MANUFACTURING — CHEMICALS & PRODUCTS

1991

JANUARY — JUNE

Shell appeals against loss of protection

Bdam 4/1/91 (183)

EDYTH BULBRING

SHELL SA has appealed against a government decision that it can no longer prevent rival oil companies from setting up similar service station complexes in Kroonstad without Shell's permission

A Shell spokesman said yesterday the company was unhappy with the finding and had lodged an appeal in the hope that the ruling would be overturned

Administration and Economic Co-operation Minister Wim de Villiers acted on recommendations of the Competition Board in October that Shell had acted unlawfully by reserving for itself the right to decide whether anyone might establish a business similar to its Ultra City complex in Kroonstad

The investigation was launched following a complaint by businessman Den Hartog who was refused permission by Shell to build a similar complex in Kroonstad near the N1

The offending clause, which empowered Shell to stop Hartog from setting up in competition with itself, was contained in the lease agreement between Shell and the Kroonstad City Council

The clause made it possible for Shell to exclude competitors for 20 years from providing a comprehensive service to motorists and was therefore a restrictive practice, the Competition Board found

In submissions to the board last year, Shell said the clause was commercially prudent and reasonable protection of an investment of R3m

Shell also maintained that had the clause not been included in the lease agreement, Shell would probably not have proceeded with the development in view of the high risk involved and the fact that the development did not have direct access to the N1

Hartog contended that the clause was against Shell's competitors as it restricted their entry into the market

ADCOCK INGRAM (183)

MANAGING THE ASSETS

While many companies have been hit by high interest payments on large amounts of debt, Adcock Ingram has managed to avoid this. In addition, tight control over asset management has helped the group achieve consistent growth

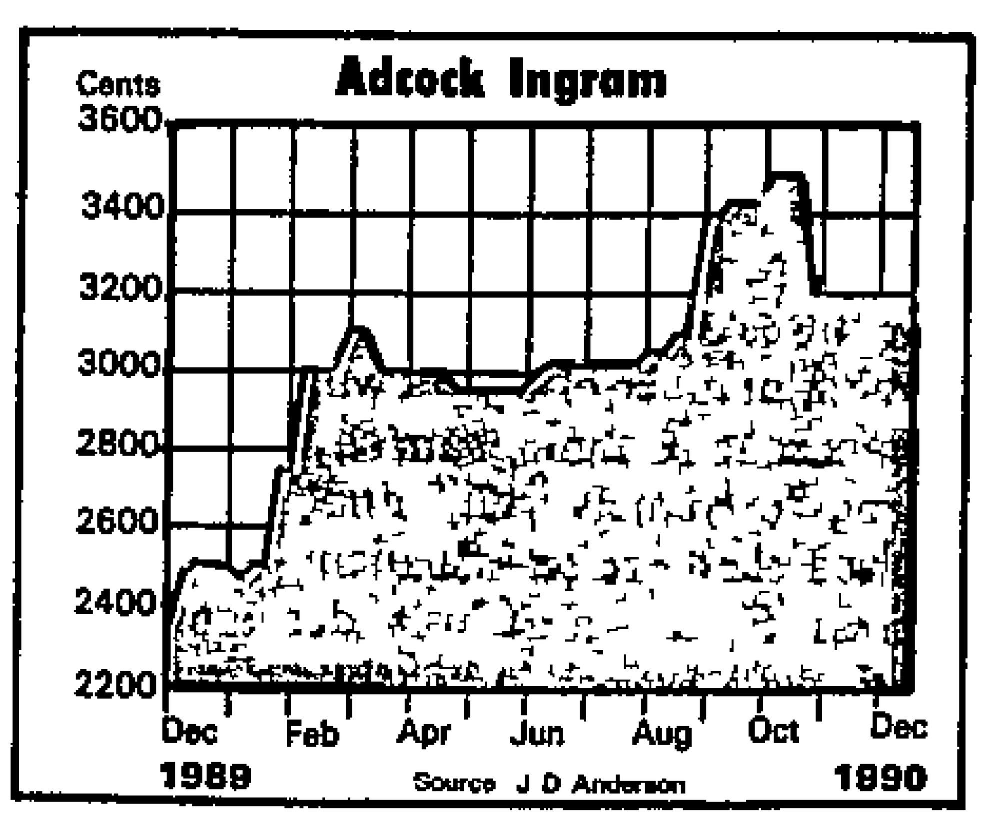
FM 4/1/91

Adcock Ingram has no long-term debt and just R21,1m short-term debt — 19% down on the previous year Consequently, interest paid rose only 11% to R6,5m A spokesman says the group's strong cash generation has enabled debt to be held at low levels despite an expansion programme. He notes that debt capacity has been maintained for acquisitions should they present themselves. Acquisitions could include trademarks and registration of new products from overseas

Concentration on asset management proved to be successful and the pre-interest margin improved to 15,5% from 14,4% in the face of higher costs. This was partly due to investment in management information systems, which enable tight control over working capital. Focus on increased productivity and cost containment across all operations has also contributed.

