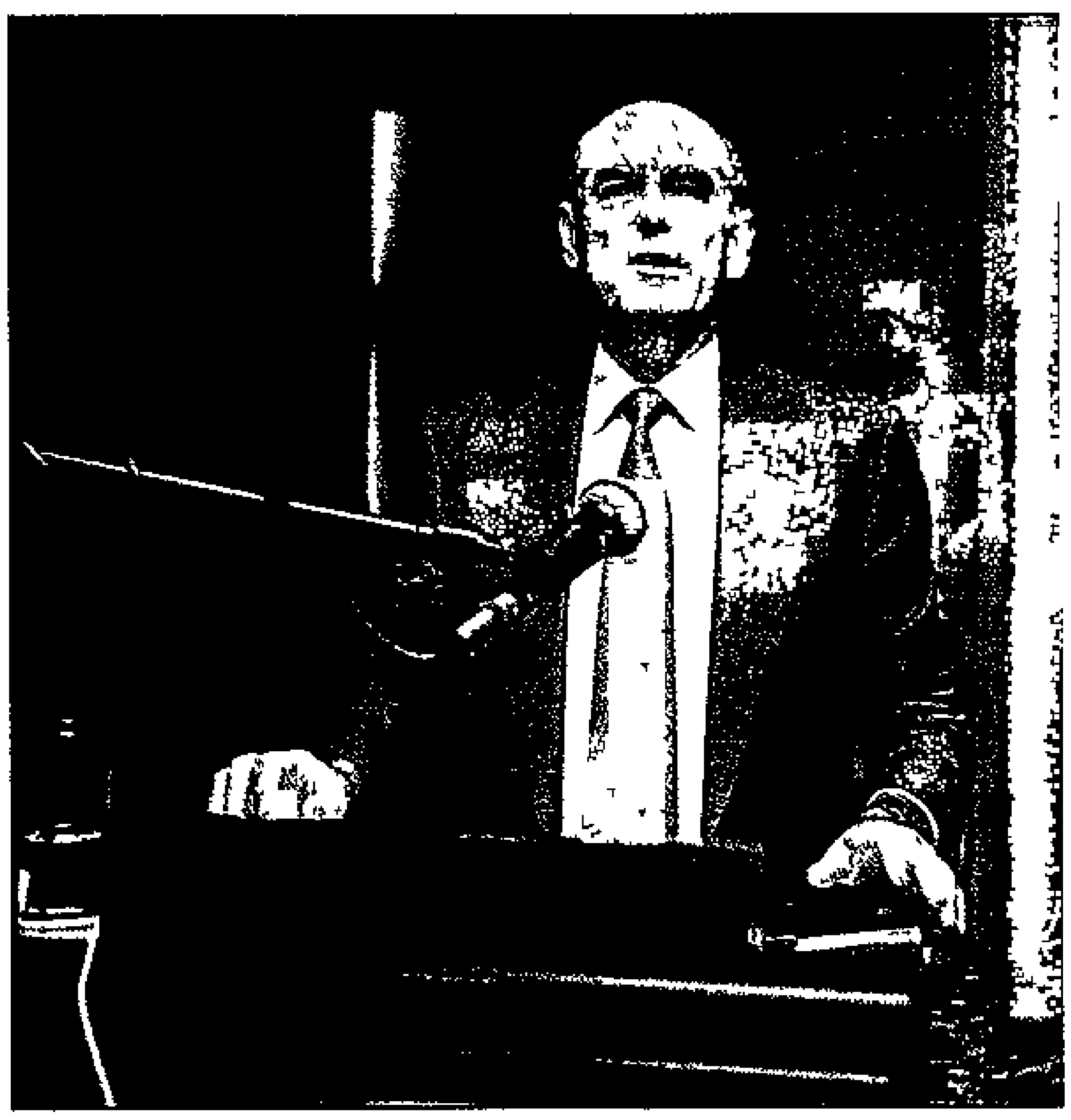
FM 20/3/98

Profits may be in short supply at Sappi now, but the same cannot be said for optimism

Particularly in the wake of the KNP Leykam acquisition, completed in December, and the related decision to restructure the group into two distinct divisions — fine paper managed from London, and forest products based in Johannesburg — management says it now has all the bits and pieces in place to improve returns to shareholders substantially

This view is based on enhanced rationalisation opportunities, particularly in Europe, where the group now controls 22% of the coated woodfree paper market Consequently there is potential to reduce operating costs and the company hopes it may be able to stabilise this historically volatile market

Because of the R7,8bn Leykam deal, which has added more than one-third to total assets as disclosed in the September 30 1997 balance sheet, the latest financial statements have little relevance to the group as it is now constituted In the circumstances, the lack of supplementary pro forma accounts in the annual report is surprising The historic position does, however, represent the base from which Sappi intends to recover, so the financials as published are worth examining in that context



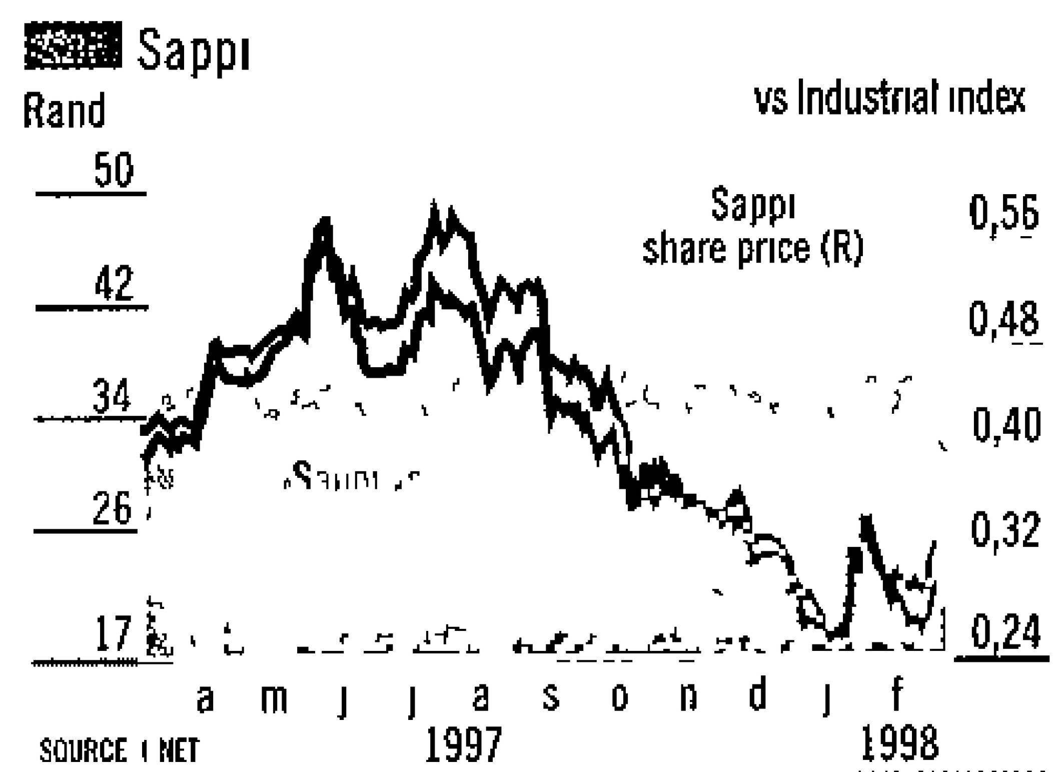
Eugene van As *a disappointing year*

In most respects 1997 was, as executive chairman Eugene van As concedes, disappointing Viewed as a whole, a steep decline in operating margins from 8,3% to 7% put paid to early hopes of improved results Instead, they dipped a further 4% measured in terms of headline EPS despite a 16% rise in rand-denominated sales

The most encouraging aspect on this front was the half-yearly pattern of earnings, which moved from a loss of 19c/share in the second half of 1996 to a positive 54,8c in 1997's first half and then to 132c for the final six-month period — most of the latter having been earned in the last three months, says Van As

Against this, however, are two points One is that the results underline the erratic and largely unpredictable nature of the markets Sappi operates in The other is that as a result of the southeast Asian financial crisis and its effect on pulp and paper prices, some of the gloss has rubbed off the more positive trends indicated in the closing months Consequently, forecasts for the current year have been progressively downgraded to the point where the group is prepared to say only that earnings should improve At one stage, Sappi was confident that they should more than double

Moving to the balance sheet, some progress was made in reducing both borrowings and gearing, though there may not be universal agreement on the extent of either of these improvements The answer depends on how one treats US subsidiary S D Warren's R525m in preferred stock, which, though issued as "equity", has more of the characteristics of debt — fixed-rate "dividends" and a conversion option into debentures Excluding that, Sappi had net borrowings of R8,4bn at September 30 1997 and a debt equity ratio of 85%, down from R8,9bn and 99% respectively in 1996 Including the R525m as debt, the 1997 ratio works out at 96%, down from 112% the previous year



Whichever way it is viewed, few would argue that a 5,7% pre-interest return on net capital employed and a 1,9 times interest cover — both ratios scarcely changed from 1996 — indicate a comfortable financial position Van As says, however, that repayments are scheduled over a number of years, current cash flow is sufficient to meet obligations and there is no short-term cash pressure Nevertheless, investors will probably be far more relaxed once Sappi completes its planned asset disposal programme of up to

- **ACTIVITIES** *Manufactures and sells pulp, paper and wood products internationally*
- **CEO·** *E van As*
- **CAPITAL STRUCTURE** *203,8m ords Market capitalisation R5,3bn*
- **SHARE MARKET** *Price 2 625c Yields 0,0% on dividend, 7,1% on earnings, p e ratio, 14,1, cover, n/a 12-month high, 4 950c, low, 1 800c Trading volume last quarter, 17,34m shares*

Year to September 30	†'95	*'95	'96	'97
ST debt (Rm)	902,4	1 009,6	1 302,9	1 799,5
LT debt (Rm)	7 317,9	7 220,7	8 295,0	7 773,7
Debt equity ratio	1,34	1,09	1,12	0,96
Shareholders' interest	0,35	0,38	0,38	0,40
Int & leasing cover	4,2	4,2	1,7	1,9
Return on cap (%)	4,6	15,6	5,2	4,9
Turnover (Rbn)	7,8	15,9	13,9	16,2
Pre-int profit (Rm)	812,2	2 946,0	1 151,5	1 137,0
Pre-int margin (%)	10,4	18,5	8,3	7,0
Earnings (c)	346,3	1 084,3	195,3	186,8
Dividends (c)	100,0	205,7	140,0	0,0
Tangible NAV (c)	3 730	4 222	4 448	4 372

* 7-month accounting period, annualised
† Year to February

R2,5bn As things stand, that would do nothing more than offset the additional debt taken on in the KNP Leykam deal, which has yet to be reflected in the balance sheet

As regards Sappi shares, one can well understand Van As's statement that the decline in the market price from a high of 4 950c last August to January's low of R18 and the current 2 625c has been "a source of great concern" The company issued R3,5bn worth of equity at a price of 4 385c for the purchase of Leykam (which as a result became Sappi's largest single shareholder at 22%) The question, though, is whether the collapse has been overdone

After 1997's results, the answer must be a qualified "no" At their peak, and based on the average industrial market price earnings ratio, Sappi was discounting 1997 earnings of at least 300c — up 54% on 1996 — which, after a 74% decline in interim EPS, was improbable

Since then, the price has simply adjusted to reality Based on historic results, the current p e prices the share at a modest 8% discount to the market which, it could be argued, is not unreasonable given the risk profile associated with high debt and the volatile nature of the international paper market

Where the qualification comes in, however, is that the present rating does not take into account the recovery potential that undoubtedly exists By the group's own performance targets — which, it must be assumed, Sappi believes it could achieve under normal market conditions — the trading margin (and, consequently, operating profit) would be almost three times the 1997 figure and corresponding EPS, after taking into account the effects of gearing, would be about four times higher

The other point that needs to be considered is that, by the time the Leykam deal was complete, the sellers were already aware that the *de facto* purchase price, based on Sappi's December share price, would be little more than half of what had originally been agreed to That the deal was completed on this basis could be interpreted as a vote of confidence that the previous Leykam shareholders would be at least as well off in the enlarged Sappi, which in turn implies a belief that the initial shrinkage of the purchase price will turn out to be temporary

The market's assessment, as reflected in the current rating, is not inconsistent with this But it represents a wait-and-see attitude which, all things considered, is not unreasonable

Brian Thompson

LTA

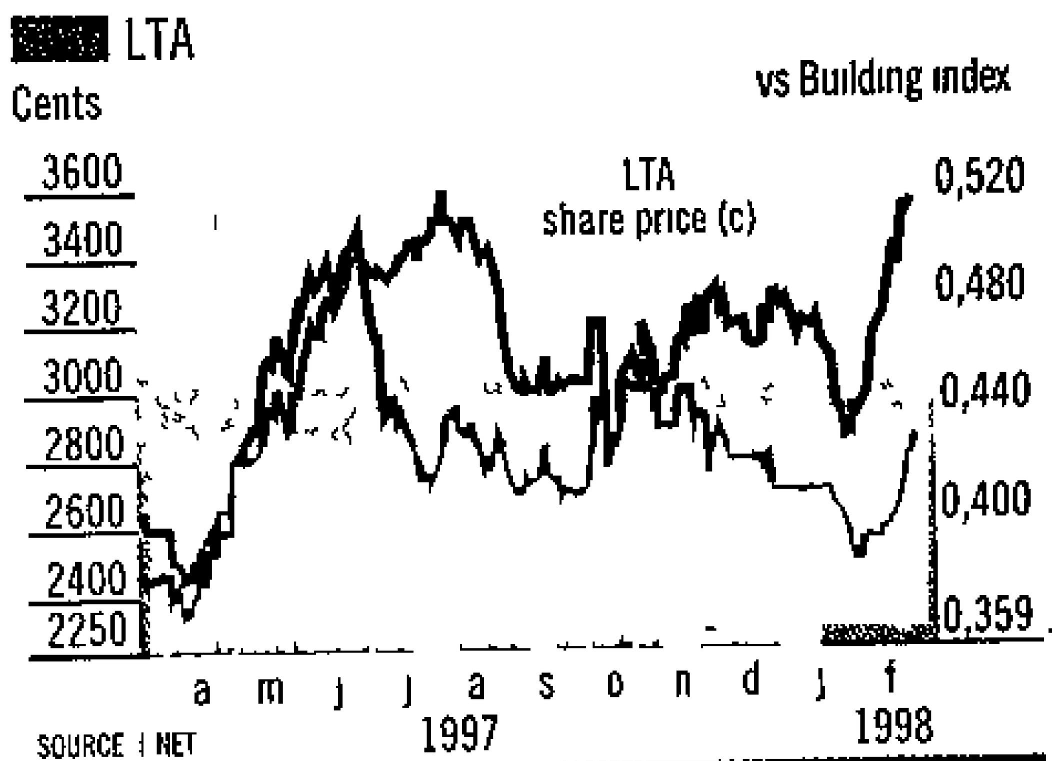
Building up a lead

And digging in up north

For more than a decade now, LTA has been the pink Cadillac convertible of the listed construction companies It has set the pace for its sector and shown the market that it is not always necessary to wait for cyclical upturns to make money in this industry

The company's strength has been its ability to identify its core competencies and to penetrate niche markets abroad This international expansion, in turn, has cushioned LTA from domestic boom and bust cycles MD Colin Campbell writes in the annual report "The success achieved by the group in breaking into markets beyond our borders is due largely to the cautious and focused approach taken when these markets opened up to SA contractors"

Perhaps the group's most successful expansion in a niche market has been into opencast mining, which has involved significant spending on plant and equipment Recently, LTA started mining operations at Sadiola Hill in Mali and was awarded a five-year contract at the Siguiri gold mine in Guinea



During the year, it was decided to separate the opencast mining operation from the Civil & Earthworks division to improve the focus of the operation This brings the total number of operating divisions to six, with the others being Autecon, Building, Civil & Earthworks, Process Engineering and Steeledale

LTA does not give a breakdown of the contributions from each of these divisions to group results Chairman Colin Wood does, however, note that all six met or exceeded their profit forecasts for the year

As a group, LTA posted good gains for the year to December 31 Turnover is R3,36bn, up from R3,02bn The group enhanced these gains by lifting the operating margin from 3,2% to 3,4%, and pre-interest profit came out at R108m (1996 R96,5m)

The company carries a nontrading item of negative R4,9m for goodwill amortised, relating to a number of acquisitions But it managed to exploit its powerful cash position to make interest of R2,7m, and EPS

ACTIVITIES *Owns a group of companies involved in the construction industry*
CONTROL *Amic 46,2%*
CHAIRMAN *C Wood MD C Campbell*
CAPITAL STRUCTURE *28,4m ords Market capitalisation R810m*
SHARE MARKET *Price 2 850c Yields 2,9% on dividend, 8,1% on earnings, p e ratio, 12,3, cover, 2,6 12-month high, 3 600c, low, 2 430c Trading volume last quarter, 1,3m shares*

Year to December 31	'94	'95	'96	'97
ST debt (Rm)	78,7	61,4	36,8	31,2
LT debt (Rm)	19,1	6,6	54,1	64,1
Shareholders' interest	0,21	0,22	0,18	0,19
Return on cap (%)	6,7	7,1	6,6	6,7
Turnover (Rm)	2 346	2 511	3 016	3 356
Pre-int profit (Rm)	61,8	75,3	96,5	108,0
Pre-int margin (%)	2,6	3,0	3,2	3,3
Earnings (c)	133	162	190	214
Dividends (c)	50,0	57,5	68	82
Tangible NAV (c)	671	772	900	1 030

Colin Campbell *penetrating niche markets abroad*

Unions to resist possible job cuts at Mondi mill

CT (BR) 21/1/98 (194)

Ravin Maharaj

Durban — The Paper, Printing, Wood and Allied Workers' Union (Ppwawu) and the National Employees' Trade Union (Netu) would fight feared job losses at Mondi's paper mill in Merebank, south of Durban, in light of restructuring in the pulp and paper industry, union representatives said yesterday

A Ppwawu spokesman said there were fears that about 117 workers could lose their jobs at Mondi as the pulp and paper manufacturer tried to become more cost-competitive, improve efficiencies and prepare itself to become a global player

The spokesman said thus far 44 jobs in a paper stores warehouse — which had been outsourced to Rennies, the warehousing and transport company — would be lost at the end of January

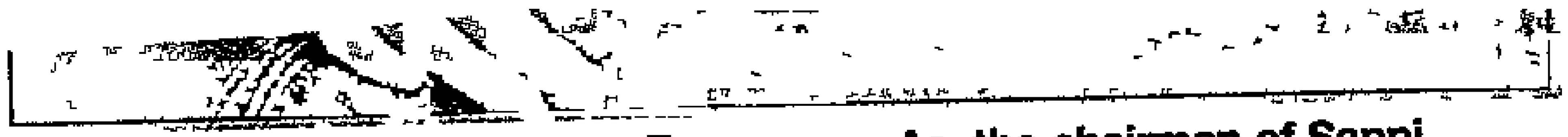
"Both unions have resolved to fight for workers We believe that Mondi is in an excellent financial condition So why should any workers have to go, especially if there are numerous vacancies in the Merebank paper mill? What are the company's intentions?"

The spokesman said further meetings were planned with Mondi to seek clarity on company restructuring

After a five-and-a-half week strike last year over conditions of service, Mondi announced it was to restructure — which could result in retrenchments

John Barton, the general manager of Mondi, said it was an "unfortunate fact" that the business had had to restructure at the cost of human resources

Barton said "Restructuring is, however, not unique to this industry Markets have changed, and there are increasing international pressures We have no choice but to change the shape of the business "



GLOBAL GAMBLER . . . Eugene van As, the chairman of Sappi

Paper producers learn about life in the fast lane

(194)

ST (BT) 25/1/98

THE SA pulp and paper industry has been spared much of the anguish brought about by the country's return to the global economy In contrast with other sectors, where manufacturers face new competition in the wake of a more liberal trade regime, tariff protection has always been relatively low and the industry remains competitive

In spite of this strength, executives in other industries have had little cause to envy paper producers in recent years The persistent volatility in global prices for pulp and paper has dogged the industry worldwide and, in particular, Sappi, SA's biggest producer

As prices plunged last year, Sappi was forced to halt production at many mills and, despite improvements, the company passed its final dividend in the year to September

Mondi, its smaller and more diversified rival, has been less exposed to the commodity cycle An unlisted subsidiary within the Anglo American empire, and thus out of bounds to investors seeking investment in forest products, it has been less closely scrutinised than Sappi That may change if — as managers concede is possible — Mondi's recent forays into international ventures culminate in an international listing Both Sappi and Mondi are well positioned to reap the benefits of firmer commodity prices in 1998 Pulp prices have risen from a low of $380 a ton to about $550, and analysts expect the trend to continue In the interim, both companies have chosen to buy into new markets abroad

Weak prices are not the only reason for the expansion The dominant position of both groups in their key markets and the limited scope for expansion at home, has required international ventures. Although their strategies are radically different, both Sappi and Mondi are emerging from years of isolation to become significant global companies

They have been helped by rich parents — prior to being unbundled in 1993, Sappi was part of Gencor, then controlled by Sanlam That pedigree, combined with robust cash flows from their local market, has given access to capital for acquisitions. But the move offshore has highlighted the many pitfalls of the global industry

Sappi chairman Eugene van As argues the greatest hazard is the proliferation of relative small producers Although global demand is rising steadily, the industry remains highly vulnerable to commodity cycles

"This is a highly fragmented market Consumption is global, but the companies are trying to make all the products rather than focusing," he says

Sappi wants to dominate the market for coated papers, which is growing annually by 6% as consumers — magazine publishers — evolve With the $746-million acquisition last October of KNP Leykam, the Dutch producer, Sappi is now the world's biggest manufacturer of coated wood-free paper

Its three regional subsidiaries in southern Africa, the US and western Europe are wholly owned, with market share of 60%, 26% and 22% respectively

Under the leadership of Van As, the group paid top dollar for its dominant position Acquisitions have left a trail of more than R10-billion in debt, causing Sappi's share price to be downgraded

The acquisition of KNP Leykam follows the $1 4-billion purchase in 1994 of SD Warren, its US subsidiary, near the peak of the last commodity cycle. But Van As says no further acquisitions are in the pipeline He describes his bid for the Dutch company as "the last piece in the jigsaw of Sappi's plans to become a global business by 2000"

The expansion aims to reduce volatility by increasing the influence of the largest producers over the market price "You gamble because the fluctuations in the apparent demand are caused, not by the actual consumption of the product, but by positions taken by various consumers and manufacturers in holding inventory," Van As told the American Forest and Paper Products Association conference in Washington in October

Sappi's acquisitions contrast with those of Mondi, which has followed a course of diversification to reduce total exposure to commodity cycles Its core products are pulp, newsprint, photocopy paper and paper packaging Its international investments are all joint ventures with foreign partners Its most important buy was 12% of Aracrus, the Brazilian group which is the world's largest and lowest-cost producer of bleached eucalyptus pulp Mondi also holds 50% of a joint venture with SCA of Sweden to build a newsprint machine at Alresford in the UK.

Last year it built in its European interests by investing about $200-million in eastern Europe through Anglo's international subsidiary, Mondi Minorco Paper (MMP). MMP acquired control of Swiecie, Poland's largest paper and packaging company, Dunaujavros, the Hungarian pulp producer, and a 19% stake in Syktyvkar of Russia

By contrast with Sappi, where gearing on completion of the KNP Leykam deal, is likely to be above 100%, Mondi carries no debt at its centre. Although average gearing among its subsidiaries is 40%, Mondi has used Anglo American and its associates for funding

The result is a labyrinthine ownership structure, which the group may have to unravel if it opts for a listing That could be significant in resolving Anglo's search for a new corporate structure — *Financial Times*

NE

Unions take on Mondi after mill job losses

(194)

ET(BR) 6/3/98

RAVIN MAHARAJ

Durban — The Paper, Printing, Wood and Allied Workers' Union (Ppwawu) and the National Employees' Trade Union (Netu) would oppose rationalisation measures at Mondi's paper mill near Durban, after 24 job losses already this year, union representatives said yesterday

Mondi, the pulp and paper manufacturer, said it would restructure after a five-and-a-half week strike over conditions of service last year, and retrenchments were possible As part of this process, the company had outsourced its paper stores warehousing operations to Rennies

A Ppwawu spokesman said only 16 of the 44 workers who worked in the paper stores warehouse had been taken on by Rennies, and four of the remaining 28 had been taken on by Mondi This had meant in 24 jobs were lost.

He said there were also fears that another 90 jobs were on the line at Mondi

Sappi kicks off sale of non-core assets

ET (BR) 25/3/98 (194)

JONATHAN ROSENTHAL

Johannesburg — Sappi, the forest products group, has kicked off its sale of non-core assets with the sale of its pressure-sensitive business at Westbrook in Maine (USA) to the Spinnaker Group for R260 million

The sale of non-core assets forms part of a R1 billion debt-reduction exercise announced last year The proceeds will be used to reduce debt at SD Warren, Sappi's US subsidiary

Last November, when Sappi's chairman, Eugene van As, first announced his intention to sell, he said it was a converting business and not directly related to Sappi's core business of paper making

Bill Hewitt, Sappi's financial director, said in a statement yesterday that the profit on the sale was approximately R112 million after tax, or approximately 45 cents a Sappi share

The statement said that Sappi would invite tenders later this month for the sale of Sappi's energy assets in the US These include electricity power generators which are co-located with SD Warren's operations Earlier this month Van As said SD Warren's debt had been reduced to less than $200 million from the $715 million at the time of the acquisition in 1994

"This debt reduction has enabled the group to refinance SD Warren at lower cost and to exercise its earliest call right on some of SD Warren's high cost preferred stock," he said

During the past year the group's debt to equity ratio moved from 99 percent to 85 percent But Van As said that if market conditions did not improve Sappi could increase its selloff by a further R1,5 billion

Sappi shares were unchanged yesterday after gaining 10c to R26,10 on Monday This is well up its year low of R18 in late January

EWS

Mondi to consider Mozambican project

CT (PR) 23/3/98 (194)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Mondi, the forest products company owned by Anglo American Industrial Corporation, is to start its field investigation next month into the viability of a R420 million eucalyptus plantation forestry project in the Sofala province of Mozambique

Mondi said it expected to invest an initial R11,5 million into reconnaissance and detailed soil surveys, an environmental impact assessment, the establishment of a pilot-scale nursery and to develop 400ha of commercial scale trials

If the full project is viable, Mondi hopes to plant clonal eucalyptus over 60 000ha

The company said the project would be abandoned if the environmental impact assessment found that the project would have an unacceptable effect on the environment

John Quy, the general manager of Mondi Forests, said the aim was to produce a sustainable timber offtake, that would be sufficient for future local processing

Quy said the assessment phase would employ between 10 and 50 locals at any time, while 3 000 local jobs would be created if the project went ahead

"Not only will Mozambique benefit from the investment, but due to the labour-intensive nature of commercial afforestation, this project will eventually provide employment to thousands of Mozambicans," he said

Mondi will also help small-scale wood farming by local entrepreneurs in the area Mondi will provide farmers with planting material, technical assistance, finance and a secure market for the mature timber

"Our plan is to provide loan finance close to R16 million for the woodlot forestry programme, which should yield an additional 10 000ha of plantation This programme will commence once the initial pilot phase has been completed in four years time," said Quy retailing is dominated by Nu-Clicks Holdings, the owner of Musica and become the leading African authority in music and entertainment retailing stakes in Sweets from Heaven, Struik and Transworld Publishing

Mondi buys Consol's paper business

(194) CT(BR) 7/4/98

ANN CROTTY

Johannesburg — Mondi, the paper and pulp subsidiary of Anglo American Industrial Corporation, has acquired Consol's paper packaging business for an undisclosed sum in a deal that marks the second disposal of one of Consol's main assets within weeks

Last month Consol's controlling shareholder, Anglo Vaal Industries (AVI), reported that it had disposed of the remaining 40 percent of Consol's rubber division back to Goodyear for a profit of R40 million. The sale of Consol's paper packaging business to Mondi, which is subject to suspensive conditions, will be effective from April 1

Tony Trahar, Mondi's chief executive, would not say how large the merged entity would be in relation to other players in the industry More information would be released if and when the suspensive conditions were met.

In a surprise move late last year, AVI made an offer to Consol minority shareholders in an attempt to buy out the 27 percent of the shares not held by itself or Owens-Illinois, its US-based partner AVI held 64 percent of Consol and Owens-Illinois has 19 percent

The Consol share price had been on a downward spin for some time as a result of weak earnings performances over a sustained period

The disposal of the paper packaging business will increase Consol's emphasis on glass packaging, an area in which it dominates the South African market with an approximate 73 percent holding Analysts attributed part of Consol's problems to the dominant position that it had in the local market.

Management recently announced that it was halfway through a R1 billion capital expenditure programme aimed at turning the group into a world-class competitor by 2000

Sappi eyes Europe and US for growth

(194) BD 6/4/98

GLOBAL paper group Sappi would hunt sales growth in Europe and the US and said that plans for a US stock listing and forecasts for better results this year were on track.

Sappi Southern Africa MD Ian Forbes said Asian exports were unlikely to grow significantly because of financial turmoil there and that the rest of the world would pick up the slack

"We supply the Americas, Europe and the Far East We will increase our sales, year on year, to these markets, except to the Far East which will be maintained at the same levels year on year"

Nonetheless, the group was on track to improve earnings this financial year, Forbes said

Sappi reported a fall in earnings a share to R1,72 in 1997 from R2,30 the previous year

Forbes also said the group planned to list on the New York bourse before the end of its financial year on September 30

"We are in the process of complying with the requirements of listing in terms of stipulations of the US securities and exchange commission," he said

The listing will make the company more visible to foreign investors, particularly in the US, which is the main source of capital for the paper industry.

Turning to sales, Forbes said that the Asian situation was not without hope as clients would need to rebuild their depleted stock levels.

About 1-million tons — representing 44% of Sappi's business — comes from international markets, with Asia making up about 5% of these sales

Europe and the US make up the lion's share of Sappi's international business — 68% — and Forbes said that this contribution would grow to 80% in 1998

Sappi was optimistic its Asian business would pick up, but warned that the damage done to the region's banking industry was hampering recovery, with clients struggling to get letters of credit to support large orders — Reuter.

WS

Sappi in R100m Eastern Cape forestry venture

(194) FORESTRY CT(AR) 17/4/98

NCABA HLOPHE

Johannesburg — Sappi and Magwa Tea, a parastatal that owns land in the Eastern Cape, had agreed to form a joint venture forestry development project estimated to generate turnover close to R100 million over two rotations, Roland Muhl, Sappi KwaZulu Natal and Eastern Cape resource manager, said yesterday

The Magwa community on Wednesday submitted a letter of intent to Sappi which declared their willingness "in principle" to participate in the afforestation project in the Lambasi farms on the Wild Coast

The project is expected to cover some 4 000ha of the farms that would be leased by the community to Sappi for 20 years

However, final agreement has to be reached on the structure of the joint venture company and a complete study of the soil profile on the area.

"The project is based on concepts of empowerment and ownership within the community The afforestation plan will recognise the potential for the project to alleviate poverty and to act as an economic catalyst in the area," Muhl said

The proposed Magwa Tree Farming Company would be 70 percent-owned by Magwa while Sappi would take the rest

Sappi would shoulder the financial costs of setting up the operation and invest over R70 million to realise an estimated R44 million net profit The Magwa communities would provide land and labour

The Magwa Tea company is expected to form a legal structure that would ensure a 50-50 partnership with the local communities, who are the owners of the land

However, a provision would also be made for a profit advance to the communities to sustain them in the interim before the trees mature The deal has been facilitated by the Wild Coast spatial development initiative

SAPPI (194)

Out of the woods

FM 24/4/98

Gearing is not a bogey for buyers

Foreign investors hunting for good long-term blue-chip value have taken the cue from falling international pulp inventories, higher pulp prices and a soaring JSE to pile into "undervalued" — but strongly geared — Sappi shares

In heavy trading Sappi's share price has moved above R30, a 66% recovery from its January low of R18 It has some way to go yet to reach R48, the price at which it was trading last August before the Asian crisis

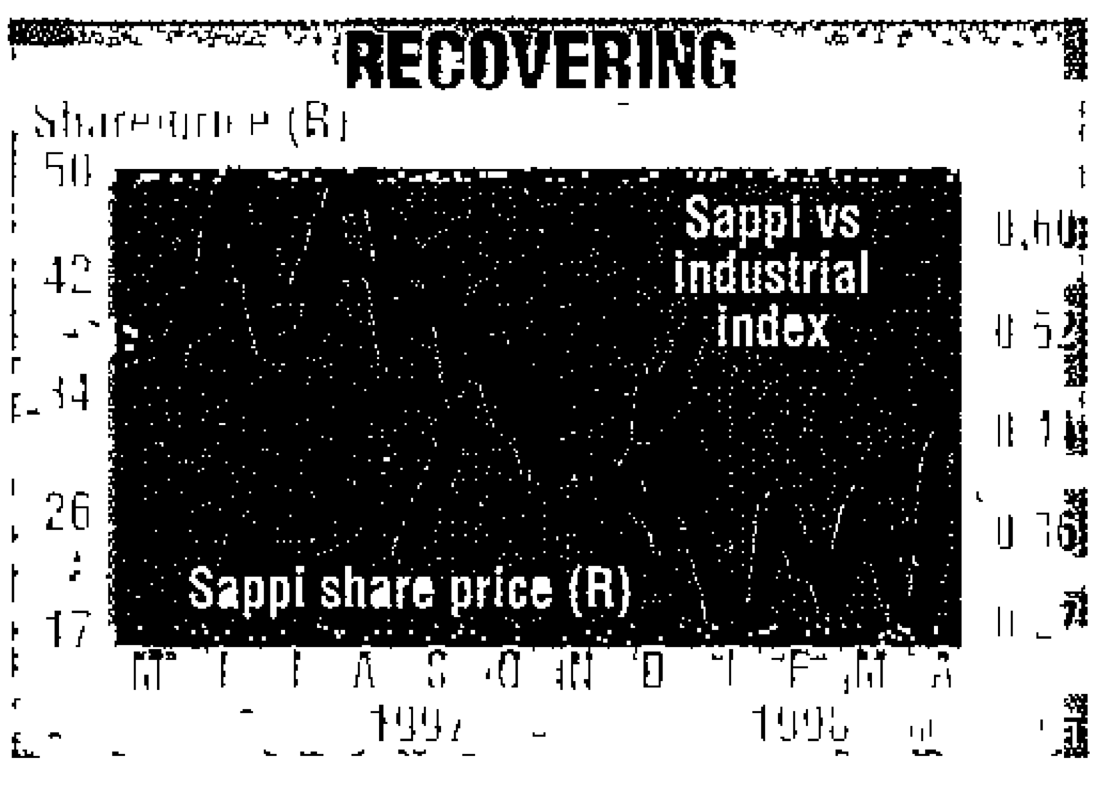
Total group debt is just over R13bn, following last year's R6,2bn acquisition of KNP Leykam, Europe's leading producer of coated wood-free paper The group's debt equity ratio now stands at 112% for 1998

But this hasn't deterred foreign investors

In a recent report, Huysamer Stals investment analyst Nico Lambrechts says that relative to its international competitors "and at 50% of net asset value, the Sappi share is cheap on an historical basis

"Based on a long-term economic value analysis and Sappi's global focus and dominance in the coated wood-free sector, combined with the use of high levels of relatively cheap debt — versus equity — financing, a rerating to one-time net asset value is warranted This fair value is based on its potential to create shareholder value in future "

Obviously, adds Lambrechts, in a bullish market, investors are prepared to pay above fair value



Sappi executive director (finance) Bill Hewitt says that "based on our asset value alone, the Sappi share should be valued at R43-R44 on the JSE — but I trust it will go higher still " And a proper view of Sappi's gearing could also improve investor perceptions

Lambrechts says that, based on historic local market perceptions caused by the exchange control and high real interest regimes — coupled with the cheap cost of equity — the JSE has traditionally rewarded companies for reducing debt on their balance sheets But, he points out, this is "structurally wrong, because employing debt financing brings down the weighted average cost of capital as debt financing is cheaper than equity, while the cost of debt can be offset against tax"

Investors, he argues, need to reward companies for using the optimum amount of debt financing This enhances the potential to create shareholder value by increasing the spread between return and cost of capital "If banks, which enjoy a far higher degree of disclosure from corporates, are prepared to finance a significant portion of the KNP Leykam acquisition, shareholders should be positive "

Also positive is Hewitt's confirmation that Sappi's programme to rid itself of R1bn worth of noncore assets and to reduce gearing in the current financial year is on track "We're mostly looking at SD Warren-owned North American assets and are confident of achieving our sell-off target this year " And, as Sappi executive chairman Eugene van As said in his 1997 chairman's statement, Sappi's debt is carefully structured Repayments are scheduled over a number of years and there is no short-term cash pressure on the group

On this Lambrechts says in his report "After-tax cost of debt financing is significantly cheaper than equity financing, and in a capital intensive and cyclical business such as the paper industry, significant upside gearing can be achieved for shareholders " He expects a recovery in the share despite a weak upswing in the pulp cycle, peaking at around US$650/t by year-end He believes the share warrants a rerating up to a conservative fair value of R35, and momentum buyers might push it to R40

In his 1997 statement, Van As confirmed that the group is restructuring its Fine Paper business as a separate unit to be managed out of London Following the KNP Leykam acquisition, 70% of the group's fixed assets and 85% of turnover are located outside SA

Lambrechts's view is "The main reason for unlocking this potential 35% additional value by a separate overseas listing of the fine papers division is that SA's country risk premium and higher market risk premium are included in the weighted average cost of capital when valuing the foreign assets housed in locally listed Sappi The foreign assets are valued using SA discount rates, which include higher risk premiums Therefore, if the foreign assets are listed abroad and foreign investors value the assets using their discount rates, significant value can be unlocked "

Hewitt says the listing option has always been a possibility but "it will not happen for a couple of years Meanwhile, our US listing plans for Sappi Ltd are going ahead and the share should be listed on the New York Stock Exchange boards by the third quarter of this year While this is not aimed at obtaining equity funding, it should open the door to growing US investor interest "

Arnold van Huyssteen

Sappi and Mondi face allegations of abuse

(194)

THABO LESHILO
BUSINESS EDITOR

CT(BR) 28/4/98

Johannesburg — Mondi and Sappi, the two main paper manufacturers, have been accused of anti-competitive behaviour, discriminating against small paper retailers and abusing the country's anti-dumping measures

Michael Bunting, the director of Randburg-based Atlantic Paper Supplies, complained to the Competition Board last week about the companies' alleged monopolistic conduct He accused Sappi and Mondi of charging small businesses exorbitant prices on unfair terms, forcing his company to import photocopy paper from Brazil He said the companies then asked the government to slap punitive tariffs against Ripasa Celulose e Papel, its Brazilian supplier, thus shutting its supply source

Paper merchants estimate that 80 000 tons of photocopy paper with a retail value of more than R500 million are consumed in South Africa each year

Bunting said Sappi and Mondi used "the anti-dumping action to further their discriminatory trade practices The anti-dumping application (by Sappi and supported by Mondi) simply serves to shut out Atlantic's supply source while they totally discriminate against us"

Pierre Brooks, the chairman of the Competition Board, said "Whether these people are abusing their dominant position or using their bona fide rights is not an easy question"

Brooks said it was really a matter of international trade, which fell under the jurisdiction of the Board on Tariffs and Trade

Johan Human, the director of dumping investigations at the Board on Tariffs and Trade, would not discuss its action

Sappi is expected to respond to the allegations today, and Mondi had not responded by the time of going to press

Paper dumping allegations investigated

(194) BD 29/4/98

Mzwandile Jacks

INVESTIGATIONS have been launched into allegations that uncoated paper from Brazil and Indonesia is being dumped on the Southern African Customs Union markets

The investigations follow paper manufacturer Sappi's complaints to the Board on Tariffs and Trade Sappi said the dumped paper imports were, among other things, depressing local selling prices

The investigations come at a time when accusations of monopolistic practices are being levelled against Sappi and Mondi

The companies have been accused of charging exorbitant prices, forcing smaller companies to import products such as photocopy paper from Brazil

In its complaint to the board, Sappi said it could not compete with the low prices charged by the small importers The board said Sappi had submitted sufficient evidence to enable it to initiate an investigation on dumping

"The petitioner submitted sufficient evidence to show that the dumped imports are depressing selling prices and are gaining market share at the expense of Southern African Customs Union manufacturers," the board's Michael Andrews said

"The petitioner also provided evidence that the prices at which these imports are sold in SA undercut the already depressed prices of the SA producers, resulting in lower profit margins being incurred by the petitioner"

To obtain necessary information for investigations, the board has sent questionnaires to all known importers, exporters and representative associations.

Michael Bunting, director of the Randburg-based company Atlantic Paper Supplies, said as long as big companies were dominating the industry, there would be no opportunities for independent companies

"This is dangerous because economic imbalances of the past cannot be redressed We need a situation where bigger companies will support smaller ones," he said Bunting complained last week to the competition board, saying big paper manufacturers were monopolising the industry

CT(MR) 29/4/98

Sappi and Mondi reject accusations

THABO LESHILO (194) (~~292~~)

BUSINESS EDITOR

Johannesburg — Sappi and Mondi, the two paper manufacturers, yesterday defended themselves against accusations of monopolistic behaviour, discriminating against small retailers and abusing anti-dumping regulations

The allegations were made by Michael Bunting, the director of Randburg-based Atlantic Paper Supplies.

Bunting said the two charged unreasonable prices on unfair terms, forcing him to import A4 photocopy paper, then shut his supply source by complaining to the government that Atlantic's Brazilian supplier was dumping paper on the local market.

Albert Lubbe, the managing director of Sappi Fine Paper, said his company had explained its trading policy to Atlantic Paper Supplies in terms of pricing and minimum quantity levels

He said Sappi had evidence that Brazil and Indonesia were in fact dumping.

"The Board of Tariffs and Trade had itself indicated in the Government Gazette last week that there was enough evidence to justify an investigation of alleged dumping," said Lubbe

John Barton, the general manager of Mondi Paper, said the company would supply paper to any company, including Atlantic Paper Supplies, "on the same terms and conditions as prevail with any of its current South African customers or merchants

"Taking into account volumes, product range and the financial risk involved, we are more than happy to do so, and have already conveyed this to Atlantic Paper Supplies," Barton said

He said local production of uncoated woodfree papers, including A4 photocopy paper, was more than adequate to meet South African needs

Nampak still upbeat on earnings prospects

ET (BR) 26/5/98 (194)

Lucia Mutikani

Johannesburg — Nampak, the packaging group, would increase earnings by more than 5 percent this year, Trevor Evans, the group managing director, said yesterday Although trading conditions remained tough, Nampak aimed to report real earnings growth

"We expect earnings for the full year to remain under pressure," Evans said "However, growth in earnings will be more than inflation more than 5 percent."

Nampak last week reported a marginal 3 percent increase in headline first-half earnings a share to 57,6c The dividend was at 14,8c from 14,4c

"The situation in the packaging industry is tough at the moment," Evans said "Consumer demand is at a very low level and we are sitting with a lot of spare capacity"

He said with the opening of the South African economy in 1994 following the first all-race elections, many companies invested huge amounts in modern equipment to produce high-quality products

"Because of these investments, we now have spare capacity, and consumer demand has been lower in the past three years than the industry anticipated

"We have also realised that we have powerful customers who are aware what world prices are, and who are putting pressure on the industry for world prices"

Evans said the group had been working hard to reduce costs and rationalise operations and had spent about R26 million in the first half of this financial year on retrenchments

"Retrenchment costs for the second half of the year will be significantly lower," said Evans

He said the industry had hoped that sluggish economic growth would pick up after annual gross domestic product growth slowed to 1,7 percent last year from 3,2 percent in 1996

The economy is expected to grow by about 2 percent this year Analysts expect an improvement in fortunes for the industry next year with the demutualisation of the country's largest insurance companies — Old Mutual and Sanlam — which is expected to inject money into the economy

The share prices of several packaging companies have risen ahead of the demutualisation on hopes of further interest rate cuts later this year

"The debate is what the economy will do," said Evans "If it does nothing we will have to look aggressively at other African and international opportunities

"Fundamentally, Nampak is in good shape We will have cash in the bank and no borrowings at the end of the year We are in a strong position to capitalise on any opportunities that might arise in the industry"

At March 31 Nampak's gearing stood at 3,8 percent compared with 13,2 percent for the same period last year

Nampak fell 85c on the JSE yesterday to R19,15 — Reuters

Sappi headline earnings up as it grows in global market

(194)

Mzwandile Jacks

GLOBAL paper group Sappi lifted headline earnings to R538,4m for the six months to March from R83,6m a year earlier as consumption of the group's paper products showed steady growth and prices in Europe improved

Headline earnings a share increased to 201c from 42c

The inclusion of the three months' trading from KNP Leykam contributed 41c to this performance It was expected to contribute more than R2 a share to earnings by 2000

Late last year Sappi acquired in a R3,5bn deal, a 91,5% interest in KNP Leykam, a leading producer of coated wood-free paper from Dutch group NV Koninklijke KNP BT

This positioned Sappi as the world's largest producer of coated wood-free paper, holding a 26% market share in the US, 22% in European markets and 60% in southern Africa

Executive chairman Eugene van As said the group was aiming at disposing some of its noncore assets in the US, Europe and SA. "The indication of interest we have had for many of these assets makes us confident of realising about R2bn worth of sales by December this year," he said.