Growth is the group's key strategic objective and this it has achieved consistently over the past seven years. Attributable income rose 29% in the 1990 financial year and compound annual growth since 1984 is 30,6%

The spokesman says further growth — at least in line with inflation — is expected for the current year and will be achieved across the board in prescription and non-prescription drugs and consumer health care Group CE Don Bodley says in his review that further growth will come from the export business which is expected to expand in Africa, the Far East and the Indian Ocean Islands



To capitalise on growth opportunities, the group has restructured into six strategic business units: pharmaceutical; critical care; generic products; self-medication, consumer products; and wholesale and retail Growth will also be achieved from licence arrangements with international pharmaceutical companies and from new products in the pipeline

The Adcock Ingram share price is reacting in line with the favourable results and trades at R32, close to its 12-month high of R35 from where it slipped in the midst of the Sabax scare It deservedly has the best rating in its sector, on a p·e of 17,6 and yield of 2,1%.

Heather Formby

Adcock Ingram's Bodley .
exports expanding

Activities: *Manufactures, markets and distributes healthcare products*
Control: *Tiger Oats, ultimate holding company is Barlow Rand*
Chairman: *R A Williams, Group CE D C Bodley*
Capital structure: *27,2m ords Market capitalisation R870m*
Share market: *Price 3 200c Yields 2,1% on dividend, 5,7% on earnings, p e ratio, 17,6, cover, 2,7 12-month high, 3 500c, low, 2 450c. Trading volume last quarter, 53 000 shares.*

Year to Sep 30	**'87**	**'88**	**'89**	**'90**
ST debt (Rm)	9,5	17,9	26,1	21,1
Debt.equity ratio	0,11	0,16	0,18	0,12
Shareholders' interest	0,50	0,51	0,50	0,49
Int & leasing cover	32	12	13,5	20,3
Return on cap (%)	19,1	22,2	24 3	27,3
Turnover (Rm)	251	335	471	616
Pre-int profit (Rm)	33,2	49,2	67,8	95,4
Pre-int margin (%)	13,2	14,7	14,4	15,5
Earnings (c)	802*	118	143	182
Dividends (c)	297*	44	53	68
Net worth (c)	3976*	423	515	631

* Before share split.

PETROCHEMICALS FM 4/1/91

WATERBERG BONANZA?

Iscor, which owns the Grootegeluk coal mine in the Waterberg field, is considering involving itself in plans for a huge petrochemical plant to produce aromatics from the mine's rich deposits (183)

The size and cost of the plant and marketing of its products are still under investigation. It is estimated that a coal-based aromatics plant, with a capacity of 700 000 t a year, would cost about R3bn.

Talks between Iscor, the IDC and Batepro, through its subsidiary Weskem, on the possibility of such a plant have sent ripples through the petrochemical industry.

Aromatics (mainly xylenes and benzenes) valued at about R600m are imported each year as Iscor subsidiary Suprachem and Sasol can satisfy only a portion of local demand. During the past year or so Sentrachem officials have repeatedly touted the building of a R4bn naphtha cracker to produce aromatics from an imported, oil-derived, naphtha feedstock base.

Though Sentrachem is the chief promoter of such a move, Mossgas and Engen have been mentioned as possible partners. While the much-touted naphtha cracker will essentially produce ethylene with aromatics as a by-product, the proposed Waterberg plant would be focused primarily on aromatics.

Batepro (and Weskem) executive director Johann Wingard says. "We are now doing a major study on the application of the so-called direct liquefaction process developed by Ruhrkohle of Germany to the Waterberg coal.

"The special characteristics of the coal in this field make it eminently suitable for liquefaction."

Direct liquefaction involves subjecting fine coal dust under pressure in a hydrogen environment and adding recycled oil. The result, says Wingard, is the transformation of the dust into a high-quality, synthetic crude oil.

"This process is about twice as efficient as

FM 4/1/91 (183)

indirect liquefaction, such as Sasol's Synthol process. Admittedly, Synthol can be used with virtually any type of hard coal, while direct liquefaction is successful only with highly reactive coals like those found in the Waterberg field," he says.

Exploitation of the Waterberg field in the northern Transvaal, which has about 45% of SA's known coal reserves, has lagged behind the development of eastern Transvaal fields because it lies far from the main markets.

As soon as Weskem's feasibility studies have reached "verification stage" in about six months' time, a formal proposal will be submitted to Iscor (as a major partner) and the IDC (as principal financier).

Wingard's convinced the proposed Waterberg petrochemical plant would make aromatics from a cheaper feedstock base than any oil-based option. He estimates the cost of oil-based naphtha feedstock at about R670/t (with oil prices at US $20/barrel) compared with R180/t for the coal-based Waterberg feedstock.

An added advantage would be that feedstock costs would be relatively constant compared with the volatility of Middle East crude oil prices.

But techno-economist Jan Hoogendoorn criticises some of Wingard's assumptions. He estimates that the cost per ton of the Waterberg plant's feedstock (once financing charges on the total capital cost, maintenance, wages and salaries, overheads, catalyst costs and general costs have been added in) should be around R1 500/t. To this, he says, must be added the extraction and purification costs of the aromatics.

He argues that even with crude oil at $30 a barrel, petrol and diesel can be imported from western Europe at about R725/t.

Wingard's response is that the capital cost of a stand-alone plant at the coast would be about R2,3bn. Using Hoogendoorn's own feedstock costs, even based on an oil price of $20/barrel, the net feedstock costs would be R630m a year.

Adding in capital and operating costs, running costs would total R1,34bn a year compared with around R1,13bn a year for the Waterberg plant.

Any movement of the oil price above $20/barrel, he notes, would *increase* the imported naphtha feedstock costs.

Developments in the Middle East should also determine whether Iscor and the IDC agree to go ahead with the proposal.

A sharp rise in oil prices could add to the Waterberg plant's attraction — though the volatility of the Iraq-Kuwait situation could force potential investors to put their decisions on ice. ■

Noristan gets a boost from health products

B \ Day 4\1\91 MARIETTE DU PLESSIS (183)

HEALTHCARE group Noristan's Salusa health products notched up a 35% increase in sales in the past financial year, marketing director Steve Stanford said in a review of the group's activities

The rise in sales had not only re-established Salusa as a "major player in the proprietary medicines market", but also ensured its position at the forefront of the over the counter, self-medication sector, Stanford said

"Substantial growth in profit contribution was achieved through tight control over operating expenses and good unit growth of major brands including Prohep, Redupon and Calmettes," he said

Launch

Stanford attributed this to, among other things, a clearly defined promotional strategy which raised brand awareness among customers

The liver tonic Prohep, also used in cases of over-indulgence, had shown tremendous sales growth to the extent that it now held a substantial market share

Noristan expected to increase its market share and the group's bottom line through the launching of several high-quality products in the coming year

Furthermore, the addition of the well-kown Glaxo over-the-counter range would add to and improve the Salusa division's mix of available products

"From a strong base, we expect to continue on a growth path and to remain at the forefront of meeting increased demand in the over-the-counter sector Substantial investments in the expansion and training of the sales force will assist in these efforts," Stanford said

During financial 1990 the over-the-counter division was strengthened through the acquisition of a range of 12 products from Glaxo SA Manufacture of these products at Noristan's Waltloo factory would begin later during 1991, Stanford said

The products included established brands such as the Dequadin range, Anethaine cream, Skincalm, Fersamal, Torch saccharin tablets and Lanolin skin cream

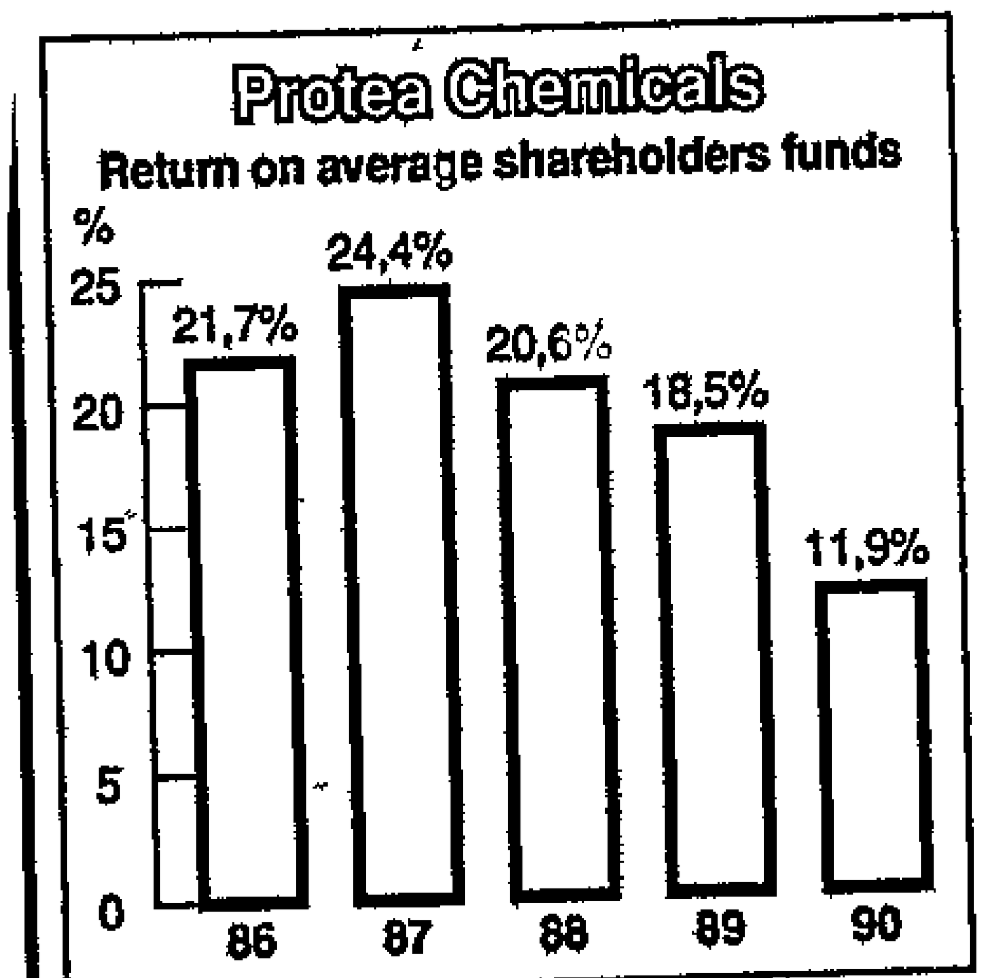
Prochem expects prospects to improve by second half

183 BDay 7/1/91

PETER COUTROMANOS

PROTEA Chemicals (Prochem) — hard hit by 1990's deteriorating market conditions and high interest rates which saw earnings fall 61% — is not expected to reverse this downward trend until well into 1991.

In the annual report for the year to end-August, group MD Mike Struwig says: "Under the circumstances, the group is not expecting an improvement in the first half although some improvement is anticipated in the second half of the year."



Graphic: FIONA KRISCH Source PROTEA CHEMICALS

Interest paid increased by 10,6% from R9,75m in 1989 to R10,78m in 1990. With interest rates expected to be maintained at high levels, debt servicing will continue to sap Prochem's profits.