The level of foreign interest in the company has increased with foreign investors owning about 45% of the total stock in the group.

Net income for the period in review went up R430,1m (R31,0m) while operating income rose 90,2% to R1,05bn.

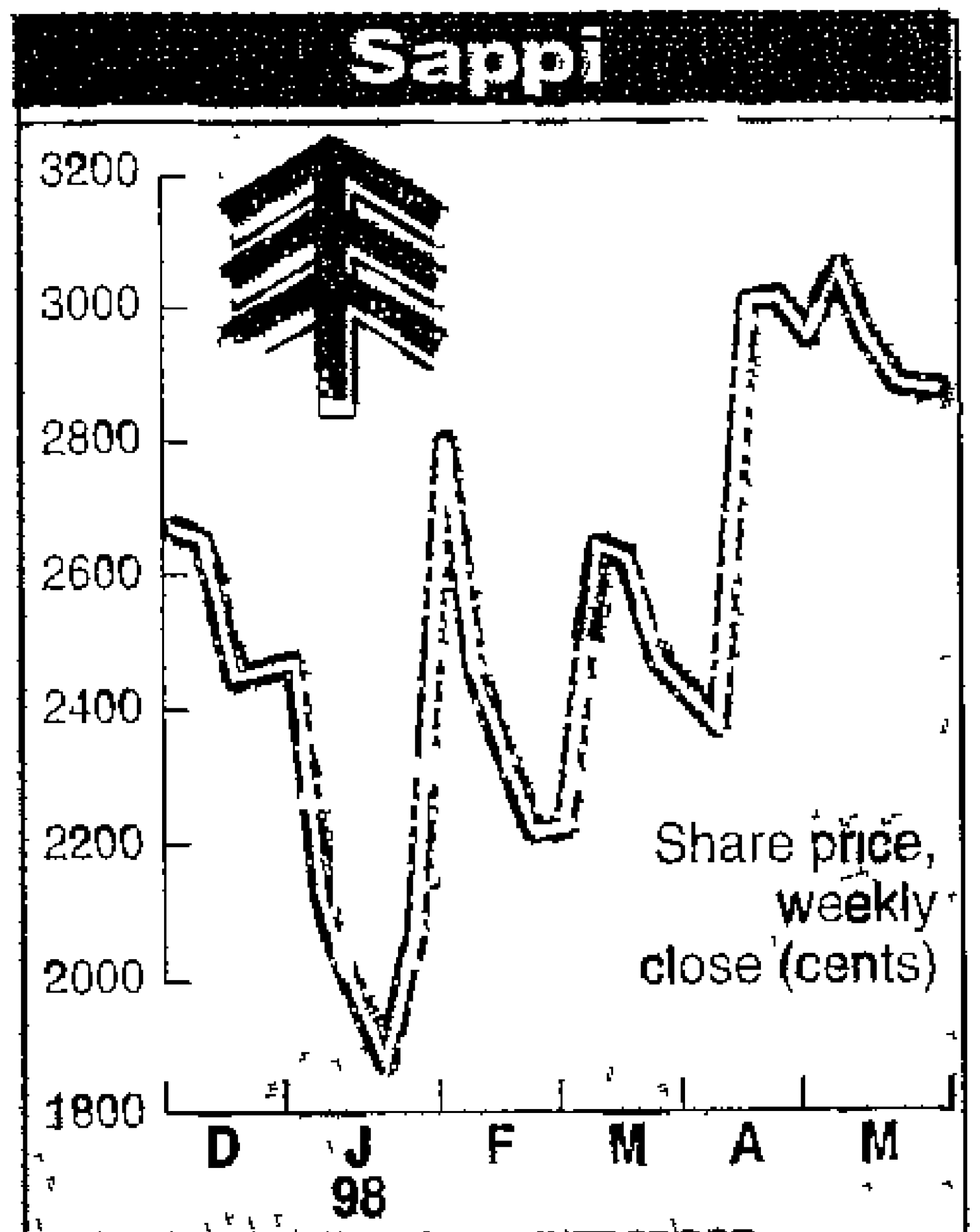
Van As said the group planned to resume dividend payment for the current financial year, but in view of the market volatility, Sappi would, in future, consider only annual payments.

"The demand for paper products has been steady throughout the period with selling prices holding at the levels achieved in the preceding financial year, which shows some price recovery particularly in Europe.

"However, pulp markets have softened following the economic turmoil in the Far East. This severely affected the dissolving and unbleached pulp operations in southern Africa which sell a large portion of their output in Asia.

"The production volumes increased to meet the paper demand, but the Asian situation caused the curtailment of dissolving and unbleached pulp production in southern Africa"

He said Sappi would list on the New York Stock Exchange in the second half of this year. The Johannesburg-based group was recently restructured into two main operating entities — London-managed Sappi Fine Paper, responsible for the global business, and Johannesburg-managed Sappi Forest Products, covering the pulp and commodity interests.



Graphic. KUBEN DAVID Source. INET-BRIDGE

BD 27/5/98

Morgan Stanley investment bank reports on paper and forest products industry

Sappi may be undervalued

CTlon) 11/6/98 (194)

JAMES LAMONT

Johannesburg — The share price of Sappi, the international paper and pulp producer, could be worth up to four times its current value, Morgan Stanley, the US-based investment bank, said in a report that was released last week on the paper and forest products industry

The report made this calculation on the basis that Sappi was trading at an 80 percent discount to the market and that the share price was R29,40 on a p-e ratio of 4,6.

The brokerage recommended that paper firms worldwide trade at a 20 percent discount to the overall market.

The Sappi share price has slipped since it announced better-than-expected interim results last month Despite difficult market conditions and a soft pulp market, Sappi reported earnings a share before exceptional items of 201c for the six months to March 1998 from 42c in the previous period.

The share closed at R26 yesterday, 50c down on the day. It hit an annual high in early May of R34 a share, having slumped to a year low of R18 in January

About 45 percent of Sappi is owned by foreign investors. The company plans to list on the New York stock exchange in August to broaden its investor base.

Eugene van As, the chairman of Sappi, said: "Sappi is a little big for the local market. Our size relative to the market in this sector is too large."

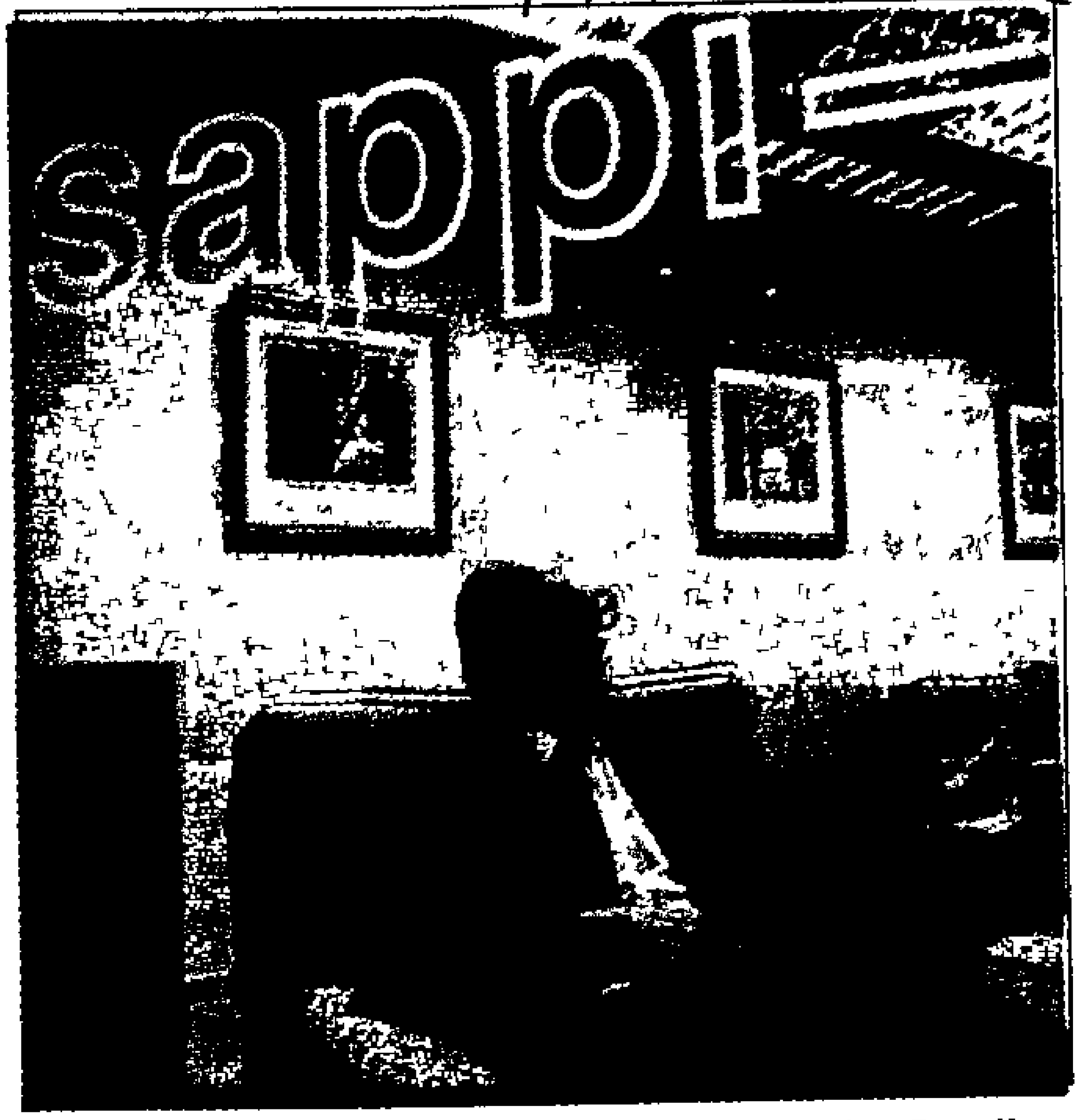
Morgan Stanley expected investors to take paper stocks to new highs later this year. It said pulp markets appeared to be in the earliest stages of recovery, the Asian financial crisis was resolving itself faster than expected and the US and European economies were showing good economic growth prospects.

It also expected improved inventories and a better capacity outlook to 1999-2000

"Investors are likely to continue to revalue the paper stocks in anticipation of further consolidation and rationalisation."

"Our view is that the earnings shortfall in the second quarter may lead to some near-term weakness in the share prices, but the stocks have not seen their highs for the year

"The next rise in commodity prices and earnings may already be taking shape, with pulp prices just beginning to firm and announced newsprint and linerboard price hikes likely to hold moving through the second quarter."



BROAD HORIZONS *Eugene van As believes that Sappi's size, relative to the local market, is too large* PHOTO: JOHN WOODROOF

Mondi invests in packaging

(194)

Mzwandile Jacks

PAPER group Mondi has purchased Consol's corrugated carton and Interpak packaging businesses, which have an annual turnover of about R550m, for an undisclosed amount.

Mondi CEO Tony Trahar said "These will complement the cartonboard and Kraft divisions of Mondi in SA, which produce Kraft linerboard, fluted and cartonboard products for the local packaging industry."

Mondi, which is owned by Anglo American Industrial Corporation, produces more than 500 000 tons of packaging paper a year, supplying customers throughout southern Africa.

Trahar said that although the SA packaging industry was experiencing reduced demand in line with the recessionary economic conditions and the prevailing high interest rates, Mondi believed packaging would resume its long-term growth trend when the economy recovered.

Mondi Minorco Paper, in which Mondi holds a 20% interest, continues to expand in the European packaging sector through its interests in the Frantschach group, Europe's largest producer of paper and board for the carton industry, and Swiecie in Poland.

Mondi MD Derrick Minnie has been appointed chairman of Consol's packaging businesses with immediate effect

BD 7/7/98

VI

Foreign ownership of Sappi rises above 50%

(194) CT (BR) 16/7/98

Thabo Leshilo
Business Editor

Johannesburg — Sappi, the pulp and paper company, is now more than 50 percent owned by non-residents after a 5 million share swap for R140 million on Tuesday

Bill Hewitt, the finance director, said the move would help reflect the geographic split of Sappi's business

"Sappi's target was to reach 65 percent in foreign shareholding in the medium term, and we expected to pass the 50 percent milestone only next year."

The group plans to list on the New York stock exchange next month It had 220 million shares in issue in May

Hewitt said the increased foreign ownership would make it easier to raise money in overseas share markets, where most of Sappi's assets resided.

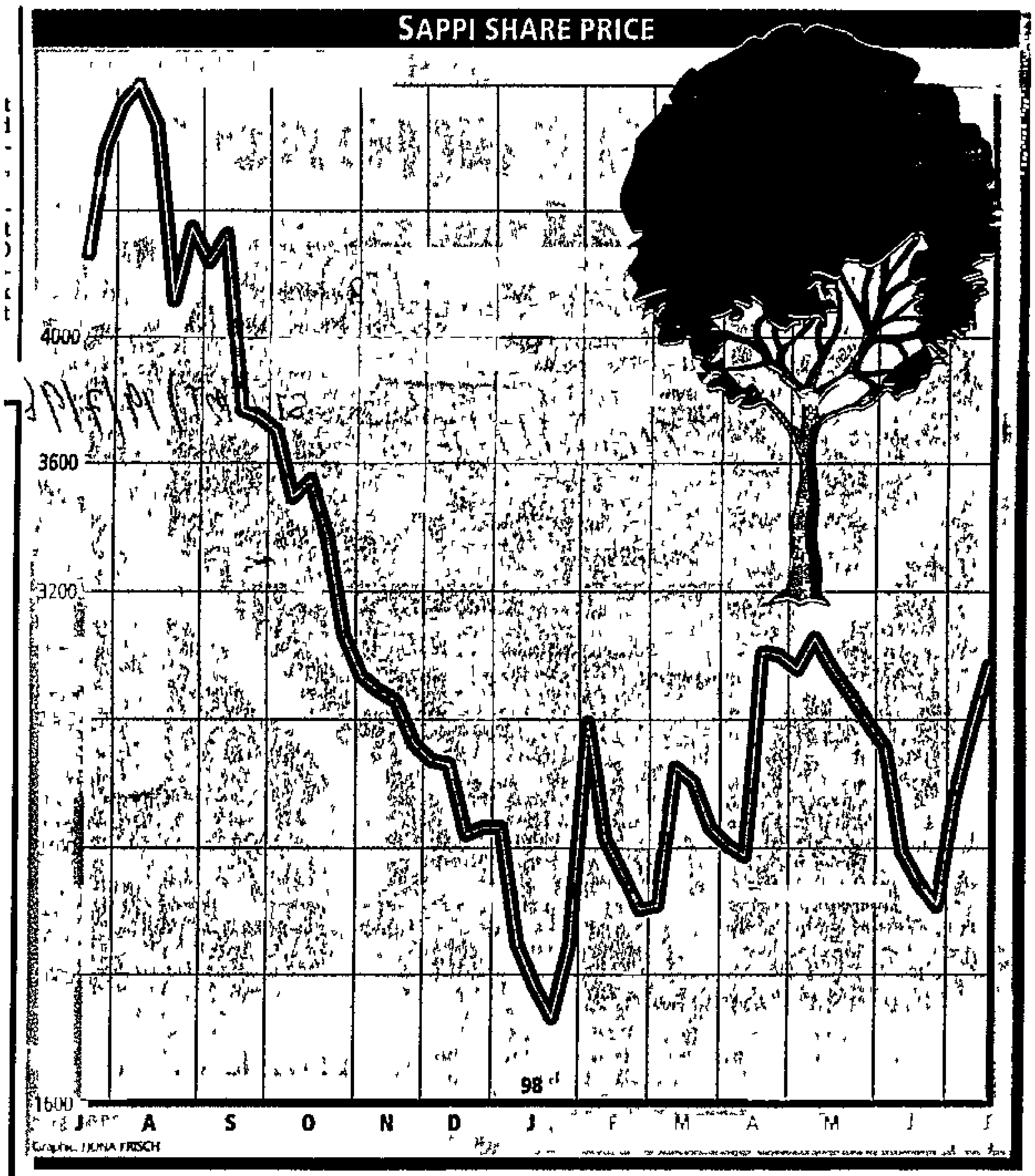
Its manufacturing facilities span three continents and its paper is sold in more than 70 countries It sells 85 percent of its pulp and paper overseas, including about $500 million worth to the US Half of its 24 000 employees are abroad.

An analyst said the share swap indicated more interest in Sappi overseas than locally The share was "too cheap" at its present price and should be selling at more than R40

"It is no longer heavily exposed to the commodity side of the paper business and 70 percent of its earnings now come from its coated fine paper business," the analyst said

Sappi had also spent a lot of money rationalising and improving production at its offshore companies, making it a fairly low-cost producer The fall in the rand would also boost earnings

The share closed unchanged at R28 yesterday on a volume of 182 564 shares Its high was R28,25 and its low R27,40



Sappi's assets not all in price, say offshore buffs

(194)

The group's value as a rand-hedge stock seems to have escaped the local market, writes MARCIA KLEIN

ST(BT) 19/7/98

WITH 50% of its shareholding, 85% of its turnover and 70% of its assets now foreign, Sappi clearly ranks as a major rand-hedge stock

But the global pulp and paper group, which plans to list in New York later this year to add to its Johannesburg, London, Paris and Frankfurt listings, seems to be attracting more attention overseas than it is on the local market

While many local analysts consider it a cyclical stock before a rand hedge, there is definite interest in the share from overseas

Sappi said this week that a 5-million share asset swap had pushed its foreign shareholding to more than 50%, up from just over 20% at the end of last year

Finance director Bill Hewitt said in a statement that Sappi had expected to pass 50% only next year, and has targeted 65% in the medium term Over 25-million Sappi shares were bought by non-residents in the past four months

"It makes sense that the shareholding should more accurately reflect the geographic split of the business," Hewitt said

Sappi is by any standard international About 85% of its sales (R16 2-billion at the September year-end) are in foreign currency, including $500-million of exports from SA. Over 70% of its assets are outside SA and 50% of the 24 000 employees work outside SA.

Sappi strategic development director Robert Hope says he believes there is a certain amount of indifference in the local market because Sappi is the only listed paper stock in the country, "making it difficult to judge us against our peer group"

The share was trading at R29.50 this week, having retraced some of its losses since hitting a low of R18 The share was at a R49 50 high in August last year

Lack of enthusiasm for the counter locally — although it has picked up since the dramatic drop in the exchange rate — is countered by some signs of interest from overseas Recently US investment bank Morgan Stanley said in a report that Sappi could be worth up to four times its current value and it recommended a target share price of R45

A report in the Wall Street Journal earlier this month said paper and wood products companies would post improved second quarter earnings on the back of continued increases in demand and prices But it said there could be oversupply in some products because of the economic downturn in Asia. The paper cycle is recovering after hitting the bottom last year

And in a recent Forbes investment guide, which asked some international asset managers for their five favourite global stocks, Bernard Horn, owner of Boston-based Polaris Global Capital Management, rated Sappi his top pick. Other asset managers' top picks included Dow Chemical, IBM, Travelers Group, Daimler-Benz

Hope says of the 85% of turnover which comes from foreign currency, about $500-million a year is from exports out of SA. The rand exchange rate has a dramatic effect on Sappi If the rand moves from R5 to the dollar to R6, the effect is R500-million a year, just on exports

Then there is the added effect of the translation of foreign earnings "And the thing which never comes in on a profit level is the value of our foreign net assets "

Sappi's results are showing the beginning of a turnaround in the paper cycle In the six months to March, it lifted headline earnings to R538 4-million from R83 6-million in the previous year on the back of better consumption and prices The results include three months' trading of Dutch/Austrian coated woodfree paper producer KNP Leykam, in which Sappi acquired a 91 5% interest in a R7 8-billion deal, one which made Sappi the largest producer of coated wood-free paper with a 26% share in the US, 22% in Europe and 60% in southern Africa The KNP stake was bought from Dutch group KNP BT, which now has the biggest foreign stake in Sappi, owning just under 20% of its equity.

Sappi has been restructured into two main operating entities — the global business managed through London-based Sappi Fine Paper and pulp and commodity interest through Sappi Forest Products

Mondi plans R550m upgrade

ET (MR) 4/8/98 (194)

Shirley Jones
KWA ZULU NATAL EDITOR

Durban — Mondi, the integrated forest products subsidiary of Anglo American Industrial Corporation, announced yesterday a R550 million upgrade at its Mondi Kraft pulp and linerboard mill in Richards Bay

Tony Trahar, Mondi's executive chairman, said the project, due for completion in September 1999, would boost the mill's foreign exchange earnings by about R215 million a year

"It is being financed from Mondi's own cash resources and borrowing facilities and will create jobs at a time when the country sorely needs economic impetus," Trahar said "We expect that 300 people will be employed during construction"

Although the expansion will not create additional jobs at the mill, it will secure at least 1 000 jobs on Mondi's plantations, which will provide an additional 300 000 tons of softwood or pine logs and 100 000 tons of hardwood or eucalyptus a year for increased production at Richards Bay

Derrick Minnie, Mondi's managing director, said the majority of raw material supplies would come from KwaZulu Natal, necessitating significant strategic rather than capital investments

Although raw materials could also be brought in from the north, the KwaZulu Natal alternative was the more cost effective, Minnie said

Trahar added that world markets had become very demanding when it came to consumer goods packaging

The upgrade's focus was on Baywhite, a white, top-kraft linerboard that had been a major export success for Mondi over the past 10 years The company exports more than 100 000 tons to Europe and Latin America a year

"Mondi benchmarks its products against the best in the world," Trahar said, "The upgrading will also enable us to increase export market share"

Mondi to increase output of Richards Bay mill

Mzwandile Jacks

PULP and paper manufacturer Mondi is investing R550m to upgrade and increase the output of the PM2 paper machine at the Mondi Kraft pulp and linerboard mill in Richards Bay.