The group has been adversely affected by the low gold price, which has reduced demand for chemicals by the gold mining sector and associated industries. Barring a sharp rise in the gold price, this state of affairs is set to continue.

International commodity chemical prices have also been at depressed levels for the past two years and the upward move caused by the Gulf crisis is not expected to have a significant impact on profits for the group.

In an attempt to maintain profit margins, the group embarked on a stringent cost-cutting programme.

As a result its net asset base shrank by 11,4%. Struwig said these cost reductions were "not able to compensate for the decrease in earnings".

Until there is evidence of a turnaround or a Gulf war, Prochem shares currently trading at about 105c will continue to be traded at a significant discount to their net asset value of 126,2c.

Royal looking at further acquisition in chemical field

By Ann Crotty 183 Star 9/1/91

Royal, which announced in December that it had acquired SA Preserving Company (Sapco) from Del Monte Foods International, issued a cautionary today that it is involved in negotiations with another company

The company, described as "a significant manufacturer in the speciality chemical industry" is believed to be Ferro, which is American owned.

According to the cautionary, the acquisition of Sapco and the chemical company will "necessitate the restructuring of the Royal group, including the separate listings of Royal's food and chemical interests "

Royal would get a lot of support from the local institutions, which would be keen to get a stake in a group this size with quality investments

The Sapco acquisition is expected to cost in the region of R100 million and is apparently to be paid through a mixture of commercial rands and financial rands

Ferro, which is based in the Midrand, would, it is believed, cost Royal in the region of R35 million.

On the basis of Royal's previous acquisition strategy it is likely that the executives of its chemical subsidiary, Lovasz, are familiar with Ferro's operations

That the two deals were announced so close together seems to be more of a coincidence than an indication that the Royal team have suddenly gone acquisition-mad

Analysts believe that the executive teams at Royal's two subsidiaries RBN and Lovasz have been looking at both acquisitions separately for some time

Royal plans to double profitability

MARCIA KLEIN

ROYAL Corporation's imminent acquisition would double the profitability of its chemical division, financial director Jacques Fragis said yesterday. (183)

Royal, holding company of Royal Beech-Nut and Lovasz Chemicals, announced yesterday that negotiations were at an advanced stage for the acquisition of a significant manufacturer in the speciality chemical industry. BDay 10/1/91

Fragis would not comment on the company to be acquired, but said it would entrench Royal in the speciality chemical market and would substantially increase the size of its chemical interests

He would not comment on speculation in the market that Royal was buying from a US company which was disinvesting but said the acquisition target was not Protea Chemicals as speculated

The acquisition would necessitate the restructuring of the Royal group which would include the separate listings of its food and chemical interests.

In December 1990 Royal announced that it had bought SA Preserving Company (Sapco) from its international parent Del Monte Foods International in a deal that was said to be worth about R100m.

The separate listings of Royal's food and chemical interests would help to fund the acquisition, though Fragis said the decision on separate listings was announced some time ago

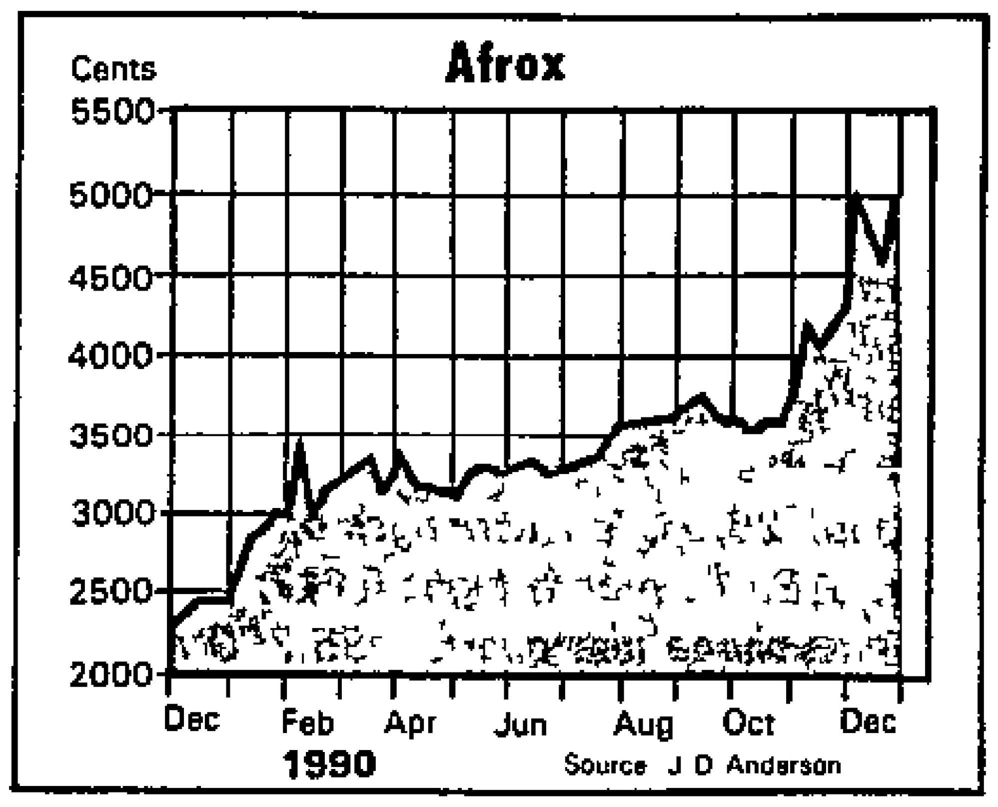
Royal's share closed yesterday at 280c

FM 11/1/91 (183)

AFROX FM 11/1/91 (183)

HIGH RETURNS

Flip through the press cuttings of most foreign-controlled companies and you are likely to find them dominated not by the usual results, product developments and other events which go to make up corporate life,



Activities: *Manufactures and markets gases, welding products, fluid-handling systems and other industrial products The health care division operates 10 hospitals and a day-care clinic*
Control: *BOC Group Plc 57,7%*
Chairman and MD: *P G Joubert*
Capital structure: *30m ords Market capitalisation R1,44bn*
Share market: *Price 4 800c Yields· 2,8% on dividend, 4,5% on earnings; p e ratio, 22,2, cover, 1,6 12-month high, 5 100c, low, 2 450c Trading volume last quarter, 120 000 shares*

Year to September	**'87**	**'88**	**'89**	**'90**
ST debt (Rm)	13,2	44,4	81,2	88,3
LT debt (Rm)	44,7	60,4	100,3	136,1
Debt equity ratio	0,06	0,25	0,38	0,36
Shareholders interest	0,61	0,56	0,52	0,54
Int & leasing cover	27,9	36,9	8,9	6,1
Return on cap (%)	15,9	16,4	17,0	17,5
Turnover (Rm)	448	567	728	904
Pre-int profit (Rm)	92,7	113,4	149,3	187,2
Pre-int margin (%)	20,7	20,0	20,5	20,7
Earnings (c)	114	147	171	216
Dividends (c)	61	75	100	135
Net worth (c)	1 127	1 304	1 478	1 872

but by the subject of disinvestment — speculation as to when, price, possible buyers and too often ending with the event itself

That Afrox is an exception to the rule does not necessarily mean its controlling shareholders are simply nice guys More likely, it reflects the fact that the company has proved an outstanding investment for BOC Group despite daunting odds that others have failed to overcome

Make no mistake Earning a satisfactory return for a foreign shareholder in a country where inflation is rife and the currency soft is no easy task To offset the effects of a depreciating currency on the financial statements of the parent company requires unusually high returns on funds invested That, in turn, leaves no room for sloppy management It requires, instead, constant attention to factors such as productivity and optimum use of resources

Given the link between inflation and currency values, it is probably fair to say that this challenge contributed in no small measure to the development of the group's comprehensive inflation accounting policies, while concentration on the concept of achieving real returns on funds employed, which is part of any inflation accounting system, has undoubtedly contributed to the excellent growth which Afrox has achieved over an extended period

Afrox's Joubert *producing real returns*

The past six years, for example, have seen inflation-adjusted EPS grow at an average of 23% a year — against which last year's 27% gain compares very favourably.

Over the same period, the real return on shareholders' funds has never declined, despite annual additions to non-distributable reserves arising from asset revaluations to bring the balance sheet value of the group's assets up to current cost. In fact, return on equity calculated on inflation-adjusted earnings and shareholders' funds, has nudged progressively higher from about 9% in 1984 to the current 11,6%.

This equates to a 24% historic cost return, being the figure most comparable with most industrial companies listed on the JSE, remarkably high for a capital-intensive business and especially so for one subject to an almost full tax rate

The tight asset management reflected in these results has had other spin-offs For instance, shareholders have enjoyed a liberal flow of dividends which, even on a historic cost basis, are covered only twice by earnings. And it has allowed the group to pursue a heavy capex programme without an excessive build-up of debt

Admittedly, when this programme started the balance sheet was decidedly undergeared, which provided considerable scope for expansion. But even now the debt equity ratio, calculated on historic-cost shareholders' funds, would still be under 60%, while interest cover of over six times indicates the group is still operating within conservative parameters.

Afrox's virtues have not, of course, gone unnoticed by the market Its 2,8% dividend yield and 22 times p e ratio reflect one of the highest share ratings on the JSE It goes without saying that by normal criteria Afrox is expensive on short-term considerations. Against this, the track record indicates that it is not a normal company, while the rating is a vote of investor confidence that, over the long term, the group will continue to perform as well as it has in the past *Brian Thompson*

FM 11/1/91 183

PROTEA CHEMICALS 183

POOR MIX FM 11/1/91

Activities: *Manufactures and distributes chemicals, plastic products and mining accessories*
Control: *Malbak Industrial Holdings 87%*
Chairman: *H F Brown, MD M Struwig*
Capital structure: *46,6 m ords Market capitalisation R46,6m*
Share market: *Price 100c Yields 3% on dividend, 8,9% on earnings, p e ratio, 11,3, cover, 3,0 12-month high, 130c, low, 65c Trading volume last quarter, 270 000 shares*

Year to Aug	**'87**	**'88**	**'89**	**'90**
ST debt (Rm)	21 7	18 0	28 6	36 0
LT debt (Rm)	2,0	12,3	19,7	2,3
Debt equity ratio	0,47	0 54	0,81	0,62
Shareholders interest	0,40	0,34	0,33	0,37
Int & leasing cover	5,81	4,63	2,62	1,66
Return on cap (%)	15,1	13,3	14,0	11,1
Turnover (Rm)	224	298	373	384
Pre-int profit (Rm)	18,5	21,4	25,7	17,9
Pre-int margin (%)	8,3	7,1	6,9	4 7
Earnings (c)	18 6	22,9	22,8	8,9
Dividends (c)	7,0	7,25	7,75	3,0
Net worth (c)	107	118	128	126