Mondi said yesterday projections indicated that the upgrading, which would be completed in September next year, would boost the mill's foreign exchange earnings from exports by about R215m a year.

MD Derrick Minnie said the project would sustain 1 000 jobs and create 300 new jobs during construction. "This is not a new machine. We are rebuilding this machine so we can compete with other countries, maintaining the niche market we have created."

Mondi, an Anglo American Industrial Corporation subsidiary, is a fully integrated forest products company that supplies pulp, paper, board and

Continued on Page 2

(194) PN 4/8/98

Mondi

BD 4/8/98

Continued from Page 1

solid wood products to world markets.

Chairman Tony Trahar said that the project was being financed from Mondi's own cash resources and borrowing facilities.

Its forestry operations would provide additional pine and eucalyptus logs for the increased production.

The focus of the upgrading project is on Baywhite, a white top kraft linerboard used in consumer packaging applications which has been a major export success for Mondi.

The project is the second phase of an overall investment programme to optimise the Richards Bay mill. The first phase, involving an investment of R128m to increase pulp production, was completed in 1996.

Numsa members march on Nampak office

(194) BD 18/8/98

Pearl Sebolao

HUNDREDS of National Union of Metalworkers of SA (Numsa) members marched to the Nampak head office in Sandton yesterday in support of their demands for higher wages

The union, which declared a dispute with the company after negotiations deadlocked last month, threatened that its 4 000 members at Nampak plants throughout the country would go on strike if management did not respond to its demands.

Workers are demanding a 10% across-the-board increase for the lower grades and 8% for artisans, while Nampak is offering 7%

Numsa spokesman Osborne Galeni said, however, that the union would wait for management's response to the memorandum delivered by the workers yesterday before deciding on what action to take.

"If they do not respond we will go on strike," Galeni said

Nampak group human resources manager Sipho Ngidi said the company was giving its attention to the memorandum and would respond to it in due course

Meanwhile, the strike by members of the Entertainment, Catering, Commercial and Allied Workers Union of SA at CNA stores entered its fifth day today

The union announced plans yesterday for an "aggressive picketing campaign" outside all CNA stores to force management to accede to the workers' demand for an R250 increase backdated to the beginning of May, as well as a 25% discount on sale goods at CNA stores and a 13th cheque

CNA and the union met until late yesterday in an effort to resolve the dispute

Both parties were confident that the matter would be resolved and a settlement reached

PACKAGING *'Other factors might prevent price increases'*

Competition Board to investigate Nampak

CT(BR) 24/8/98 (194)

ROY COKAYNE

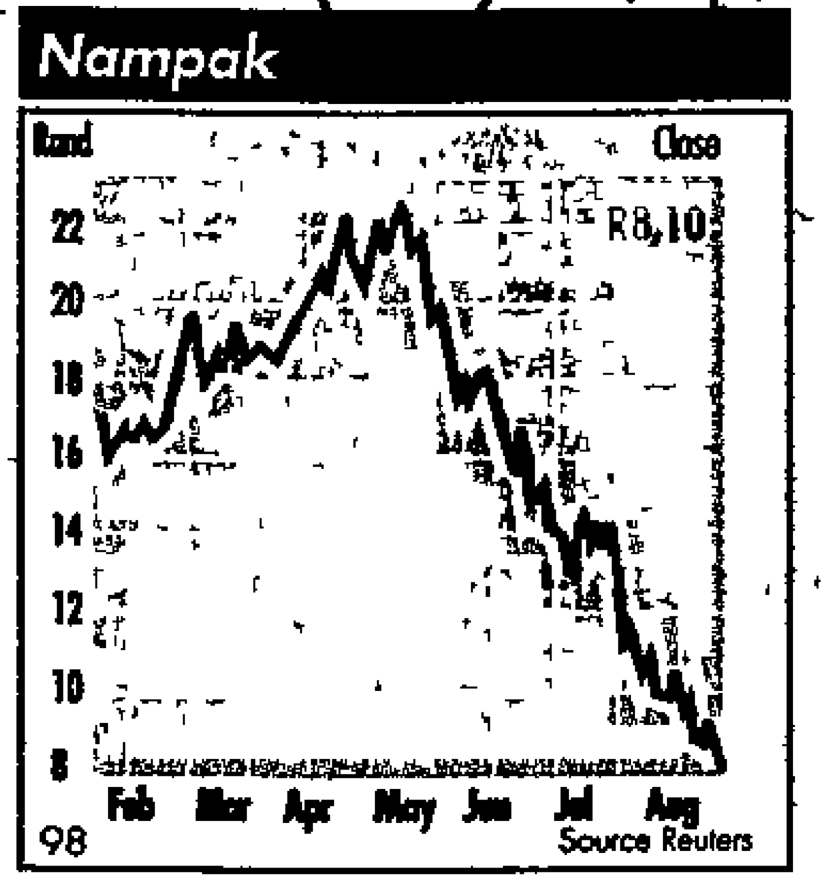
Pretoria — The Competition Board has launched an investigation into the proposed acquisition by Nampak, the packaging group, of Crown Cork & Seal of the US, and the merger of their South African metal packaging businesses into a new company under Nampak's control.

Notice of the investigation was published in the Government Gazette on Friday.

Pierre Brooks, the chairman of the Competition Board, said at the weekend that Nampak and Crown Cork & Seal were the two major companies in South Africa involved in the marketing of bottletops.

Brooks said the essential issue was whether the acquisition would result in restriction of competition.

But he said the board would have to investigate whether there were countervailing factors that would balance this out to prevent



any unreasonable increases in prices after the proposed merger.

He said the fact that the merged company would have a dominant position in the market was not necessarily the deciding factor, because on the other side there were companies, such as South African Breweries (SAB) and Coca Cola, which meant the merged company would not be able to "run away with prices".

But Brooks said the board needed to consider this and canvass interested parties.

Brian Connelan, the chairman of Nampak, said he could not comment on the transaction because of a confidentiality clause.

He said the companies also needed to reserve their position in case the transaction did not go through.

A cautionary announcement published by Nampak this month said agreement in principle had been reached with Crown Cork & Seal, in terms of which the companies would merge their metal packaging businesses in South Africa "to achieve world class standards and meet international competition".

The formal investigation of the transaction by the Competition Board must be completed and presented to Alec Erwin, the trade and industry minister, within the next three months. Nampak closed unchanged on Friday at R8,10

Sappi launches new scheme in Swaziland

(194)

James Hall BD 25/8/98

MBABANE — SA forestry products conglomerate Sappi has expanded its operations in Swaziland with the launch of a R238m pulp digester and a forestry empowerment scheme to bring local farmers into the commercial tree-growing industry.

The pulp digester is Sappi's largest investment yet in its Swaziland subsidiary, Sappi Usutu Pulp Company, and was recently inaugurated by King Mswati. He also launched a plan to bring local farmers into the commercial tree-growing industry for the first time since forestry was introduced in the kingdom 50 years ago. Until recently, Swaziland boasted the world's largest man-made forest to furnish the timber and pulp which is the kingdom's second largest export.

The 54m tall pulp digester will allow Sappi Usutu Pulp to increase its output from 180 000 to 220 000 tons a year. Additional export earnings are potentially R100m annually. "We are dressed up and ready to go," Sappi chairman Ian Forbes said.

"Unfortunately, the market is not as robust as before."

About 90% of the company's pulp is sold to southeast Asia, where economic doldrums have reduced orders.

Forbes said Sappi Usutu Pulp was the world's second largest producer of unbleached kraft wood pulp, used to make cement bags, crepe paper and car filter systems. Assisted by low-cost production and a weaker rand, the company seeks industry pre-eminence.

Coinciding with Sappi's investment in its Swaziland subsidiary is a commitment to sponsor the Tiphilise Ngelihlatsi empowerment project.

The project is similar to an SA scheme which has seen 7 200 private growers in the past 10 years, largely concentrated in KwaZulu-Natal, enter the forestry industry.

Swazi farmers with land which is unproductive, from as small as one acre will receive saplings, capitalisation and a guaranteed market for their timber when the pines reach maturity in 16 to 18 years. In the interim, Sappi will provide cash flow.

King Mswati applauded the initiative, calling the nation's forest "the renewable mines of Swaziland".

'Undervalued' Sappi to list in New York next month

(194) CT (BR) 23/10/98

Jonathan Rosenthal

Johannesburg — After missing the transatlantic flight to New York twice over the past year, Sappi is to list on the New York Stock Exchange (NYSE) on November 5

But the pulp and paper group said yesterday it would retain its primary listing on the JSE.

Sappi will become the second South African company listed on the NYSE after Anglogold's move last month.

Eugene van As, the executive chairman, said the group would not raise new capital at the time of listing.

In terms of the listing, Sappi will have to comply with the US's generally accepted accounting principles Under these rules, the restated earnings were less than a quarter of those reported under local rules for the past financial year.

Analysts, however, said this information was already known by institutional investors and should not negatively affect the share price

Sappi told shareholders in a letter that full-year earnings for 1996 would have come in at 113c a share, and not the 230c a share as reported by Sappi. Last year's earnings would have come in at 41c a share, less than a quarter of Sappi's reported 172c a share First-half earnings for the current year would, however, have been 1c higher at 162c a share.

Van As told shareholders that the changes related largely to the timing of when income was recognised for accounting purposes

"The real issue is what is this listing going to do for Sappi ... The main reason behind it is to try as far as possible to get foreigners involved in setting Sappi's price because it is frightfully undervalued in comparison with US and European stocks," one analyst said

Over the past few months several leading US investment analysts have valued Sappi shares up to around R45 a share and have described it as among the cheapest large paper and pulp companies in the world Yesterday its shares gained 20c to R22,70

Sappi confirms listing in US

Sowetan 29/10/98 (194)

PAPER group Sappi confirmed yesterday that it would list on the New York Stock Exchange (NYSE) on November 5

The move will make the company – whose shares are also traded in London, Paris and Frankfurt – the second South African company to be listed on the world's biggest bourse after gold producer Anglo Cold

Chairman Eugene van As said the company's primary listing would, however, remain on the Johannesburg Stock Exchange

"The listing is an important step for Sappi as the United States is the world's largest pulp and paper manufacturing nation, and the NYSE is the leading market for this category of shares

"This will make Sappi's shares more accessible to United States investors, many of whom are precluded from, or reluctant to invest in shares which are not registered home," Van As said

More than 50 percent of Sappi's shares were already owned by foreign investors and the New York listing was expected to further internationalise the shareholder base and improve the liquidity and tradability of the company's shares – *Sapa*

COMPANY NEWS

COMPANIES *Blue chip makes bid to boost foreign ownership ahead of secondary New York listing*

Sappi sets out to impress with roadshow before a US listing

eT(BR)27/10/98 (194)

MARK ASHURST
LONDON CORRESPONDENT

London — Sappi executives began a 10 day international roadshow yesterday in the run up to its New York listing next week, in a bid to boost foreign ownership

Eugene van As, Sappi's chairman, said he hoped the secondary listing would increase the proportion of foreign shareholders to 65 percent. "By then the price might not be made only in the local market"

Trade in Sappi's other secondary markets — London, Frankfurt and Paris — had been sluggish.

The secondary listing on the New York Stock Exchange, where Sappi will be traded in the form of American Depository Receipts, follows a bold international expansion

The company boasts a much higher proportion of foreign shareholders than any other South African blue chip, but its shares trade at a massive discount to its international peers.

Acquisitions in Europe and the US have helped boost the proportion of foreign shareholders from 8 percent in early 1997 to about 52 percent.

This is due in part to the issue of new equity to fund acquisitions and to disposals by South African shareholders, whose pessimistic forecasts for the company have created a large overhang of Sappi shares in the Johannesburg market.

"Our biggest problem is that, as fast as foreigners want to buy the share, there is a South African ready to sell," Van As said "The share price is fundamentally determined by South Africans selling"

Sappi's problems resemble those of Billiton, the London-listed base metals group which was demerged from Gencor in 1997 Both companies have been hit by a change in strategy at Sanlam, the life assurer which was previously their largest single shareholder but which no longer considers its largest industrial holdings as strategic assets Sanlam holds about 8 percent of Sappi

More than half of Sappi's foreign shareholders are US institutions. Van As hoped the New York listing would tempt other fund managers barred from buying non-US shares.

Stock market ratings for forest product companies in the US were "about 30 percent higher than other markets", he said.

Sappi currently trades on an historic price-earnings ratio of about six, substantially below the average p-e range of 16-30 for most of its US peers

Van As did not expect the new rating to match Sappi's US peers, but aspired to "an American rating with a foreign industry discount" He set his sights on a re-rated p-e ratio of "about 15"

That remains an ambitious target for a JSE-listed company with a heavy debt burden trading in a depressed sector.

But Van As ruled out any possibility of moving the company's primary listing from Johannesburg — at least until market conditions improve With 75 percent of its assets abroad and 80 percent of its gross income in foreign currencies, he said Sappi was "a remarkable rand hedge" for Johannesburg institutions Its appeal had been tarnished by a "dismal" dividend record and badly timed acquisitions.

Since 1992, Sappi has been a catalyst for consolidation in the global paper industry, growing largely by acquisition to become the world's biggest producer of global fine paper

REACHING FURTHER *Eugene Van As, Sappi's chairman, hopes the company's secondary listing will increase the proportion of foreign shareholders to 65 percent* PHOTO: SELWYN TAIT

LAUDING THE LISTING *(From left) Monte Haymon, Sappi's president and CEO, William Johnson, president of the NYSE; Eugene van As, Sappi's executive chairman; and Ian Forbes, the managing director, at close of trade on the NYSE yesterday* PHOTO HELENE GIANZBERG

Sappi hits paydirt on NYSE

(194) CT(BR) 6/11/98

RICH MKHONDO AND JONATHAN ROSENTHAL

Washington, DC — Sappi, the paper and pulp producer, hit paydirt yesterday when it listed on the New York Stock Exchange (NYSE) in an effort to boost its share price

While its shares traded 135c lower on the JSE, closing at R26,05, its American depository receipts (ADRs) traded up on the NYSE, creating an arbitrage gap that analysts said was likely to drive its share price up on the JSE this morning

The ADRs, which represent a bundle of 10 ordinary Sappi shares, rapidly moved up US25c to $47,25

The group said its listing on the NYSE was proof that South African companies were ready to compete on the global market "Listing on the world's most influential exchange puts our country truly on the world economic stage and gives notice that we are ready for rigorous competition," said Ian Forbes, Sappi's managing director for forestry

Sappi joins Anglogold, the gold producer, as one of the two South African companies listed on the NYSE The paper and pulp company's shares are also traded in London, Paris and Frankfurt, and more than 50 percent of share ownership is non-South African

Asked whether Sappi may move its headquarters overseas, Forbes said the company's primary listing would remain on the JSE

"We have made it clear to our investors and potential investors that we are a South African company, and we will remain in South Africa

"The New York listing is an important step for Sappi, as the US is the world's largest pulp and paper manufacturing nation and the NYSE is the leading market for this category of shares," Forbes said

"The listing will make Sappi shares more accessible to US investors, many of whom are precluded from investing or reluctant to invest in shares not registered in the US

"More than 50 percent of Sappi's shares are already owned by foreign investors The New York listing is expected to further internationalise the shareholder base and improve the liquidity and tradeability of our shares This should benefit all shareholders "

Forbes said its listing of the ADRs on the NYSE was essential if the depressed forest products company was to earn a rerating

He said the company would not raise new capital at the time of the listing, but access to the New York market should make it considerably easier to raise capital should the need arise in the future — Independent Foreign Service

Nampak's proposed Crown Cork merger under attack

Numsa braces for battle

(194) CT (BR) 6/11/98

FRANK NXUMALO
LABOUR EDITOR

Johannesburg — The National Union of Metalworkers of South Africa (Numsa) said yesterday it was "staunchly opposed" to the proposed merger between Crown Cork and Nampak, as it would lead to the retrenchment of hundreds of workers

Osborn Galeni, Numsa's light engineering sector co ordinator, said "We are braced for a major battle with the companies if they continue with their unholy alliance They have failed to disclose information and discuss their strategic plans with the unions

"It is the responsibility of the (Competition) Board to look at mergers that will have a dire impact on jobs We believe there are limits to how far mergers can go, mergers are key components of companies' restructuring strategies to lay off workers,"

Archie Sitole, the Crown Cork spokesman, said the unions had been briefed about the pending merger but that JSE regulations "precluded details with unions"

Sitole said what would happen depended on the Competition Board, which was due to rule next week As the major shareholder, Nampak would assess the situation and decide on its "capacity" to retain jobs

Sources close to the union at Crown Cork said the deal would give Nampak respectively a 90 percent and 100 percent market share in the beverages and food canning industry if approved by the Competition Board

They said this would also mean that Crown Cork was yet another multinational joining the queue of big companies pulling out of South Africa Skilled black tradesmen constituted 90 percent of those workers facing retrenchments, they said

The company said its net sales were R328 million from the South African operation alone and R7,1 billion on the African continent last year

Crown Cork was also allegedly planning to withhold the Christmas bonuses of hundreds of workers who had threatened action if they were negatively affected by the pending merger

Sappi high in global rankings

(194). CT(BR) 11/11/98

Matt Getz

Johannesburg — Sappi, the pulp and paper company, is the fifth most global company from a developing country, according to the United Nations Conference on Trade and Development's (Unctad) 1998 world investment report, released yesterday

In 1997, the report said, Sappi had foreign assets worth $3,7 billion, of total assets worth $1,8 billion Only Daewoo, Petroleos de Venezuela, Cemex and First Pacific had greater foreign assets among developing country companies Sappi also rated fifth on Unctad's transnationality index, which measures foreign assets, sales and employees as a proportion of the total It scored 61,5 percent

The report said foreign direct investment (FDI) was continuing to grow strongly despite the global economic crisis Last year global FDI inflows rose 19 percent to $400 billion There had been a seven-fold volume increase in FDI flows since 1980, with the result that the ratio of FDI stocks to global gross domestic product had reached 21 percent

OPTIMISTIC *Yobot Shamapande, director of UN Information Centre*
PHOTO JOHN WOODROOF

This was achieved through the activities and expansion of transnational companies, which Unctad said numbered 53 000 with 450 000 foreign affiliates

The developing world's share of global FDI had risen from 27,7 percent to 30,2 percent since 1985, mainly because of the expansion of east Asian countries, whose share of global FDI almost doubled from 8,6 percent of world FDI to 15,3 percent in that time But Africa's share fell from 3,1 percent to 1,9 percent, similar to the flows for Malaysia alone Still, the $4,7 billion received was twice 1990's level

"Africa's performance has remained unremarkable," said the report, though it was optimistic for the future

South Africa received $1,7 billion in FDI, mainly from privatisation, placing it as easily the largest recipient in the continent Angola, which was second, received $1 billion But the report said FDI unrelated to privatisation was falling

A survey of investors showed one of the reasons They were asked to rate 20 African countries on the accuracy of a number of statements On dividend remittance policies, they said 12 of the 20 countries were more helpful to business development. And on the protection of investment, the country ranked stone last

PACKAGING *5% growth in headline earnings beats forecasts*

Nampak wraps up good year

(194) CT(IPR)12/11/98

ADELE SHEVEL

Johannesburg — Nampak, South Africa's largest packaging group, exceeded analysts' forecasts in the face of punitive interest rates yesterday, with a 5 percent increase in headline earnings to 112c a share for the year to September 30 this year

Turnover was up 4 percent to R7,3 billion The company declared a dividend of 43,6c

Brian Connellan, Nampak's chairman, said there had been zero growth in volume off last year's base Substantial industry overcapacity had forced margins lower and prevented the full recovery of raw material costs in selling prices Pressure on margins was mitigated by increased productivity and strong action on expenses

Focus on cost controls and operating efficiencies helped to partially offset the underrecoveries but operating margins declined to 10,8 percent from 11,8 percent the previous year This squeezed operating income 5 lower percent to R792 million

"Interest on cash certainly helped," said Connellan Strong cash flows resulted in interest received of R15,2 million for the year compared with interest paid of R35,1 million for the previous year

Connellan was particularly pleased by the strong control on working capital Attributable profit rose 5 percent to R572,9 million

TIP TOP *Brian Connellan (left), the chairman of Nampak, and Trevor Evans, the managing director, show off some of the products which helped them boost headline earnings* PHOTO SELWYN TAIT

Peter Armitage, an analyst at Merrill Lynch, said zero volume growth was not too bad compared with the industry, and it was a "pretty good performance"

Another analyst said an improved tax rate had assisted earnings The company had been through a capital-intensive programme in the early 1990s to enable it to compete globally They were thus cash-positive and benefiting from the high interest rate environment

Trevor Evans, Nampak's managing director, said Packaging sector sales volumes were generally maintained, but operating profit was under pressure

There were certain exceptions In the Paper and Printing sector, turnover was under pressure across the board and margins were lower than last year Evans said the growth initiatives under way, which include the proposed Crown Cork transaction, should be beneficial

The company exported to over 50 countries, which represented about 4 percent of its turnover A reasonable expectation would be to achieve a 5 percent level over the next year, he said

Connellan said he expected the predicted minimal economic growth to negatively affect the South African packaging industry The company said further consolidation and reshuffling were expected in the industry, which could result in plant closures and rationalisation

The share closed 25c lower at R9,25

80% rise on the cards for Sappi

(194)

JONATHAN ROSENTHAL

INDUSTRIAL EDITOR

CT (BR) 27/11/98

Johannesburg — Sappi, the rapidly globalising forest products group, was expected to report an 80 percent to 100 percent rise in full-year earnings next week, analysts said yesterday

An Ibes poll of nine analysts shows that analysts expect earnings to come in at between 333c a share and 413c a share, with the mean expectation at 363c

Last year the group reported a 4 percent fall in full-year earnings to 187c a share as pulp and paper prices softened and a five week national stayaway in Swaziland disrupted production at Usutu and sliced about 10c a share off the group's earnings A flash flood at Sappi's Westbrook facility in Maine also closed parts of the mill for six weeks

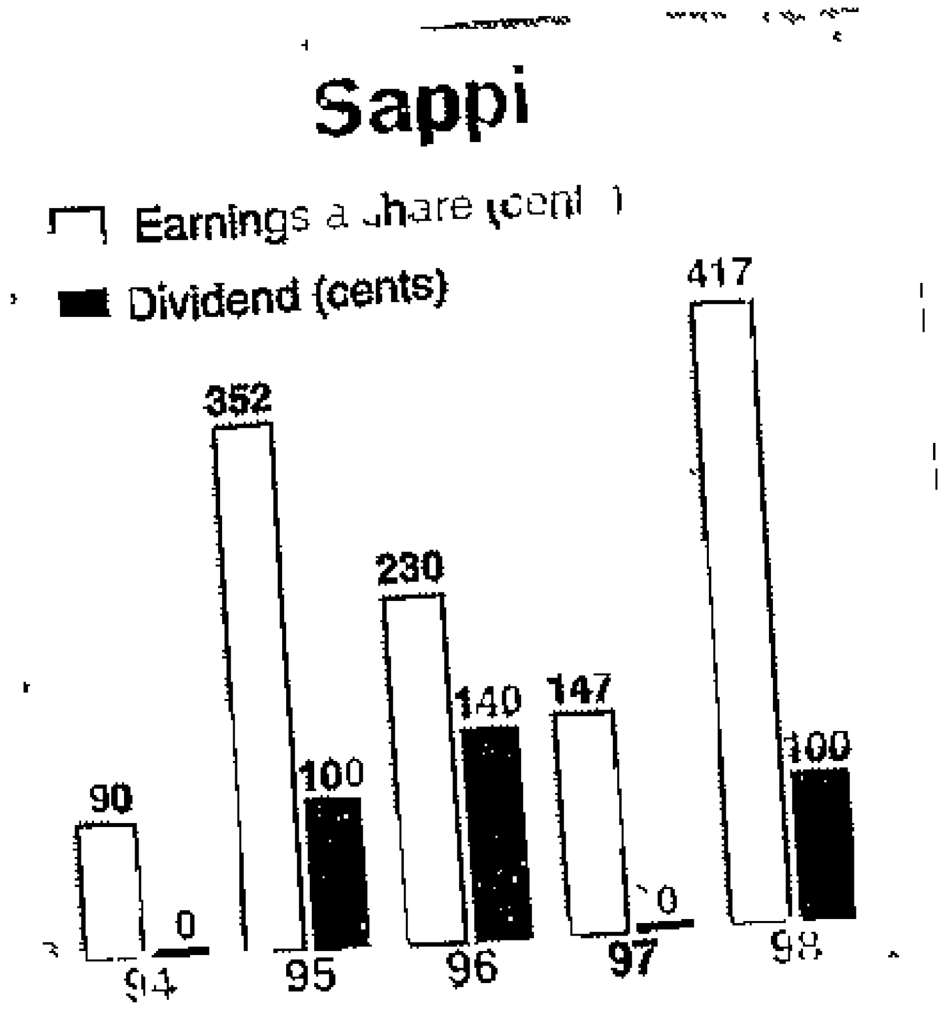
However, Johannesburg analysts yesterday said although prices had remained weak, Sappi would benefit from a wider spread between pulp and paper prices.