In the three months since Malbak subsidiary Protea Chemicals (Prochem) announced disappointing results for the 1990 year, the share price has climbed from an all-time low of 65c to 100c Whatever optimism is driving the share, there is little cause for such confidence to be found in the annual report

EPS plunged 61% despite a slight rise in turnover, dividends were cut from 7,75c to 3c and the company again fell short of its financial objectives

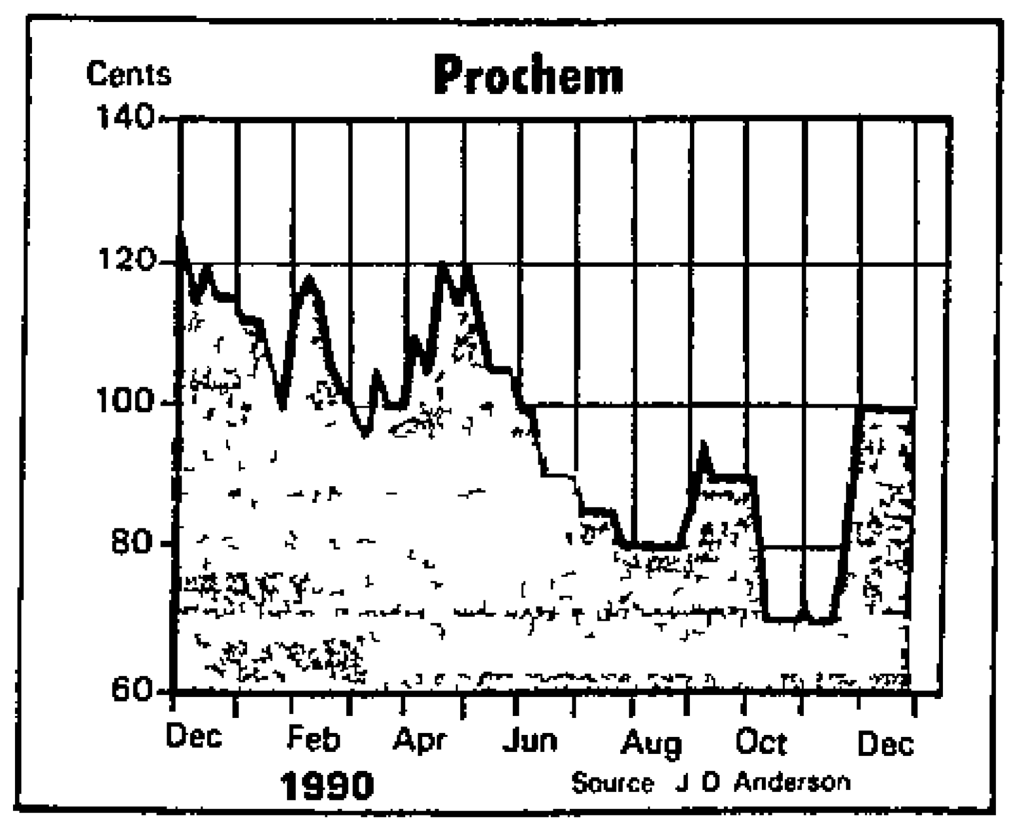
Most disturbing was the continued slide in the operating margin which, since the company was listed in 1987, has dropped from 8,3% to 4,7% Despite what MD Mike Struwig and chairman Hugh Brown describe as stringent cost reductions, the ratio dropped by more than two percentage points last year

They blame the recession, increased competition and high interest rates for much of the company's woes Other factors were the low gold price, which reduced demand for chemicals from the mines and their suppliers, and flat international commodity prices

Management is looking to more effective purchasing, improved efficiencies and further cost-cutting to reverse the slide in margins this year

Prochem has continued to curb its headcount as well as disposing of several unprofitable operations — at a cost close to R2,2m — and temporarily withdrawing from some of its traditional markets it now considers unviable Further cuts are likely this year and the company expects its three main divisions — trading, manufacturing and its Chemtech development group — to improve profitability

Most important, management is tackling the large debt burden Prochem's interest bill wiped out 60% of last year's operating profit A significant reduction in working capital helped to reduce year-end net borrowings by R11,7m to R36,6m Gearing improved from 81% to 62% but remains excessive Income of about R4m, received after the year-end from the sale of Chemplast, should further reduce borrowings



Management cautiously forecasts an improved performance in the second half However, EPS are likely to be well short of the 22,9c and 22,8c figures recorded at the 1988 and 1989 year ends

The share continues to trade at well below net worth While there may still be opportunities for investors willing to speculate, recent performance offers little cause for

Simon Cashmore

Royal buys foreign chemical company

MARCIA KLEIN

FOOD and pharmaceutical group Royal Corporation (Royal) has acquired Ferro Industrial Products (Ferro), a US-owned chemical company, for about R38m

Ferro produces speciality plastics, coatings and colours and ceramics

Royal yesterday also released details of its restructuring, in which its food and chemical divisions will be listed separately as Royal Foods (Royfood) and Royal Chemicals (Roychem)

Royal now has capital requirements of R173,9m to be funded partly by a variety of share issues.

The group's acquisition in December of SA Preserving Company (Sapco) from Del Monte Foods International will cost the dollar equivalent of about R113m.

183

This together with the Ferro acquisition has left Royal with funding requirements of R162m including costs, plus an additional R11,9m needed to recapitalise the existing chemical business of Holpro Lovasz.

The capital requirements will be funded via a combination of share issues of "placement shares" in Royfood and Roychem at issue prices of 335c and 260c respectively, by rights issues in Roychem and Royfood and through debt funding in Royfood

Placement shares will be issued to Royal which will renounce them in favour of certain investors at the issue price

FM 18/1/91 (183)

PHARMACEUTICALS (183)

FREEING PRICES

FM 18/1/91

The notoriously restricted market for prescription medicine should be freer from now

For nearly five years the Competition Board has granted the Pharmaceutical Society an exemption from legislation that prohibits price fixing and the fixing of conditions of supply

Through the society's subsidiary, Medikredit, pharmacies throughout the country are able to sell patients medicines and claim the cost from medical aids rather than in cash from the patient Medikredit offers discounts from a so-called notional retail price

Though pharmacists are not obliged to charge this notional price, medical aids up until now have agreed to reimburse the pharmacist this price, less a discount of between 5% and 15% agreed with Medikredit As pharmacists are guaranteed to receive the full retail price, less a small discount, there has been no reason for them to charge less

From January 1, however, contracts began to allow far more flexibility in prices so as to fall outside practices prohibited by competition legislation

Explains Competition Board chairman Pierre Brooks "Under the old contracts, the retail prices charged by pharmacies were based on the standard wholesale price plus 50%, whether or not this wholesale price had actually been paid But under the new formula that was introduced by the society, prices will be determined on actual costs and pharmacists will be free to mark up prices from 0% to 50% "

Though the new contracts were supposed to be out by January 1, nobody who was contacted by the *FM* had seen one Three of the top medical scheme administrators — Les Hollis of Medscheme, Tony Leveton of Affiliated and Jeff Slome of Medicaid — say they have no knowledge of the new contract David Boyce, who administers Medikredit in the Transvaal, says he is not yet familiar with it

The society's executive director Boet van der Merwe is on leave and no one is prepared to comment on his behalf Moreover, the society's press release on the subject, issued just before Christmas, made no reference to the changes It merely claimed that Medikredit had been given a clean bill of health and no longer had to apply for exemption from competition law

But the Competition Board's release in reply says "Should the society fail to effect the necessary contractual adjustments, it runs the risk of being prosecuted " Far from granting a clean bill of health, the board was not prepared to allow the old contracts to continue for a single day into 1991

Affiliated's Leveton says something had to be done "The old Medikredit contracts were patently anti-competitive as they discouraged price competition Otherwise why would they have needed exemption from competition law?"

Says Kosie van Zyl, MD of the rival discounting structure Mediscor "I am in favour of the Competition Board's decision Flexible prices will make Medikredit more competitive with our own prices I look forward to the speedy implementation of the new contracts "

However, the *FM's* inquiries show that the society seems to be in no hurry to put its new contracts into circulation

ROYAL CORP

TWO-FACETED DEAL

Royal is using the acquisitions of fruit canner SA Preserving Co (Sapco) and Ferro Industrial Products to accomplish its stated objective of listing its chemical and food interests separately The R162m required to buy the two companies from their US parents, as well as R11,9m to recapitalise the Holpro Lovasz chemicals businesses, will be raised in March through a combination of placing, rights issues and debt

About R63,3m will be raised through placing shares in newly created Royal Foods (Royfood) and Royal Chemicals (Roychem) with current institutional shareholders in Royal and its Royhold parent, a further R103,2m will come from rights issues and Royfood will borrow the remaining R7,4m

Close to 12,9m Royfood shares at 335c each and 7,7m Roychem shares at 260c will be placed with institutions A further 21m Royfood and 12,6m Roychem will be issued as rights at the same price

Royal, Royhold and their controlling shareholders will renounce their entitlement to the rights issues For every 100 shares held minorities will be entitled to take up 50 Royfood or 30 Roychem respectively

Once the restructuring is complete, Royal — 52% owned by Royhold — will hold 65% of Royfood and 58% of Roychem, in effect making it a second-tier pyramid Each Royhold share is mirrored by a Royal

Most of the food company's operations have been acquired from divesting US conglomerates, Sapco, for which Royal is paying Del Monte Foods International R113m, was a sister firm of Royal Beech-Nut when both were part of US-based RJR Nabisco

Roychem will consist of Lovasz — the original company brought to market in 1987 — Holpro, acquired in August for a sum yet to be settled, and Ferro, a speciality chemicals firm being bought for about R38m

Royal chairman Vivian Imerman says the restructuring will unlock the value of group assets and give shareholders a direct participation in operating activities at attractive returns The placing and rights issues value Royfood at R326m and Roychem at R125m, while Royal's interest in the two companies will be worth R285m At its current 280c Royal's market cap is R190m

New markets

Imerman says both acquisitions are profitable and offer considerable synergies As well as providing strong technology links with their former parents, they will open new markets in SA and abroad

Their impact on Royal's earnings will be immediate EPS for the year ending February 1991 would have leapt from a forecast 21,7c — compared with last year's 18,5c — to 34,5c had the deals been in place all year Management expects 1992 earnings from Royal and Royhold to be not less than 43,4c a share with a dividend of about 14,5c