A further positive factor is the devaluation of the rand against the dollar and other currencies. Although earnings in the European operations are expected to be relatively unexciting, these will significantly boost group earnings when consolidated and converted into rands

The leaden response of the Sappi share price, however, has left analysts puzzled. "If you look at what happens to other companies reporting an 80 percent rise, you would expect Sappi's shares to respond," one analyst said

Sappi has taken steps in the past months to revive its share price, including selling its non-core assets and restructuring operations Listing American Depository Receipts (ADRs) on the New York Stock Exchange earlier this month, in the hope that US investors would become share-price setters, helped shares break above R27, but analysts say domestic institutions remain cautious

Yesterday on the JSE Sappi shares gained 30c to R26,30



Sappi does well despite high gearing

(194)

Net income grew 147% and operating income increased 90%, of which half came from KNP Leykam, acquired last year

Emma Jesse

GLOBAL pulp and paper company Sappi lifted earnings and restored the dividend for the year to September despite continued concerns about the company's high gearing ratio

The inclusion of nine months of trading from KNP Leykam, which was acquired at the end of the previous year, contributed significantly to this performance

With additional shares in issue, basic earnings a share translated into 417c — an improvement of 183,7% on last year's figure A dividend of 100c a share has been declared

Executive chairman Eugene van As said results were pleasing in difficult market conditions Costs were well contained and selling prices, although softer at the end of the year, matched 1997 averages

Net income grew 147% to R996m and operating income of R2,2m showed an increase of 90%, of which half came from KNP Leykam

Van As said demand for the group's paper products was steady throughout the year, but selling prices in the second half were affected by increased European capacity and surpluses in far eastern production

Pulp markets also softened significantly in the face of the Asian economic collapse, severely curtailing dissolving and unbleached pulp operations in southern Africa

The group's gearing moved to 97% compared to the previous year-end's restated level of 82%, mainly as a result of the KNP acquisition and the repurchase in May of the Industrial Development Corporation investment in Saiccor Van As said the level was not unusual —"other paper companies have the same balance sheet as ours"

Debt for the year stood at R13,6bn The disposal of assets as part of a debt reduction programme is reportedly progressing well, although inhibited by SA's high interest rates Had the disposal of the Timberlands in Maine for $180m — concluded after the year-end — been included, gearing would been 92%. Van As said asset sales of R1,6bn were achieved since the announcement of the R2bn target He said that more sales would take place in the coming year

The group's listing on the New York Stock Exchange in November was undertaken to open further markets for the trading of Sappi shares to improve liquidity, and, in time, to lead to a possible rerating. Van As said it was too early to hope for a rerating but recent increased volumes in Sappi shares traded on the Johannesburg Stock Exchange might be indicative of renewed investor interest

Although van As expects 1999's first-quarter results to be severely depressed by weak trading conditions and the accrual of a minimum tax payment in the US, better levels are expected for the remainder of the year

In particular, cash flow is expected to increase 50% and gearing to fall below 80%

"Sappi's drive to introduce new products, reduce costs and improve operating efficiencies coupled with substantial synergies and cost savings in Europe, reduced finance costs in North America and the benefits of a weaker currency in SA, should more than compensate for weakness in the global economy," he said

BD 1/12/98

SAPPI (194) fm 4/12/98

GAZING PAST THE PRESENT

Into the far blue yonder

Sappi's results may as well have been smoked haddock for all the notice investors took of them Consider the company delivers expectation-beating EPS growth of 183,7% for the year to September, and nothing On the day of the announcement (November 30), the depressed share rises 5c to 2 610c, and next day it wanders down 10c to 2 600c

What's behind this madness? Basically, it seems investors' eyes are so firmly trained on the future of the pulp and paper market that the present and past are almost inconsequential And the outlook for that market is extremely bleak, at least until the end of the 20th Century

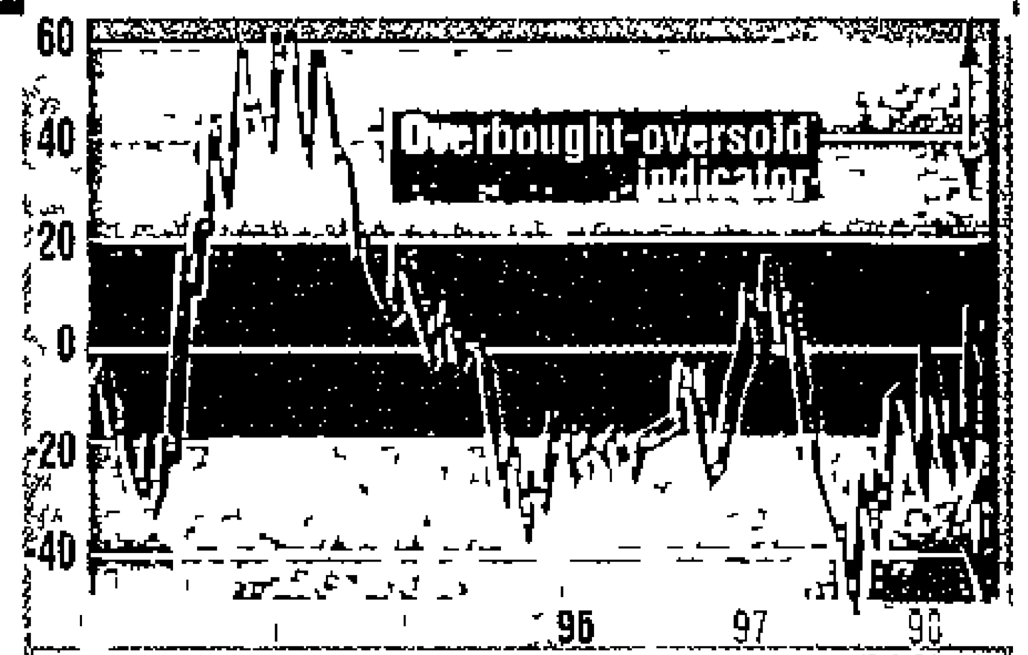
All of which must be infuriating for Sappi's management, who have just come home from a lacklustre listing in New York They have worked hard this past year to integrate KNP Leykam and cope with the weaker paper and pulp prices Their success is reflected in several areas of the results

On a 40% increase in turnover the group increased operating income 89,7% to R2,2bn, of which about half was contributed by KNP Leykam Selling prices matched 1997 averages, despite some softening at the end of the year

Sappi has also taken another bite out of its debt With the asset disposal exercise, higher cash generated by operations and a decrease in working capital of R663m, Sappi generated net cash during the year of R1,2bn This left the debt equity ratio at 0,97 and interest cover up at 2,3 times Sappi chairman Eugene van As says if the US$180m raised from the sale after year-end of US timberlands had been included in these results, debt equity would have slipped to 0,92

Interestingly, throughout Sappi's worldwide operations, it is only at Fine Paper SA and Forest Products (based in SA) that the return on net assets is lower than the average interest rates

SAPPI



The longer term chart of Sappi shows it nudging its way out of oversold territory

	Audited 12 months ended 30 9 98 Rm	Audited 12 months ended 30 9 97 Rm
Net turnover	22 710	16 216
Operating income	2 208	1 164
Net income	[illegible]	404
Basic earnings per share (c)*	417	147

Van As says the group is on track to deliver rationalisation benefits stemming from the KNP Leykam deal of R1/share in financial 1999 and R2/share by financial 2000 And with little capital expenditure in 1999, he is expecting a 50% increase in discretionary cash flow during the year and debt equity below 0,80

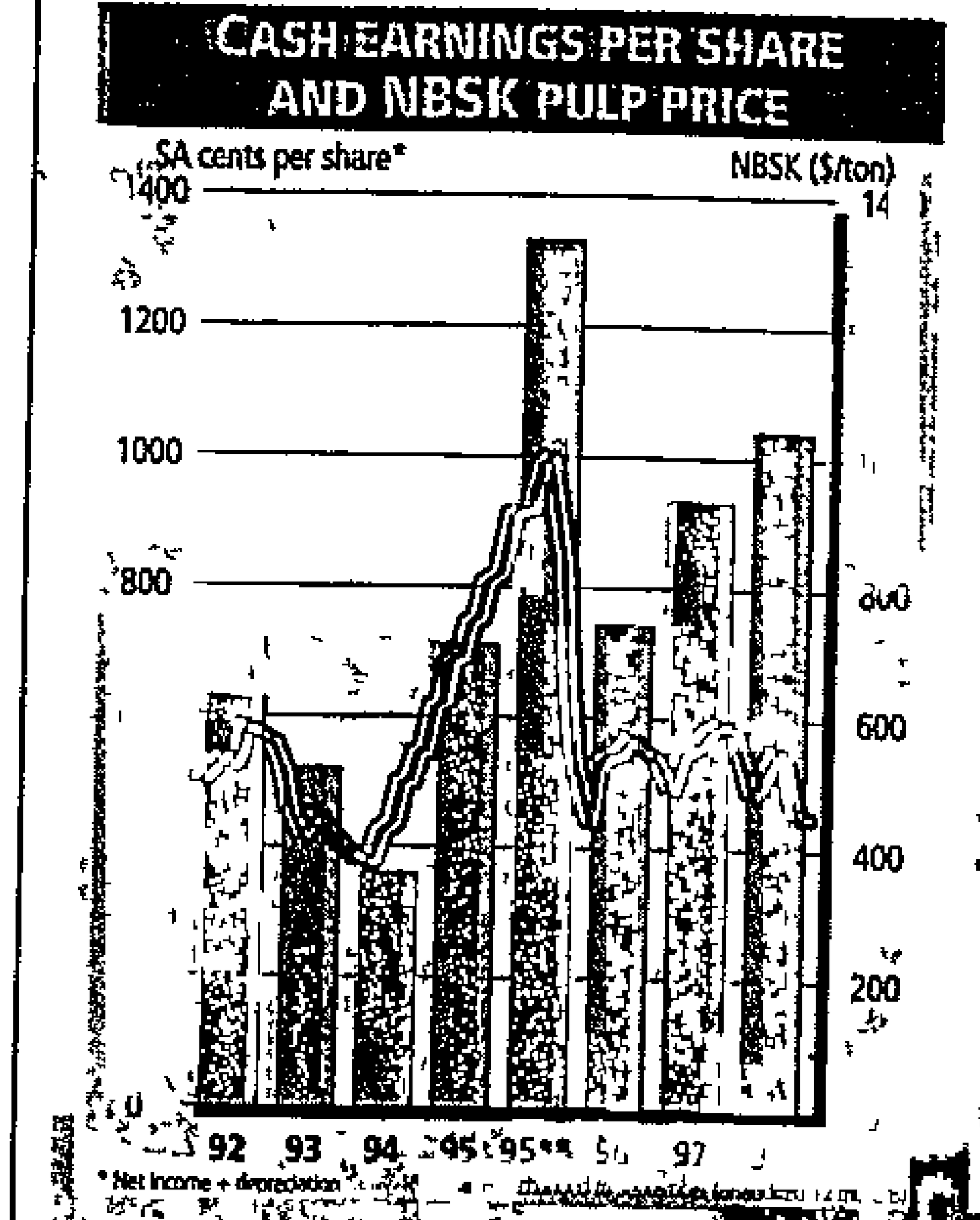
Sappi is, however, expecting earnings for the year to be roughly in line with 1998's, with the lower pulp and paper prices prevailing The first quarter should be severely depressed, because of downtime at three big mills and the accrual of a minimum tax payment

Again, much will depend on the state of the rand and the pulp and paper prices, which Van As doesn't expect to rise substantially

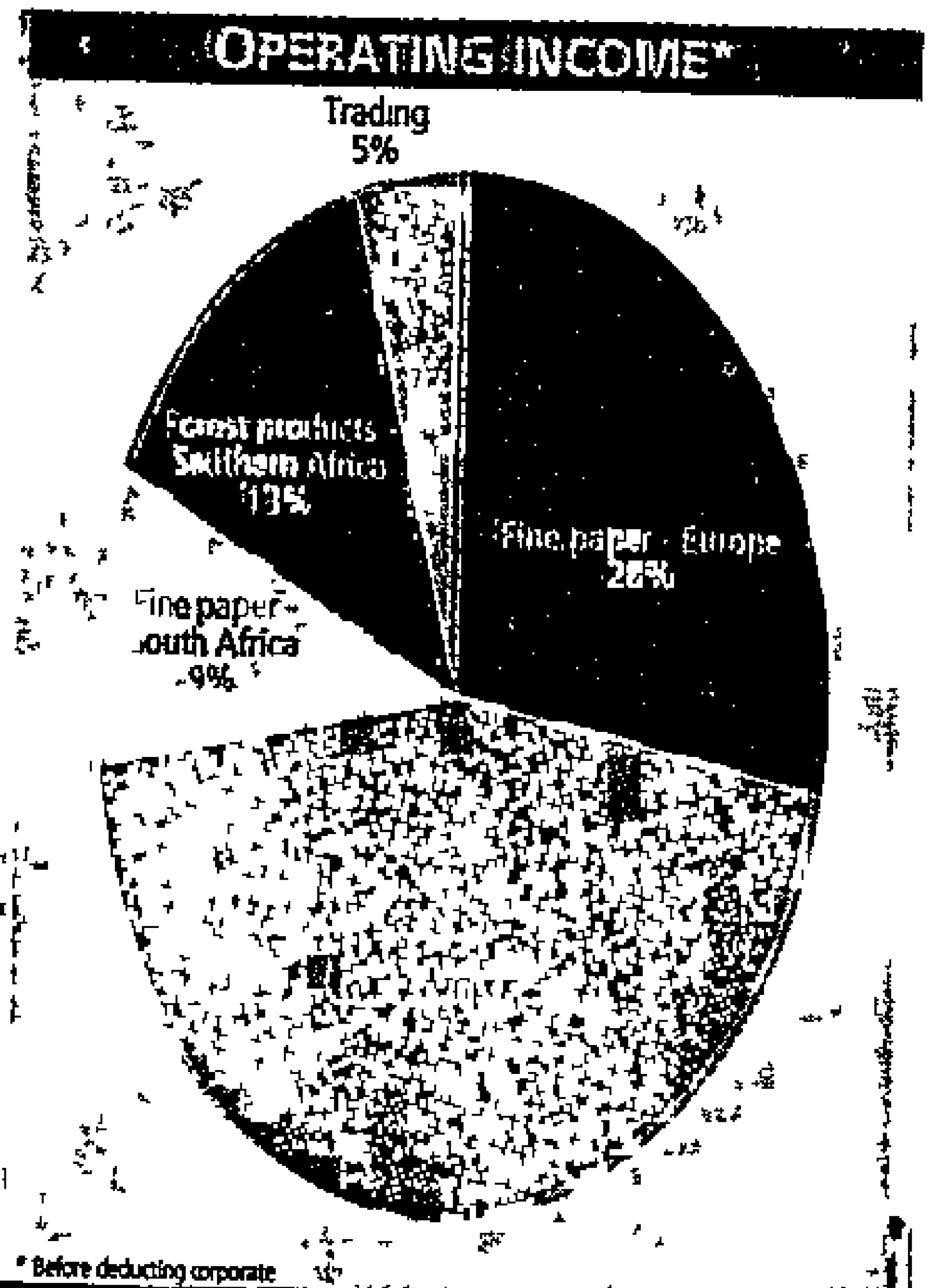
The New York listing did not result in any immediate rerating of Sappi as was hoped But Van As says "We didn't expect a dramatic overnight change We weren't raising capital so there wasn't a deadline for people to buy into the share" He does claim that the move has improved the liquidity of the stock at home It's too early to say for sure

There is little disagreement among market watchers that Sappi is undervalued on its p e of 6,7 But, as stated above, the share price appears to be a function more of the market than of the company London-based analyst James Twyman, from Warburg Dillon Read, says it succinctly "We think they should rerate But there is a difference between should and will"

For now, Sappi is worth being considered only by investors willing to take a two- to three-year view **Stuart Rutherford**



Graphic: FIONA KRISCH Source: SAPPI



Eugene van As, Sappi executive chairman

Sappi not out of the woods yet

JULIE WALKER
DIAGONAL STREET

ST (PT) 6/12/98

(194)

SAPPI executive chairman Eugene van As's presentation to the Investment Analysts Society in Johannesburg had a positive, albeit small, effect on the share price in a nervous market. Sappi ticked up 15c to R26 15 before suffering the market-knock to below R23 — miles short of where Van As believes it should be.

Van As says the Sappi management focus has been driven by a long-term strategy, as well as concentrating on shareholder value. "But, looking at the share price, I must admit we've been a total failure," he told the Johannesburg audience. The long-term strategy was formulated in 1990, Van As still has two more years to reach the objective of being the world's leading pulp and paper company Even if the audience rejects Sappi shares, it must have some respect for Van As's achievements

In this decade, Sappi's emphasis has been international expansion away from the old forest products company such as Sappi's SA business

"We are the only global focused paper company We are the largest in coated, woodfree paper and in dissolving pulp," says Van As, noting that two mergers will put the resulting companies ahead of Sappi in woodfree.

In total, Sappi has 21 manufacturing sites in eight countries over three continents, employs 24 000 people of whom 52% are outside SA, and 53% of Sappi equity is owned by foreigners

Van As observes the fragmented nature of the broad industry in which Sappi operates the top 10 producers have perhaps 15% of the market whereas in other fields the top 10 could expect to command as much as 80% Notwithstanding, Sappi has built up a 24% market share in its chosen markets, and Van As claims the manufacturing assets are "the best machine-park in the game"

Sappi opted for coated woodfree paper because it is value-added, enjoys a growth rate of twice the rest of the paper market, and it lacks a market leader "It was a small enough market for a company like Sappi to have the arrogance to become the world leader" Sappi's global brands command perhaps a 3% premium on non-branded similar product.

Sappi already led in the dissolving pulp market through Saiccor "Its price stability is better than paper pulp's We invested more than R1-billion to bring production costs down and sort out environmental problems And dissolving pulp generates cash to help us grow elsewhere." Van As says Sappi is neutral on dissolving pulp in that it is also the world's largest buyer as well as seller

International expansion has not been painless, but now 85% of the earnings are hard cash and 70% of the assets are beyond South Africa. "When the rand goes down, our net asset value rises"

Sappi's first overseas foray was in England in 1990 "We thought it a good place as they speak English and we thought they would be like us It was a very incorrect assumption. We paid our school fees"

Least said, the better Next was Hanover in 1992, SD Warren in 1994 and KNP Leykam in 1997, all of which are performing far better under Sappi "KNPL came at exactly the wrong time for us, but when the No 1 in Europe comes on the market, you'd be idiotic not to take it."

Over a single weekend earlier this year, every company's identity was replaced with Sappi — a tough decision considering Hanover was 300 years old and Leykam 400 But Sappi now presents a single face to the world

Net sales have grown by 30% a year compounded since 1992 but operating income has been up and down, although Van As says Sappi is now far less dependent on the pulp cycle. The 1998 operating profit of R2.2-billion matched 1995's even though the pulp price was down by half, volume made the difference. Cash generation reached a record R4.5-billion assisted by depreciation, and free cash flow after all interest, tax and maintenance expenditure reached R1 6-billion

> *Poor Sappi. It has expanded internationally, diversified, and found a near-total rand-hedge. Yet still the market doesn't like it*

Van As concedes a problem with the deferred equity — shares notionally issued by Sappi. Sappi intends to settle deferred equity in shares, but this makes it difficult to predict diluted earnings a share. "Even I can't predict it or tell the board what it will be," says Van As. The share price is so low that the greater number of notional shares issued in consideration for acquisitions to be used as a divisor has a negative effect on earnings a share. "I suspect we will change this equity for debt to resolve the problem." An announcement is due.

Debt has always been a feature of the Sappi balance sheet; gearing is 97% and will retreat to 80% this year "without any magic" The lowest net debt is in SA, where interest rates are highest, and the highest debt is in Europe where rates are lowest. Ideally for Van As, all the debt would be in Europe.

On the outlook, Van As tempers optimism with caution. The markets are quite buoyant and no new capacity is under construction — the first time in 20 years "Next year will be a bit iffy but we expect much better by 2000"

More pertinent has been the passing of environmental protection legislation in the US, whereby every pulp-mill will have to operate in a chlorine-free environment by April 2001 "Many will find it impossible to generate the cash required to make the investment. Substantial closures have been announced, and it could take 2.5-million tons out of the 70-million ton a year pulp market." Sappi's SD Warren operations do not require massive spending — perhaps $60- to $80-million over three years, including other projects

Sappi listed in New York on November 5 to open further markets for the trading of Sappi shares However, Van As does not expect an immediate rerating A recent roadshow has resulted in five US brokers' undertaking to report on Sappi and Sappi in turn will report quarterly results — a brave move in view of the poor immediate outlook. The sellers of SD Warren speak for 21% of the equity, whose value has nominally halved since the sale. That stock can be placed from the end of next year onwards with Sappi's endorsement but it does indicate a market hangover Van As says JSE trade in Sappi has been erratic in the past weeks but volumes have generally been up

In the year to September 1998 Sappi turned over R22.7-billion, made net income of R996-billion and declared basic earnings a share of 417c or diluted earnings a share of 380c, depending on the amount of shares issuable in respect of the deferment of equity The dividend was 100c in any event.

Van As says Sappi should maintain earnings or perform a little better in what will be a tough 1999, he is looking for an exchange rate of weaker than six to the dollar

Poor Sappi. It has expanded internationally in a highly commendable, if not textbook, fashion, diversified its earnings sources, focused its markets, reduced the risk of downturns in the pulp cycle and has introduced a near-total rand-hedge element. Yet still the market doesn't like it, and with reduced earnings expected in the immediate future, the share price could take even more punishment.

But the market always looks a little ahead, and Sappi at around these levels will do well ahead of the millennium If you can see further than the next half year, Sappi looks like a sensible buy

Nampak to contest Competition Board's takeover ruling

(194) CT

Ann Crotty

Johannesburg — Nampak, the packaging group, yesterday said it would challenge the Competition Board's ruling preventing its takeover of Crown Cork

Nampak issued a cautionary yesterday after the market closed, saying if the representations to the minister of trade and industry were successful, the conclusion of talks with Crown Cork might affect its share price

Nampak closed 70c weaker at 760c yesterday Analysts said this was in line with general market weakness and not in anticipation of the board's negative response

One analyst said although the deal would not have been a huge portion of Nampak's business, a successful acquisition would have been seen as a positive for the group, and in its absence the share price could take strain.

In this regard the point was also made that although it is normal procedure for the parties to make representation to the minister, the board's recommendations are not often overturned

Last night Competition Board Chairman Pierre Brooks said the merged entity would have had over 90 percent of three markets — beverage canning, food canning and aerosols

"With beverage canning it could be argued the countervailing power of South African Breweries and Coca-Cola would have ensured a balance between the producer and the buyer, but this is not so with food canning"

He said there were possibly other buyers for Crown Cork other than the dominant market player

☐ **Business Watch, Page 2**

Nampak merger is not in the public's interest, says board

(194)

Amanda Vermeulen

THE Competition Board's decision last week to recommend the prohibition of the Nampak merger with Crown Cork on the grounds that it was anticompetitive could not be outweighed by public interest, it said.

In its report, the board suggested a number of options that could have been attached to a conditional approval of the deal

Crown Cork was keen on the deal, since the loss-making operation faced closure and the loss of numerous jobs otherwise

But the board concluded that "after careful consideration of all the facts, applicable principles, and diverse opinions . the transaction would result in an appreciable restriction of competition in the relevant markets which was not outweighed by the relevant public interest considerations"

The board's major objection to the deal concerned the food can market Had the transaction been approved, it would have given Nampak 100% of this sector

In addition, the board said import penetration was negligible, customers were not as dominant as in the beverage industry, and there were no substitute products or containers in which food could be kept for long periods of time in the absence of freezers

The other worry was that CG Smith, the parent company of Nampak, is also the parent company of CG Smith Foods — which is the largest customer of Nampak as far as food cans are concerned

"This may give rise to competition policy concerns if Nampak applies discriminatory practices between CG Smith companies and other companies."

BD 7/12/98

The board said "(We) are of the opinion that competition in this market will be restricted to an appreciable extent and that it is likely to have a negative impact on consumers."

In the beverage can sector, a Crown-Nampak merger would have resulted in the new entity having 91% of this market, but competition for cans comes in the form of glass bottles for the beverage industry, with Consol being the dominant supplier by far to both the beer and soft drink markets

Despite submissions from both Coca-Cola and SA Breweries, the board said: "On balance it appears that (while) competition will be restricted in the beverage can market, it is unlikely that the merger will result in consumers being negatively affected to an extent that requires the prohibition of the transaction"

MANUFACTURING - PAPER & PRODUCTS

1999

Historic wage deals signed at Mondi

CT (MR) 13/1/99 (194)

Shirley Jones

KWAZULU NATAL EDITOR

Durban — Mondi, Anglo American Industrial Corporation's integrated forest products subsidiary, has signed historic three-year wage agreements with the Paper, Printing, Wood and Allied Workers' Union (Ppwawu) and the National Employees' Trade Union (Netu) at Merebank, one of the largest single-site paper mills in the world

The company and unions described these long-term agreements, which cover basic wage increases plus higher shift allowances and tea rations, as a first for both sides. They peg the total package increase at an effective 7,5 percent for this year

In 2000 and 2001 the percentage increases would be determined according to a formula based on the average inflation rate In addition, a reopener clause would apply in the second and third years of the agreement should the percentage increase rise above or drop below certain agreed parameters

The agreement follows clashes between management and labour during a five-week strike in 1997 over conditions of service. The clashes were renewed after retrenchments and restructuring in response to international market pressures in January last year

However, both parties were confident the agreements would create greater stability and help build a positive relationship between workers and management

"The agreements will increase benefits for all stakeholders Up until now we have spent at least three months of the year in wage negotiations

"The long-term agreements mean we can now focus on the many challenges we will face over the next few years," said Steve Glendinning, Mondi Paper's human resources manager

Henry Naicker, the chairman of the Ppwawu shop stewards' committee, said the negotiated settlement offered long-term rewards for all stakeholders that needed to be exploited to raise standards of living

According to Les Winkworth, the Netu shop stewards' committee chairman, improved relationships would lead to improvements in productivity and greater worker participation in the decision-making process

"The money does not lie in wage negotiations, but in the profits that the company makes, and the long-term agreement will open those doors," he said

Union prepares to battle with Mondi

CT(BR) 25/1/99 (194)

Ravin Maharaj

Durban — The National Employees' Trade Union (Netu) is squaring up for a fight with Mondi, the integrated forest products subsidiary of Anglo American Industrial Corporation, over proposed changes to employment conditions

The changes relate to post-retirement medical aid contributions and the contribution structure for other active medical aid members on the salaried payroll

Workers at Mondi Kraft Mill in Richards Bay staged a protest last week over the issue

Netu plans to meet workers at Mondi Merebank, south of Durban, tomorrow to get a mandate on whether or not to proceed with a strike

At the heart of the debate is the fact that Mondi is changing the contribution structure for active medical aid members to comply with the current tax regime relating to medical aid contribution It was also revising the post-retirement medical aid contribution structure and system

Netu said these changes were unfair and unjust

The sudden twist of events follows Mondi's historic signing of three-year wage agreements for hourly paid workers with the Paper, Printing, Wood and Allied Workers' Union and Netu at Merebank last week

Les Winkworth, the Netu shop stewards' chairman, said these agreements made a "mockery" of what was being meted out to salaried workers

He said that in terms of the proposed changes, workers who were 40 years and younger (the worst hit) would not receive a contribution towards post-retirement medical aid Workers aged 41 would receive a 5 percent contribution, which went up to a 100 percent contribution for those aged 60 and above

In addition, Winkworth said workers were given short notice to sign new contracts and were told if they failed to do so they would forfeit their annual salary increases

Louis Dekker, Mondi's group human resources manager, said the cost of providing medical aid benefits to employees, which had come under scrutiny worldwide, had also had an effect on the provision of medical benefits to Mondi employees

Board approves merger of Nampak and Crown

BD 12/2/99 (194)

THE Competition Board has approved packaging group Nampak's revised proposal to merge with US-based Crown Cork & Seal

The board said in terms of the approval, Crown's activities in the production of food cans would be excluded from the proposed transaction

Crown would retain sole control of its food canning activity in SA and upgrade its Bellville plant to ensure "an appropriate competitive service to the industry"

Nampak had also undertaken, among other things, to limit price increases in the food can and aerosol markets

The trade and industry minister has approved the arrangement which will be gazetted on February 19

Nampak said it would take over the beverage can, aerosol and metal crowns operations of Crown Cork in SA

Financial details were not immediately available, but Nampak said Crown Cork spent between \$70m and \$80m a year on research and development

"We are pleased that we have been able to meet the board's requirements and go ahead with part of the original proposal," said Nampak chairman Brian Connellan

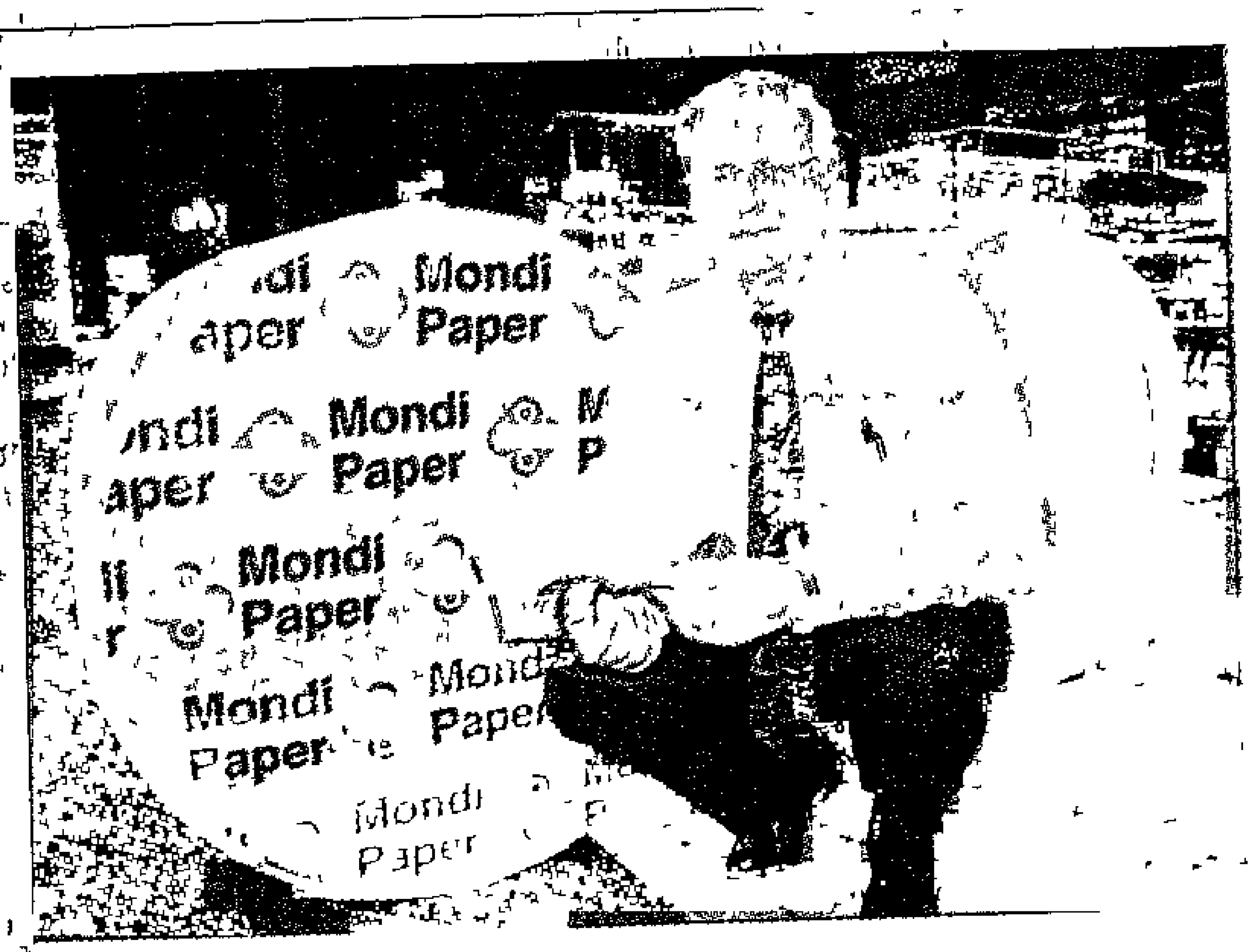
"Some of the synergies that will flow should reverse the negative earnings trends in our metals businesses that we have suffered in the past few years," he said

"We are working with Crown on the numbers to exclude their food can operation and expect to have that side finalised by the end of the month, together with the completion of due diligence

"In due course the combined business will be merged in a company that would deploy the assets in the most productive way and in which Nampak will have a controlling interest"

The Competition Board initially rejected the deal, arguing that it would give Nampak a monopoly of the SA can market

It said yesterday that its major concern centred on the market power that the merged entity would enjoy in food can production and the "concomitantly weak countervailing power of the purchasers of these products" — Reuter



ON HOLD *Peter Lynch, the Merebank Mill manager of Mondi Paper, says there will be future growth once market conditions improve. Mondi's commissioned capital projects are still on schedule for completion this year, the company confirmed yesterday* PHOTO BAPPY TUCY

Mondi shelves growth plans

(194) CT(BR) 16/2/99

RAVIN MAHARAJ

Durban — Mondi, the forest products company, had placed all future short-term expansion and capital expenditure plans on hold because of cost cutting and flat market conditions worldwide, John Barton, the general manager, said yesterday

But commissioned capital projects at Mondi, which had assets of R7,2 billion, were on schedule for completion this year, Barton said

Mondi is a subsidiary of Anglo American Corporation, which plans to move its primary listing to the London Stock Exchange early this year

Barton said Mondi was one of the big four in South Africa's pulp and paper groups

Durban-based Mondi Paper exports about 180 000 tons of paper a year, mainly to Africa, Australia, South America and Europe

Barton said considerable focus, which included the acquisition of Consol's paper packaging business, had paved the way for the company's future growth

South Africa consumes 45kg of paper and board a head, compared with 200kg to 300kg a head in developed countries

Barton said demand could increase fourfold in the future, which meant there were many expansion opportunities

Peter Lynch, the Merebank Mill manager, said in the past year the company had completed its R150 million alkaline sizing conversion project at the mill south of Durban

New union plans to expand in sectors with jobs under threat

BD 1/3/99 (194)

By merging, two trade unions aim to be a force to be reckoned with

Pearl Sebolao

THE newly-formed Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union (Ceppwawu) will embark on a recruitment drive after acknowledging that it operates in sectors which are increasingly shedding jobs.

Union general secretary Muzi Buthelezi (former general secretary of the Chemical Workers Industrial Union) said research showed the union's membership — which currently stands at 92 000 — had the potential to grow to 150 000.

Speaking after Ceppwawu's three-day launching congress in Johannesburg, Buthelezi acknowledged that Ceppwawu — a merger between the CWIU and the Paper, Printing and Allied Workers' Union — was organised in sectors increasingly shedding jobs. These sectors included chemical, petroleum, packaging, glass and printing.

With clear direction, Buthelezi said, Ceppwawu, which was organised in strategic industries, would be a force to be reckoned with.

The new union's first order of business would be to formulate demands for this year's wage negotiations and harmonise the two unions' approaches to collective bargaining.

A collective bargaining conference will be held on March 11 and 12.

Buthelezi said the tension which usually came with mergers had been removed through an agreement between the two unions to split leadership positions equally and by giving each the final say on how to fill them. Both unions belonged to the Congress of SA Trade Unions.

The national office bearers of the new union are: Buthelezi (general secretary), Bhengeza Mthombeni (deputy general secretary), Absalom Ditshoke (treasurer), Pasco Dyani (president), Welile Nolingo (first deputy president) and Joseph Thee (second deputy president).

SA Communist Party general secretary Blade Nzimande has accepted a position on the new union as its honorary president.

Ceppwawu has called on its members to contribute to the labour movement's Job Creation Trust Fund on March 3.

It will also mobilise its members to register to vote in the coming general election.

Members were urged to vote for the African National Congress.

European demand for Sappi hits 3-year high

(194)

MICHAEL WANG

Johannesburg — Sappi, the pulp and paper multinational, said yesterday that European orders for its core product, coated wood-free paper, had risen to their highest level in three years

While encouraged by the increase, Sappi said oversupply was still an industry feature

It would require the company to idle its coated paper operations in Europe for at least three weeks later this year "to match supply to demand

"Although we don't expect an immediate or rapid improvement, there are indications that capacity is being managed and that prices may increase later in the year," Sappi said

Sappi has issued similar, cautiously upbeat appraisals in previous years — as well as more depressing outlooks — only to see such forecasts unmatch reality

"Provided that economic conditions in our major markets don't deteriorate further, there is nothing to cause us to change our earlier statement that 1999 earnings a share will be similar to last year's," the company said

In the financial year to September 30, earnings a share leapt 159 percent to 380c on sales of R22,71 billion

Sappi, the world's largest producer of coated wood-free paper, maintains forest products operations in southern Africa, Europe and the US

Over 85 percent of its sales and 70 percent of its assets are outside southern Africa — Dow Jones

CT (BR) 5/3/99

Union urges haste to set up bargaining forum

Reneé Grawitzky
and Deborah Fine

THE newly formed Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union has called on paper and pulp employers to speed up the formation of a centralised bargaining forum or face industrial action

At the same time the wage dispute in the security industry remains unresolved, despite reports last month that an informal agreement had been reached

The parties said details of the agreement would be released once ratified. It seems that divisions in some unions have prevented the signing of a final agreement.

The draft accord tried to achieve a trade-off between the premium paid for Sunday work and actual wage increases after weekly working hours were reduced from 60 to 55

The dispute originally focused mainly on an aspect of the Basic Conditions of Employment Act relating to a reduction in working hours and whether this should be accompanied by a corresponding cut in wages

The general secretary of the union, Muzi Buthelezi, said yesterday employers were delaying the finalisation of negotiations to allow for the registration of a bargaining council in the broader paper and pulp sector

The establishment of the council was being "retarded by employers forming and registering their associations" as required in terms of the Labour Relations Act

He said employers were not taking the matter seriously "We will have to put pressure on them," Buthelezi said

In line with developments in the chemical industry, paper and pulp employers would face a demand this year to enter into interim sector talks pending the creation of a council

The sectors covered by such a council would include pulp and paper, paper merchants, tissue paper, saw milling and recycling. The union wanted recycling to be part of pulp and paper, but employers opposed this

Buthelezi acknowledged that talks would get under way as job losses continued The union hoped to hold a sectoral job summit by the end of the year

Union demands for talks this year across all sectors included a 20% increase and a minimum wage of R2 000 a month, a reduction of working hours to 40 with no loss of pay or averaging, and a range of other demands linked to the Basic Conditions of Employment Act

Production at Toyota's Prospecton plant resumed yesterday as thousands of members of the National Union of Metalworkers of SA returned to work following a dispute over the payment of incentive bonuses

Meanwhile, about 1 000 SA Municipal Workers' Union members employed by the Welkom municipality in the Free State failed to arrive at work yesterday in protest against what they claim was a "unilateral downgrading" of their conditions of service

The workers have accused the council of withdrawing study leave, travel allowances and leave cashment provisions and refusing to pay overtime under the Basic Conditions of Employment Act Welkom administrative director Papiki Ngesi denied the union's allegations The council was expected to meet with workers today to discuss the issue

(194) (883) (899) BD 16/3/99

Unions brace for major confrontation

(194)

Sowetan 26/4/99

By Mzwakhe Hlangani
Labour Reporter

A MAJOR confrontation is looming in petroleum sector wage bargaining as the new Chemical Energy Paper Printing Wood and Allied Workers Union (Ceppawu) presses for wage increases dismissed by employers as "inordinately excessive and unrealistic".

National Petroleum Employers Association chairman Mr Chris Lucas further described the union' demands as "misplaced and not in line with basic economic fundamentals and outside the framework of good negotiations practice"

Ceppawu deputy general secretary Mr Bhengeza Mthombeni charged that employers' four percent offer was provocative and indicated their lack of commitment to good faith bargaining The union has demanded 15 percent across the board and a minimum wage of R2 600 a month.

The union is set to declare a dispute on Wednesday when the second round of negotiations start this week and begin mobilising its 92 000 members for a major conflict.

All sectors were in a position to afford the increases demanded since employers had accumulated profit gains while the union settled for even lower than inflation-related increases in the previous years, Mthombeni said.

Negotiations in the industrial chemical, rubber sector and consumer goods sector also started on April 13, 15 and 19. The union has demanded 20 percent increases and a minimum R2 000 wages a month in the consumer goods sector while the revised demand has been reduced to 15 percent in the chemical and rubber sectors.

In the glass sector bargaining is scheduled to start on May 5. Meanwhile, interim arrangements were being finalised in respect of the pulp and paper bargaining council, Mthombeni said.

The employers in the industrial chemical industry have made an opening six percent wage increase for sub sectors, with a further reductions of 5,7 percent for surface coating job categories. They maintained the four percent offer in all other sectors

Meanwhile, in the industrial rubber sector negotiations were also hamstrung by the employers' threat to withdraw from the centralised bargaining arrangement.

Bhengeza said employers argued that the National Economic Development and Labour Council still had to decide whether the sector fell under the chemical industry

Employers further complained that companies outside the central bargaining arrangement paid only R1 200 wages compared to R2 000 demanded by the unions within the bargaining forum.

Mondi factoring Safcol into its plans

BD 3/5/99 (194) FORESTRY

Robyn Chalmers

PULP and paper maker Mondi has proposed selling up to a quarter of its plantations to take advantage of the privatisation of the SA Forestry Company's (Safcol's) forests by creating bundles of assets that could fetch higher prices.

The unlisted group has issued a memorandum regarding the sale to a number of merchant banks to test the waters with international and local investors. Depending on their reaction, Mondi says it could follow the opposite route and increase its forestry holdings by bidding for Safcol assets.

The memorandum proposes that Safcol's 120 000ha of forest in Mpumalanga be combined with Mondi's 143 000ha of forest in Mpumalanga and Swaziland. Seven Mondi sawmills could be up for sale.

The document indicates that Mondi has begun rationalising local assets to focus on its core business pulp, paper and packaging. Due to capital constraints, a timber market slump and the need to focus on core areas, "Mondi has decided to reduce its exposure to the solid wood sector". The sawmilling sector has been through tough times recently, with falling demand for sawn timber and sharply higher sawlog prices. One in three sawmillers in the formal sector is estimated to be operating at a loss.

Mondi corporate finance manager Gordon Carrihill said at the weekend that some form of rationalisation in the industry was inevitable. "We are prepared to be involved in this either through the consolidation in Mpumalanga, in other words as buyers (of Safcol assets), or at an appropriate price we would be sellers."

He said a combination of Mondi and Safcol assets would result in added value for potential investors. "The forestry packages up for sale by government may not be large enough to attract international investors to SA. This could change if some of the assets are combined." The entrance of international bidders is likely to drive up the price for the forests.

Carrihill says Mondi is prepared to consider selling its Mpumalanga and Swaziland forests and sawmills, or retaining a minority interest in a combined business. In addition to its Mpumalanga and Swaziland forests, Mondi has 460 000ha of plantations in SA, which it will retain to supply its pulp and paper operations.

Government has received 23 nonbinding bids for 332 000ha of commercial forests and Safcol assets valued at between R1bn and R1,5bn.

Public enterprises office chief director Lydia Bici said at the weekend that government would issue a short list of potential bidders this week. Only four bids are believed to be for the entire Safcol business — the remainder being for one or more of seven forestry packages up for sale. The smallest package is 14 000ha and the largest includes Safcol's 120 000ha of plantations in Mpumalanga.

The Mpumalanga and Swaziland timber businesses of Safcol and Mondi make up 263 000ha of planted forest land, of which 195 000ha is softwood plantations and 68 000ha hardwood plantations. There are eight associated sawmills.

The memorandum indicates that many Safcol and Mondi plantations in these areas are adjacent and create management units in concentrated areas. "The combination of the two plantation resources provides the critical mass required, with security of supply, to establish a world-class processing facility in the region. This would enable the production of high-quality products at sufficiently low cost for international markets."

Sappi predicts sector shake-up

Robyn Chalmers

GOVERNMENT'S sale of its commercial forestry assets is the catalyst for a shake-up in the forestry sector, with key players reconsidering their strategies, says Sappi Southern Africa MD Ian Forbes

The state has announced a short list of 16 parties to bid for up to 332 000ha of commercial forests and other assets valued at R1bn-R1,5bn The lands fall under the water affairs and forestry department and the SA Forestry Company (Safcol)

Forbes said yesterday that in the current weak economic climate Safcol, which was one of the biggest timber growers in SA, was selling off a substantial asset "All players in the forestry sector are now likely to focus on what the most suitable next steps will be," he said

Mondi indicated at the weekend that it could sell off up to a quarter of its total forests in combination with the state's forestry privatisation exercise This would depend on investor interest

Sappi has been short-listed as a potential bidder for portions of the forestry assets up for sale Forbes said there were significant opportunities in these assets

Depending on the outcome of the bidding, any acquisition of parts of these assets could help Sappi to further optimise the management of its own forestry holdings in SA

Forbes said a key move for Sappi would be the listing of its Timber Industries company on the Johannesburg Stock Exchange, which was postponed last year due to weak market conditions "We still plan to list the Timber Industries company, but this will take place when market circumstances have improved," he said

(194) BD 6/5/99

Lockout at Mondipak continues

CT (MR) 7/5/99 (194)

Frank Nxumalo
Labour Editor

Johannesburg – The three-week lock-out of hundreds of workers allied to the Chemical Energy Paper Printing Wood and Allied Workers Union (Ceppwawu) and the Media Workers' Association of South Africa (Mwasa) at the Mondipak Alrode plant continued yesterday with demonstrations outside the factory

Mondipak was adamant it would not accede to union demands.

At issue is the introduction of a three-shift system that means staff work until 6am

At issue is the introduction of a three-shift system that requires employees to work until 6am.

The unions wanted the company to provide their members working from 6pm with transport, in line with the new Basic Conditions of Employment Act

Investigations by the Commission for Conciliation, Mediation and Arbitration (CCMA) had shown that transport was broadly available at these hours This interpretation has made the task of breaking the deadlock difficult.

It would seem the CCMA read the provision to mean that while transport had to be available, it did not necessarily mean that the company had to provide it. Available transport could mean available public transport.

Mondipak has held to that interpretation and said it offered several permutations of shift hours to address "perceptions" by employees that transport difficulties would occur

Vernon Morton, Mondipak's human resources manager, said: "Throughout the discussions and negotiations, the unions and their members have demanded a transport subsidy in addition to the several improvements in pay and conditions of service offered by the company"

He said Mondipak had not acceded to the demand for transport subsidies. Research showed that transport was available at all proposed shift changes. The onus was not on the company to provide transport.

Morton said the company had offered a 3,2 percent reduction in working time and introduced a 15 percent shift allowance for the three shifts, an arrangement that had exceeded the requirements of the act. This had resulted in a 3,6 percent increase in basic salaries.

Mondipak has employed scab labour and applied the principle of no work no pay, but workers have vowed to continue the strike until their demands were met.

"We won't go back to work without transport," said Johnson Mkhize, a Mwasa shop steward.

Share firms 20c on release of interims

Figures show Nampak can beat forecast

CT(BR) 7/5/99 (194?)

Ann Crotty

Johannesburg – The Nampak share price firmed 20c to close at R12,30 yesterday following the release of interim results that indicated the group was likely to achieve full-year earnings ahead of management's earlier forecasts

Lifted by interest income and a reduced tax charge, earnings for the six months to March 31 rose 9 percent to 55,6c from 51,2c in the previous interim period

An interim dividend of 16,1c a share has been declared

Group turnover was virtually unchanged at R3,7 billion but operating profit dropped 12 percent to R366,8 million from R416,8 million

Decline in sales reflects sluggish state of economy but rate cuts could bring lift

Management said the sales performance represented a decline in volume, reflecting the sluggish state of the economy The squeeze on margins, down to 9,8 percent from 11,2 percent, reflected the highly competitive conditions in the marketplace

As had been forecast by management earlier in the review period, the income statement benefited from a significant increase in interest income, up to R24,8 million from R4,1 million.

This left profit before tax showing a 7 percent decline to R402,6 million from R430,8 million

The income statement received a strong boost from the lower tax rate, which was down to 28,3 percent from 37,4 percent

The lower tax charge enabled Nampak to show a 7 percent increase in taxed profit to R288,7 million from R269,7 million Attributable earnings rose 9 percent to R285,1 million from R262,7 million

Brian Connellan, the group chairman, said the acquisition of Crown Cork and the consolidation of the tissue interests of Nampak, Swazi Paper and Dynamo as well as the acquisition of the Alpha Group's paper cement sacks manufacturing activities represented investments with an aggregate value in excess of R1 billion

He confirmed that the Crown deal included a formal agreement with the international Crown group

Connellan said the continuing interest rate cuts should stimulate the economy, which should result in limited volume growth in the second half

Assuming no major disruptions to the economy, he forecast real earnings growth for the full year

Numsa in clash with Nampak (194)

FRANK NXUMALO
LABOUR EDITOR

CT (BR) 18/7/99

Johannesburg - The National Union of Metalworkers of South Africa (Numsa) yesterday slammed Nampak, the packaging group, for allegedly varying conditions of employment after its merger with Crown Cork, the US based company, which had resulted in a 100 percent takeover of the South African food canning market.

Numsa said the reduction in wage rates from R18 an hour to R12 an hour violated existing labour standards and conditions of work.

The company proposed the matter of interpretation of the agreement be arbitrated before the Commission for Conciliation, Mediation and Arbitration.

"The company wants to block fundamental changes that have taken place," said Osborn Galani, the sector co-ordinator of Numsa.

"Attempts to erode hard-won rights will be met with resoluteness from workers as it amounts to betrayal."

The company was unavailable for comment.

Analysts warn the strong run may be overplayed

Sappi thrives - for now

CT (BR) 19/5/99 (194)

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg – Buoyant pulp and paper prices have led to a dramatic rerating of Sappi, the world's largest woodfree coated paper producer, which is now worth more than twice as much as it was in January

In the past few months Sappi's share price doubled from its low of R19,10 a share on January 25 to a high of R44,40 on May 4

But analysts warned that the strong run may already be overplayed The fundamentals of the paper and pulp market may not be as sound as was thought just a few weeks ago

North American and Scandinavian (Norscan) pulp stocks, which are an important determinant in the pulp price, rose by 159 000 tons in January but fell by a total 215 000 tons in March and April to just under 1,5 million tons

A stock level of 1,5 million tons is generally seen as the level at which prices begin to move upward

The falling stocks helped Swedish pulp producers hike prices by around \$20 a ton to \$480 a ton in March on the benchmark Softwood Bleached Kraft

That still leaves prices at less than half those achieved at the top of the cycle in 1995 Analysts said current prices were still below the production costs of many of the world's major producers

This should help sustain a steady but slow rise in prices One pitched prices at around \$600 a ton in a year

But some analysts have warned that the respite from low prices may be only temporary in the shorter term

Merrill Lynch, the stockbrokers, said in a recent report that while Norscan stocks had fallen, total inventories, including consumer stocks, had not This suggested that stock had simply been transferred forward in the supply chain

"Stock levels need to adjust before sustained strength is seen in the pulp price," the report said

But analysts warned that much of the reduction in stocks could also be driven by producers taking downtime for maintenance on mills, or shutting down smaller and older mills to make way for newer and more efficient mills

Analysts also warn that firming prices could encourage the commissioning of additional capacity

The Merrill report warns, "If all feasibility studies were implemented frightening levels of capacity would be added"

But it suggests that in the longer term prices should move up and capital investment in the industry will be constrained by a more disciplined use of capital

ARTFUL LODGER *Eugene van As (left), the chairman of Sappi, the paper and pulp producer, and Father Roberto of the Certosa dell Galluzzo monastery, near Florence in Italy, admire Ridolfo del Ghirlandaio's 'Madonna with Child and Four Saints', a 15th century oil painting which was damaged by flooding in 1996 Earlier this year Sappi held its European Printer of the Year Awards at the monastery Instead of payment, Father Roberto had asked Sappi to pay for the restoration of the Renaissance painting, Van As said last week. Del Ghirlandaio's work, painted on five poplar wood boards, will be repaired by brothers at the monastery and is expected to be ready for public display by the end of the year. Sappi, which will announce its full-year results on Monday, closed at R39 on the JSE yesterday – James Lamont, Johannesburg*

Proposed bid for Kohler causes uproar in industry

(194)
BD 26/5/99

Moses Mlangeni

INDEPENDENT manufacturers in SA's corrugated packaging industry have lodged serious objections with the Competition Board on a proposed buyout by Mondi of Kohler Corrugated.

Should the buyout go ahead it could limit the ability of Mondi, an Anglo American subsidiary, to supply paper to independent companies in the corrugated carton industry. Mondi and Nampak would be the only two major players.

The board confirmed yesterday that it would finalise within the next few weeks its investigation of the proposed takeover.

Corrugated carton consumption in SA amounts to about R2,5bn and corrugated paper consumption came to about R1,5bn.

Mondi MD Andrew Thompson refused to comment on the proposed deal. It is believed that SA Breweries, a big consumer of this type of packaging, would present a report this week to the board, supporting the objectors.

The objectors sought a guarantee from the board that Mondi would maintain sufficient capacity of competitively priced paper.

Drikus Greeff, the MD of APL Cartons, a Western Cape-based supplier of corrugated cartons, said his company had raised its concerns with the board after hearing of the proposed buyout.

"We want to protect export fruit producers and other users of corrugated packaging against any monopolistic practice which could disadvantage the price of competitive raw material supply," Greeff said.

Analysts said yesterday Malbak — Kohler Corrugated's holding company — was selling its noncore interests, which included its corrugated carton business.

The analysts said Mondi could be taking advantage of the disposal as it was in the process of downstream integration — a process it believed would lower operational costs and maintain competitive pricing.

SAPPI (194) FM 28/5/99

TURNING MORE POSITIVE ON PRICES

If, as Sappi chairman Eugene van As says in his interim review, pulp markets are showing signs of turning up and the bottom of the cycle has been passed, there could still be mileage in the group's share That is despite the near doubling in its price since February this year

Not that there is much indication of improvement yet in the latest figures Headline EPS for the half year to March dropped by about 11%, which is less severe than some of the market expectations The board is still expecting the full year result will show roughly static earnings It's just as well this group does offer a forecast Accurate predictions can be particularly problematic for outsiders, given the range of factors that seem to affect the bottom line

There are the usual difficulties of evaluating a multinational with activities spread across the US, Europe and SA Sappi's expansion trail over the past decade has also left it with a highly geared balance sheet and a complex financial structure The decision to eliminate the deferred equity instruments, which will now be regarded as debt, adds simplicity, but does not brighten the appearance of the gearing ratios

Another controversial issue is being addressed with the immediate change to the comprehensive method of calculating deferred tax This only becomes compulsory next year, but the reduction in SA's corporate tax rate offers an attractive opportunity to adopt the more conservative approach with little or no adverse effect on earnings, and at the same time remove a criticism that has long been levelled at the group

Does McCarthy Retail's sale of its banking operation to Peregrine for about R200m in cash and shares make the share worth considering as an interest rate play? Some investors seem to think so The price, at 120c this week, was well up on its 70c of last September

Management is making progress with the debt reduction plan, and the sale of the bank is stated as earnings-positive based on pro forma figures And this group, still SA's largest motor retailer, should be sensitive to sharply lower rates There may be grounds for this view, but it is probably premature McCarthy's debt remains way too high, and some analysts think it will be a while yet before the motor sector picks up

But the company remains worth watching for further developments Sooner or later the motor counters, traditionally highly cyclical, will be back in favour And the Anglo stake adds a speculative element to this share ■

Competition Board reaches decision on swap

Moses Mlangeni (194)

THE Competition Board has reached a decision on the proposed swapping of interests by packaging companies Mondi and Kohler Corrugated and will make an announcement before the end of the week

An analyst said it was likely that the deal had been approved

In the proposed deal Mondi was planning to buy out the corrugated interests of Malbak

At the same time it was planning to sell to Malbak the printing side of its carton board division, Interpak

This could see Mondi dominating the corrugated industry and Malbak dominating the carton board industry

The Competition Board said yesterday it expected to inform Trade and Industry Minister Alec Erwin about its findings on the matter today

BD 22/6/99

Decision fair and consistent, say analysts

Competition Board pulps Mondi deal

CT(BE) 24/6/99 (194)

ANN CROTTY

Johannesburg – Analysts yesterday welcomed a decision by the Competition Board to recommend that the trade and industry minister prohibit a proposed transaction between Mondi and Kohler, the paper and packaging groups

In another announcement, after an investigation into alleged restrictive practices by Multichoice, the board also criticised Multichoice and DSat yesterday for unacceptable practices

In terms of the proposed paper and packaging deal, Mondi would acquire Kohler's corrugated packaging business and Kohler would acquire Mondi's carton board packaging businesses Mondi is a wholly owned subsidiary of Anglo American Industrial Corporation and Kohler is a wholly owned subsidiary of Malbak

One analyst said the recommendation appeared to be in line with the board's desire to promote competition, because the transaction would have serious adverse implications for the availability of raw materials

Another said it was consistent with the board's earlier recommendation to prohibit the proposed transaction between Nampak and Crown Cork

The analyst said that although the board had blocked the original Nampak proposal, it did support a revised version of that transaction, showing it was reasonable and prepared to consider everybody's concerns

The board said yesterday afternoon that Mondi and Kohler had argued that their share of the respective markets would only match Nampak's This would encourage competition, they said

The companies also said there was "sufficient countervailing power in the market" to ensure that they would not be able to abuse their positions

The board said "criticism had come predominantly from large customers" and related mainly to the availability of raw material and "possible discriminatory practices" if the transaction went through

The board ruled the transaction would give rise to an "appreciable restriction in competition"

The investigation into alleged restrictive practices by Multichoice is part of a long battle between it and D-Sat, the satellite signal marketer

The board found Multichoice had never abused its position by refusing to enable a subscriber who had complied with Multichoice's subscription agreement

But the board found Multichoice's pricing policy for the sale of its decoders was restrictive "insofar as it discriminates between equivalent transactions in the same market, that is the rental and retail markets"

The board said many D-Sat customers were not aware that the cost of receiving the signal from DSat's rental equipment would escalate significantly after the first year of the contract The board described this as part of "an iniquitous marketing ploy"

Mondi, Kohler seem unlikely to appeal ruling (194)

BD 25/6/99

Sibonelo Radebe

THERE are limited avenues available for Mondi and Kohler to influence Trade and Industry Minister Alec Erwin in his ruling on their proposed swapping of interests after the Competition Board recommended against it, say analysts

Under the deal, ruled anticompetitive on Monday, Mondi would have acquired Kohler's corrugated packaging business and Kohler would have acquired Mondi's carton board packaging business

The two groups may present their case to Erwin to convince him to go against the recommendation

Mondi declined to comment on what it would do next, saying that the issue still had to be discussed at board level Kohler CEO Clarence Miller indicated no interest in taking up the issue with Erwin The ruling was disappointing but not devastating, he said, and business would continue as normal.

The board was concerned that the deal would have adverse effects on raw materials availability

Comment: Page 11

New bargaining council formed

CT(BR) 22/6/99 (195)

FRANK NXUMALO
LABOUR EDITOR

Johannesburg – The first centralised bargaining chamber in a labour relations structure under the new Labour Relations Act was effected yesterday after the labour department finally agreed to register a statutory council for the printing, newspaper and packaging industry

The move comes after almost two years of opposition from other unions in the industry

The council can now negotiate every working condition for workers but falls short of being a fully fledged bargaining council

The Chemical Energy Paper Printing Wood and Allied Workers Union, the South African Union of Journalists and the Media Workers Association of South Africa had objected to the establishment of the council because they wanted to create a centralised bargaining structure for the industry

The department also initially refused to register the council because the constitution of the South African Typographical Union (Satu) – the main protagonist of the application – did not fully comply with the provisions of the Labour Relations Act

The department instructed Satu to comply before its application could be considered

At its centenary celebrations last May, Satu said the registrar of labour relations had advised it that its constitution fully complied with the act Satu's application for the establishment of a statutory council for the printing, newspaper and packaging industry was subsequently published in the government gazette

The unions' objections after the notice was published in the government gazette forced both parties to give evidence before the Demarcation Committee of the National Economic Development and Labour Council

Satu had to explain why it believed the newspaper and packaging industry should remain defined as it had been over the years The objecting unions had to justify the industry's inclusion in a larger bargaining structure which included pulp, paper, wood furniture and forestry, and why they wanted that included in one main council with a number of subsectors

Satu said it "could not accept this and wanted to remain as it had been, as it had proved to be an economically viable sector over a hundred years"

It also felt the similarities between the trades and occupations in the industry justified retaining the status quo

Union wins battle to get statutory council

LYNNE RIPPENAAR
STAFF REPORTER

ARG 23/6/99 (19.5)

The South African Typographical Union has successfully applied for the establishment of a statutory council in the printing, newspaper and packaging industry.

The union succeeded in retaining a separate industry in the face of objections from other unions

In November 1998, Labour Minister Membathisi Mdladlana declared the printing, newspaper and packaging sector an industry, despite objections

Other unions wanted the industry included in a larger bargaining council structure to include the pulp, paper, wood, furniture and forestry industry, in a single main council with sub-sectors

By law, employer organisations and trade unions cannot be forced to form bargaining councils if they disagree on the status and powers of the body. This rule does not apply to statutory councils.

Sappi commissions its new marine pipeline

ET (BR) 12/7/99 (194)

Margie Inggs

Durban – Sappi, the world's largest producer of coated wood-free paper and dissolving pulp, would build on its existing industrial production strength in KwaZulu Natal with the commissioning of its extended marine pipeline, Eugene van As, the executive chairman, said at the weekend

Sappi contributes 20 percent of KwaZulu Natal's R20 billion annual manufacturing income It also accounts for 6,5 percent of KwaZulu Natal's gross domestic product

Last week Ronnie Kasrils, the new water affairs and forestry minister, opened Sappi Saiccor's extended marine pipeline near Durban Sappi Saiccor is part of the Sappi forest products division of Sappi

The mill is a producer of dissolving pulp used in products such as viscose and rayon.

UPWARDLY MOBILE *Eugene van As, the executive chairman of Sappi, says KwaZulu Natal offers exciting growth prospects as the market develops*

PHOTO BARRY TUCK

The extension cost R57 million and the contract was awarded in December 1997 The pipeline was extended by 3,5km to reduce the effect of Sappi Saiccor's effluent on beach users and divers

The project follows an environmental impact assessment that was endorsed by the government and was based on a tough public consultation process

Sappi to centralise Fine Paper business in London

(194)

ADELE SHEVEL

Johannesburg – Sappi, the global paper company, said yesterday it would centralise its Fine Paper business units in London in an attempt to streamline its product overlap and co-ordinate marketing activities

The group has fine paper businesses in the US, Europe and South Africa The South African division has up to now been managed by Forest Products, Sappi's other major business unit

Various assets held in different companies across the pulp and paper group would be incorporated into Sappi Fine Paper in London to strengthen its focus and global expansion, the company said

Fine Products contributes 81 percent to the group's sales and 82 percent of operating income, and comprises 72 percent of the company's net operating assets

Sappi has been through a stringent restructuring programme and last year secured a secondary listing on the New York Stock Exchange

Analysts said the fine paper restructuring was a logical step in the global focus strategy because the company was considering a primary listing offshore Sappi, however, said it was adopting a wait-and-see attitude

Eugene van As, the group's executive chairman, said Sappi Forest Products' role in the group had changed and the unit would increase its focus on the fibre side of the business

The company recently announced plans to list Sappi Timber Industries on the JSE

The group has also announced a number of management changes, including the resignation in September of Ian Forbes, Sappi's managing director

Trevor Larkan, the chief financial officer for Sappi Fine Paper North America would move to London in September to take over as chief financial officer of Sappi Fine Paper

John Job, the former chief executive of Sentrachem, would join Sappi on August 1 as chairman of the South African businesses and would also join the Sappi board

Sappi lost 50c to close at R54 on the JSE yesterday

CT (BR) 21/7/99

Top ratings for Sappi reflect 'capacity for timely repayment' (194)

Credit rating agency Fitch IBCA South Africa said yesterday it maintained the national short-term and long-term ratings of paper giant Sappi as "A1" and "A" respectively

Fitch said "These ratings reflect the company's strong capacity for timely repayment of principal and interest relative to other obligors Adverse changes in business, economic or financial conditions are more likely to affect the capacity for timely repayment

"The rating review in 1998 led to the reaffirmation of credit ratings due to the anticipated flow of cash from the debt reduction programme There has since been a further deterioration in gearing and of particular concern is the immediate pressure on cash flow as a result of maturing debt obligations in the form of the KNP loan note" At financial year 1998, net debt amounted to R13bn and gearing grew to 97,2% (1997 82%)

"The increase in gearing was due to the purchase of KNP Laykam and the investment in Saiccor At half year 1999, net debt increased to R15,1bn, while gearing deteriorated to 150% This was largely through the group's decision to convert deferred equity to debt and preferred stock to debentures, as well as the changes in disclosure and accounting policies concerning deferred tax," said Fitch

Sappi, which previously applied the partial method of calculating deferred tax, had converted to the comprehensive method

Fitch said "Consequently, ordinary shareholders interest was reduced

"The group has made progress in terms of a debt-restructuring programme The anticipated replacement of short-term obligations through a medium-term note issue will more than alleviate the expected pressure on cash flow, whilst improving the group's debt maturity profile " The syndicated loan is to be underwritten prior to year-end, the progress of which will be monitored by Fitch

The group's underlying cash generative capacity had strengthened, said the agency, largely as a result of the inclusion of KNP Leykam, while market conditions had shown an improvement over the past few months —Sapa

BD 22/7/99

Textile workers stage stoppages

(197)

Sowetan 20/7/99

By Mzwakhe Hlangani
Labour Reporter

TENS of thousands members of the South African Textile Workers Union took to the streets yesterday in nationwide demonstrations to highlight massive job losses in the clothing, textile and leather industries

Mass marches by an estimated 30 000 workers were held in Pretoria, Johannesburg, Bloemfontein, Durban, Port Elizabeth and Cape Town, to put pressure on the Government to freeze the tariff reduction programme in the industry, in line with General Agreement on Trade and Tariffs

The Government must act and intervene to save jobs and help industry to grow by implementing labour intensive methods to generate jobs, Sactwu Gauteng regional chairwoman Ms Sesi Modise said when presenting a memorandum to provincial director-general Reverend Lulamile Mbethe

At least 20 000 jobs were lost last year alone as factories closed down, while illegal clothing, shoes and textiles flooded South African markets, she said

Similar protests were held in the Western Cape at factories in Maitland, Epping, Parow and Bellville

Sactwu called on the Government to freeze tariff reductions on clothing and textiles for a four-year period

Customs and excise functions should be improved to prevent the "smuggling" of illegal goods and imports of second-hand clothing should be stopped

The union also called on employers to support the right of workers at small businesses to a living wage and to sign a commitment to stamp out fraud in their dealings with customs and excise

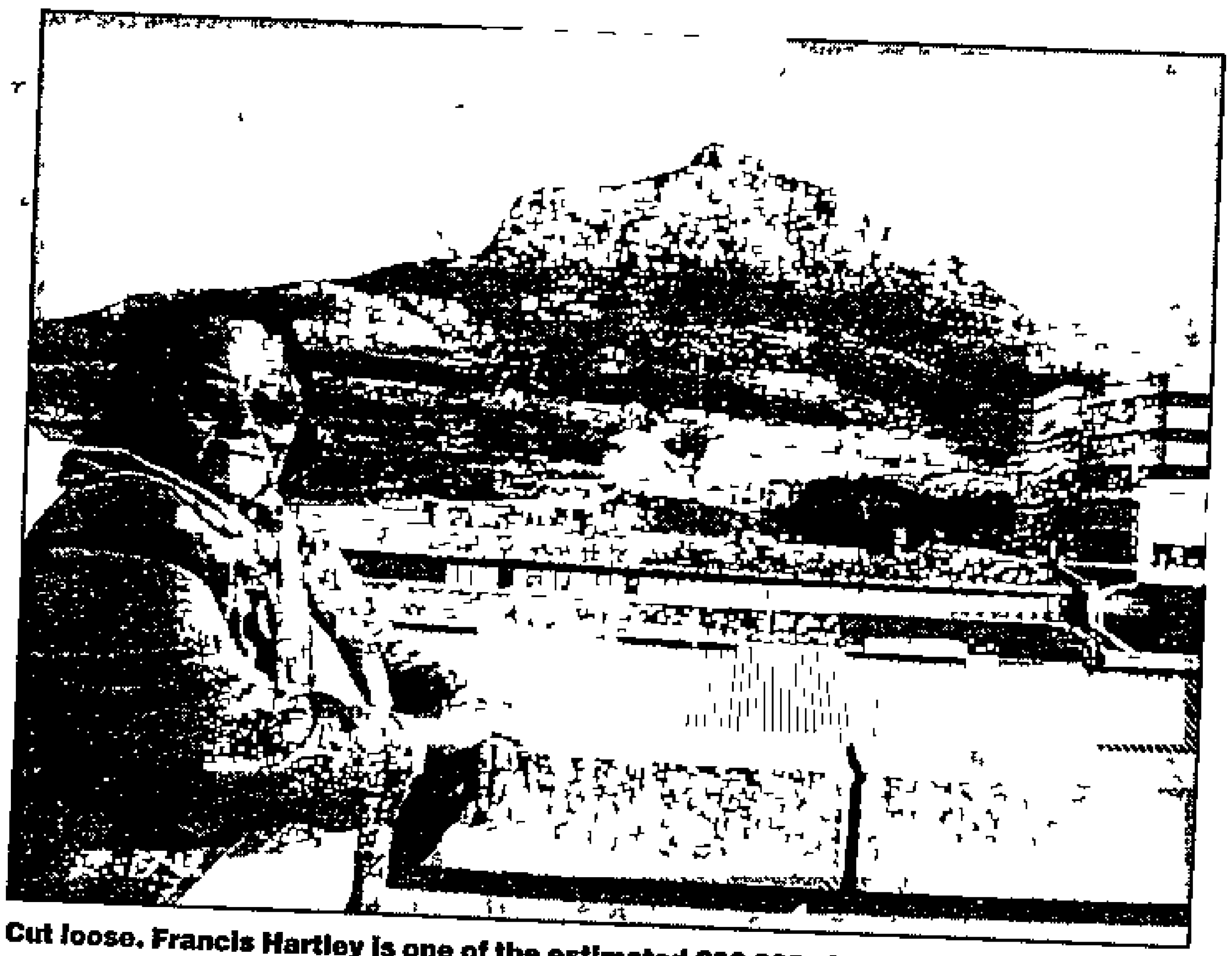
Employers were urged to accelerate training and to stop retrenchments They should also negotiate all sub-contracting with the union Contract workers should be given permanent status, Sactwu demanded

About 3 500 textile workers in Port Elizabeth participated in the human chain and at Bisho about 1 200 workers gathered at the local stadium before marching to the Provincial Legislature

Sactwu regional general secretary Mr Sonnyboy Masingi said about 5 000 workers marched peacefully on the Department of Trade and Industry, while in the Free State a march was held from the industrial areas in Botshabelo to the Free State Development Corporation

Masingi also called for the setting up of a special restructuring fund to help factories to grow while businesses should gain capital access

Implementing the "Buy South Africa" campaign agreed to at the Presidential Jobs Summit last October would also help improve the worsening situation, Masingi added



Cut loose. Francis Hartley is one of the estimated 200 000 clothing and textile workers across South Africa who lost their jobs last year. PHOTO: ANWAR ESSOP

Textile workers suffer after cutbacks in the rag trade (184)

M+G 23-29/7/99 (197)

Marianne Merten

Francis Hartley spent 35 years working in Cape Town's clothing and textile factories. She has been unemployed for almost a year since her factory was liquidated because orders were being cancelled.

She is one of the estimated 20 000 clothing and textile workers across South African who lost their jobs last year The South African Clothing and Textile Workers' Union (Sactwu) estimates 10 000 workers have been retrenched so far this year

Lunchtime protests this week drew attention to the job losses The union blames the losses on companies moving to neighbouring countries where labour is cheaper and often not as organised, and on illegal products and cheap imports

Hartley turned 60 last December She is known as Auntie Fran to friends, factory workers and at Sactwu, where she was a shop steward

She had been working at Peerless, one of Cape Town's oldest factories, for 29 years when it closed last August

"I felt sorry for the young ones," she says "Each week a group used to go We used to have prayer meetings The liquidator came to speak to us. Even the bosses cried."

Two brothers who had worked at the factory for more than 20 years, she remembers, looked worried that day for the first time. Their father had just retired from the same factory

Hartley blames the cheap imports and the lack of modern technology at many of the factories The government has done little to save jobs, she adds

"Workers are willing. Many are really good machinists. But they are illiterate. It's heartbreaking There is no training going on They should have started this long ago."

Since she started working as an examiner and later as a quality controller in the Sixties, little has changed in Cape Town's clothing and textile industry Hartley says she still gets phone calls from workers complaining they are not being paid for overtime

In an industry where women are the majority of the workforce many are employed on a casual basis Those without permanent jobs are the first to go

A friend and former colleague of Hartley's who was also retrenched is now at home with her daughter — who also lost her job in one of the clothing factories — her daughter's baby and her son's child

"A lot of the workers are still unemployed Their unemployment money has now run out," says Hartley, shaking her head. "Some of them are having a really hard time The little money that comes in goes to the children A lot of them are women, single parents."

Hartley herself is getting a monthly pension of around R500 "I'm used to working for my money. You have to stand in the queue. You feel like a beggar." In June she received a R600 one-off pay-out from the liquidated company Apparently more money could be paid to former workers as the building has been sold off

"I had enough Two factories [have] closed down on me."

But Hartley says she is lucky. She managed to raise four sons while working in the clothing sector. All of them have good jobs

The eldest of seven siblings who grew up in a convent in Parow, she says she had to start working when her second child was on the way.

Over recent years Hartley has attended several workshops in her capacity as union shop steward One on Aids/HIV captured her heart and she now wants to volunteer at an Aids/HIV awareness organisations. She is also on the proportional representation list as an African National Congress candidate for elections to the Tygerberg Council

(2327) (1947)

Mondi and Kohler get the go-ahead

JOHANNESBURG — The Competition Board yesterday reversed a decision barring two packaging and paper firms from swapping assets after they tabled revised proposals.

Board chairman David Lewis said approval had been given for paper group Mondi to acquire Kohler's corrugated packaging unit. In return, Kohler would buy Mondi's carton board packaging business. Both companies are unlisted.

Lewis said the approval followed a revised proposal by Mondi, undertaking to sell its corrugated packaging plants within three months to a buyer approved by the Competition Board. — Reuter.

BD 20/8/99

Union wants govt to revisit tariffs policy

Simphiwe Xako

THE SA Clothing and Textile Workers' Union (Sactwu) resolved at the weekend to put pressure on government to bring its tariff reduction in line with World Trade Organisation (WTO) standards

Sactwu national education secretary, Andre Kriel, said the union was concerned that government was reducing tariffs at a rate faster than any country in the world

"We are not against the reduction itself — we don't hold a perfectionist attitude — we are just saying government must keep to the requirements of the WTO," Kriel said

The Sactwu congress, which coincided with the union's 10th anniversary, also resolved to increase the "buy SA campaign" and the "save jobs campaign" It also resolved to step up the fight against alleged customs fraud

"We have reached an understanding with major SA clothing and textile companies to report any fraudulent sources who try to sell them illegal goods Most of the companies have signed a record of understanding with the union, but we are gravely concerned by those still refusing to sign," Kriel said

The congress also vowed to strengthen the Congress of SA Trade Unions by organising in the entire Southern African Development Community (SADC) region

"Union organisers will be mandated to work in the broader SADC region and educate workers about their rights This will stop exploitation of the region by developed and industrialised countries"

Sactwu will also start talks with major international clothing firms like Reebok and Nike to try to broaden its knowledge about global market developments

The congress re-elected Amon Ntuli president while Ibrahim Patel was appointed new general-secretary Patric Shabalala is the new deputy general-secretary

John Zikhali is the new first vice-president with Faith Modise appointed as second vice president Carmen Jephta is treasurer.

BD 20/9/99 (184)(197)

Second-hand clothes a threat to health

The textile industry in east African countries is suffering similar problems to the industry in South Africa, but their woes are caused by the second-hand market. **Joe Khamisi** reports from Dar es Salaam

(197) ARG 22/9/99

Trading in imported second hand clothes has become a multi-million shilling industry in East Africa as money-thrift consumers find ways of stretching their spending power to the limit in the wake of unrelenting economic woes

But manufacturers and health officials in Kenya, Uganda and Tanzania warn that the proliferation of used items sourced from developed countries was hurting production of locally made goods and posing a health hazard.

"Large-scale importation of *mitumba* (second hand clothes) is one of the major causes of collapse of the textile sector," says LK Chepkitony former MD of Rivatex in Kenya

The firm is one of several that have collapsed since 1994 due partly to competition from second hand clothes imports

The bulk of dresses and shoes come from Europe but large imports are also being received from the United States

In Dar es Salaam, Kampala and Nairobi and in some of the remotest parts of eastern Africa tens of thousands of people earn their living selling *mitumba*.

But it is the importers – a large number of them Asians - who reap huge profits from the trade

'Depending on the contents, a bale of second-hand clothing bought in bulk costs less than 50 000 TShs (Tanzanian Shillings) says Amir Dhanjee a trader in Dar es Salaam

With that I can earn up to 40% profit a bale'

Ugandan manufacturers suffered a debilitating blow when the government refused to ban used footwear and clothing or impose a tariff hike on it.

Gerald Sendaula the finance and economic planning minister argued that second hand clothes were cheaper and ensured people did not 'walk naked"

Second hand clothing selling at a discount of more than 60% of their original prices have become so popular that even the poor and the middle-class can afford to wear international brand names such as Nike and Pierre Cardin

> 'Even the poor can afford to wear international brands'

To act cool urban teenagers show off in Chicago Bulls sweat shirts and Liverpool football team jerseys.

The Uganda Manufacturer's Association claims the influx of used items dampened local initiatives aimed at generating business.

It cited figures showing only a tenth of 14 million pairs of shoes sold annually in Uganda were locally made

Early this year, Kenya's largest producer of shoe wear, Bata, was forced to suspend production blaming unfair competition from second hand shoes

In Nairobi recently the High Court ruled in favour of that country s Bureau of Standards and ordered that 1 000 bales of second hand clothes be returned to Italy after they were certified to be unfit for human use

Health concerns have forced Nairobi authorities to order that all arriving used clothing be fumigated to get rid of harmful substances that they claim could cause diseases But the directive has largely been ignored for lack of efficient enforcement machinery

Diseases such as leprosy scabies, athlete's foot and pediculosis, a disease brought about by lice are associated with wearing untreated used clothing health officials say

Tanzania has warned its citizens to be careful about what they buy at makeshift roadside clothing stores

The country has no laws banning the importation of second hand clothing Along the busy Morogoro Road, rows of second-hand clothes kiosks reach out for customers

But what worries health officials most is the trading of underwear, including panties, socks and bras

Dar es Salaam health officer, Isaac Mwalumba, said such clothing could harbour serious diseases

"One is never sure which kind of disease he or she is likely to get from wearing such items, either in short or long term."

Poor economies in East Africa have eroded the people's buying power immensely, forcing many to go for cheaper, albeit low quality products – Independent Foreign Service

Hard at work: while the South African textile industry faces problems from cheap imports, in east Africa the second-hand market is undermining the industry

ET (BR) 6/10/99

Xerox warns on cost of wasting paper

(194)(86)

JOHN FRASER

Johannesburg – Xerox South Africa, the office equipment supplier, this week warned South African companies that they would save about R13,5 billion a year if they stopped wasting paper.

The forest of trees that would be reprieved would also help efforts to safeguard the environment.

Xerox calculated that companies habitually overproduce and discard almost 20 percent of their paper document output.

As the cost of documents amounted to about 10 percent of companies' annual expense budgets, Xerox calculated that the total waste was 2 percent of South Africa's total gross domestic product of R673 billion – that is a whopping R13,5 billion.

"By working online, rather than on paper, companies improve document quality and productivity, minimise storage and archiving expense, and save time and money," said Pierre Nothard, the general manager of Xerox South Africa. "By adopting more effective document management processes, South African companies can make substantial economies."

The Xerox survey showed more than 90 percent of firms believed that efficient document management was crucial to productivity.

Mel Powell-Rees, the industry marketing manager of Xerox, said Xerox had developed systems that could radically reduce paper wastage.

Sappi is judged South Africa's most global firm

CT(BR) 12/10/99(194)

James Lamont

Johannesburg – Sappi, the paper and pulp producer, was judged yesterday as South Africa's most global company in an index developed by Business Report, Barlows and PricewaterhouseCoopers

The runners-up were Metro Cash & Carry, the retailer, Barlows, the industrial corporation, and Datatec and Dimension Data, the information technology companies

Sappi is the world's largest producer of coated woodfree paper, the world's largest producer of dissolving pulp and the largest forest products company in Africa It owns 29 plants in eight countries and has forestry operations in southern Africa and the US The company's products are sold and consumed in over 100 countries

The group has manufacturing facilities in Austria, Belgium, Germany, the Netherlands, the UK, the US, South Africa and Swaziland

About 77 percent of Sappi's paper production and 41 percent of its pulp production capacity is located offshore Leading brands, which include Magno, Somerset, Saiccor Dissolving Pulp, Royal Press and Hanno Art, have a sales value in excess of R9 billion

Eugene van As, Sappi's chairman, said "We've worked very hard at being global We are a First World company operating in a First World environment We are certainly one of the largest South African investors in quite a few countries, including Austria, Germany, Holland, Belgium and even the US

"We have chosen to go into the First World as a manufacturer, not as representative offices that deliver products from South Africa"

Van As said while competition was tough in Europe and the US, the volume of growth and consistent rules in these markets brought rewards

"South Africans are pretty talented people We find they adapt easily offshore"

Sappi's foreign shareholding stands at 53 percent, which the company expects to rise to about 65 percent

Sappi shares have a primary listing on the JSE and secondary listings in London, New York, Frankfurt and Paris

The group's past financial year showed that 87 percent of its sales of R24 billion were outside of South Africa It employs 24 000 people, of which 45 percent work outside of southern Africa

The South African Global Company Awards is an annual competition which charts the progress of companies domiciled in South Africa expanding their operations abroad It measures foreign assets and sales, brand spread, employees overseas and management with overseas experience

Last year's most global company was Boart Longyear, the mining engineering company

□ Global Companies, Page 8

VICTORIOUS *Sappi's Eugene van As accepts the award at yesterday's most global company banquet* PHOTO JOHN WOODROOF

Efficient Sappi boosts its headline earnings

(194) BD 3/12/99

Sibonelo Radebe

IMPROVED conditions in the pulp and paper industry and internal efficiencies have helped to lift Sappi's headline earnings 80% to 456c for the 12 months to September, from 253c in the previous year

Turnover rose 17% to R26,5bn

The global pulp and paper group's executive chairman, Eugene van As, attributed the improved results to better conditions in the industry and internal efficiency

The industry had been depressed as a result of declining prices since 1996, but the trend reached a turning point towards the end of the financial year under review, which augured well for the group's future earnings

Van As said the group was now a truly global company, deriving 85% of its sales from offshore activities and with 75% of its assets outside SA

After a successful international roadshow the group now has 52% of its shareholders outside SA, mainly in Europe and North America

During this roadshow the group issued 14,5-million new shares for cash Buhrmann NV, which previously held 44,6-million Sappi shares, sold 31,5-million secondary shares

This exercise, which was three times oversubscribed, saw Sappi raising about $385m

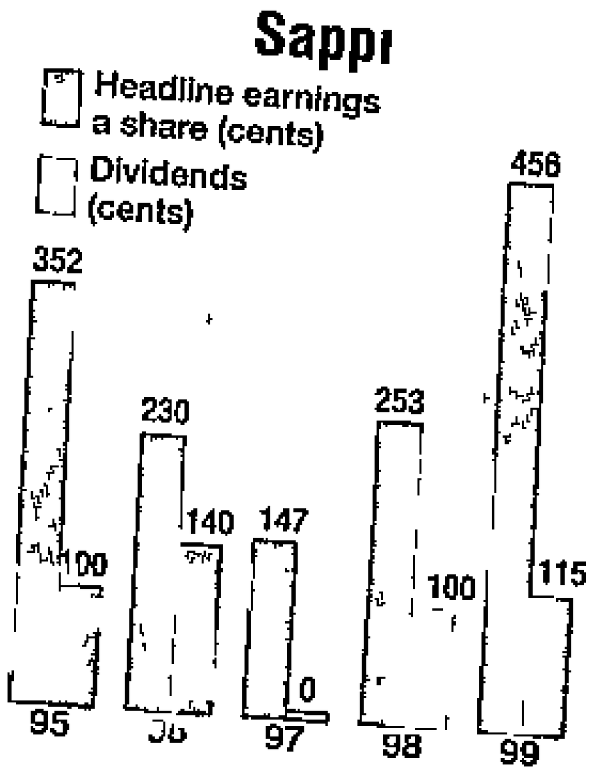
"Following the offering Sappi has a wider shareholder base with no shareholder holding more than 10% of its issued shares," said Van As

He said the proceeds of the new shares would be used to acquire the minority shareholdings in Leykam Murztaler and Usutu Pulp

As a result of the offerings the liquidity of Sappi shares had improved 30% in the past two weeks

Van As said again that Sappi did not need to list offshore to be recognised by international investors, because it was a global company already with activities spread around the world

Sappi



KUBEN DAVID Source SAPPI

Sappi's net debt at the end of the year under review stood at R12,2bn, reflecting an annual decline of R3,1bn Van As described this debt retirement as impressive and said the group would increase efforts to retire the balance

He said this rate of debt retirement was achieved primarily through strong cash generation, disciplined capital expenditure and the sale of US Timberlands for $180m

The group declared a 15% improved dividend of 115c compared to last year's 100c

Van As said the signs were that the industry was entering a period of recovery, with economic growth in the major US and European markets on track and Asian economies now also growing

Sappi shares closed 2,7% or 150c weaker at R55 on the Johannesburg Stock Exchange yesterday after 401 000 shares worth about R22,5m changed hands in 147 deals