Pro-forma EPS for Royfood and Roychem at year-end are put at 24,9c and 27,1c respectively, indicating p es on issue price of 13,4 and 9,6, compared with Royal's historic p e of 14,3 Management projects earnings growth of 25,3% for Royfood and 27,3% for Roychem in the following year

Imerman is confident real growth can be sustained The track record, though limited, is impressive The issues are likely to be well supported by institutions, which may restrict trade in the new shares

Simon Cashmore

LEPPIN FM 18/1/91

LONG HAUL

183

Chairman Gerda Leppin says the 30% increase in turnover "compares well with previous years," though in line with the economy the gain slowed in the final quarter. She attributes the failure of earnings to match turnover growth since the November 1987 listing to expensive remodelling of the product range, distribution methods and "cost of sales," considered necessary to ensure the long-term market position and future profitability, in line with the "stated philosophy" of taking a long-term approach at the expense of short-term profit.

Long-suffering investors who took up shares at 50c in the 1987 issue may also recall that the prospectus forecast earnings of 5c a share in the first year with steady growth thereafter, but that part of the "stated philosophy" no longer seems to hold

At least the company tries to run a tight ship. Stocks rose only R23 000, but debtors apparently proved more difficult to recover, as they were up 60% to R1,9m The current asset ratio improved to 1,3 1 (1989 1,2), still a little less than desirable, explaining the decision to pass the dividend yet again

Nor is tax a problem There has been no liability in recent years, thanks to allowances on exports and trademarks and year-end assessed losses were R835 000 (R811 000)

Directors' fees, however, soared, from R236 000 to R381 000 (against a profit of R199 000), though the four-person board (one of them non-executive) was unchanged

Leppin has a strong brand identity in SA and is making progress abroad — again, at the cost of short-term profitability Unfortunately, it also proves that that alone is not enough of a basis for a family company (Gerda Leppin is the mother of the joint MDs) to go public It could take a long time for the share price to get back to that 1987 50c issue level

Michael Coulson

FM 18/1/91 183

Activities: *Imports makes, distributes and exports food supplements and vitamins*
Control: *Directors 76,7%*
Chairman: *G Leppin, Joint MDs N Hannemann and T Hannemann*
Capital structure: *8,6m ords Market capitalisation R1,7m*
Share market: *Price· 20c Yield 11,5% on earnings, p e ratio, 8,7 12-month high, 25c, low, 15c Trading last quarter, 72 000 shares*

Year to Jul 31	*'87	'88	'89	'90
ST debt (Rm)	0,3	0,5	0,9	1,1
LT debt (Rm)	0,1	0,1	0,2	0,3
Debt equity ratio	0,74	0,47	1,07	1,11
Shareholders interest	0,33	0,44	0,27	0,26
Int & leasing cover	13,1	3,9	(0,5)	1,5
Return on cap (%)	20,3	10,2	—	13,1
Turnover (Rm)	3,7	4,4	6,1	8,5
Pre-int profit (Rm)	0,3	0,3	(0,1)	0,6
Pre-int margin (%)	8,8	6,9	—	7,3
Earnings (c)	3,2	2,7	—	2,3
Dividends (c)	—	1	—	—
Net worth (c)	8	15	12	14

* Pro-forma

Board to hear wage dispute

CapeTimes 2/1/91

Own Correspondent

JOHANNESBURG. — Two days of mediation between the Chemical Workers' Industrial Union (CWIU) and PG Glass have failed to resolve the parties' national wage dispute.

The dispute involves more than 1 500 workers at more than 70 plants countrywide.

The union said last week that it had applied for a conciliation board meeting.

PG Glass industrial relations director Mr Phil Cohen confirmed that the dispute would go to a conciliation board.

183

German firm buys 51% stake in CME

B/Day 24/1/91

MARIETTE DU PLESSIS

183

GERMAN-based Solidur International has acquired a 51% stake in Protea Chemical's Chemplast Marc Etter (CME) for R4m.

About R2m of the purchase price was "new money" brought into SA, CME chairman Roger Thomas said yesterday

"The investment is a reflection of Solidur's confidence in SA," he said

CME, previously a wholly owned subsidiary of Protea Chemicals and a member of the Malbak group, will retain the electroplating and adhesive divisions The foreign investment would enable CME to focus on its core business, including the manufacture of engineering plastic products

Solidur International is an established manufacturer in the engineering plastics industry, with major operations in Germany, the US, Canada, Japan and the UK

It is also establishing operations in Singapore, India and France

Thomas said CME's fabrication division had been re-organised and relocated to Benoni, while selected thermoplastic fabrication was still being undertaken at the Elandsfontein and Durban factories.

ELANGENI FM 25/1/91

DEEP-FRIED

183

Though the first signs of trouble were apparent midway through last year, it was only in the second half that the wheels really came off When the 1989 figures were published, the company forecast "significant growth for the period ahead"

The interim to October 1989 disclosed six-month earnings down from 5,9c to 3,6c a share, saying this was nevertheless "better than the group's projections" as 1989-1991 budgets "were prepared on the basis that this period would be required to implement the plan of establishing two firmly based and complementary divisions" in edible oils and soaps. But it reassured investors that annual earnings should at least be maintained and hoped for a four-times covered dividend.

Activities: *Makes high quality edible oils and soap under the brand names Delo, Quick-Fry, Elangeni and Touch of Pearls*

Control: *Directors 72%*

Chairman: *Y M Paruk, Joint MDs A B Mahomed, I M Paruk*

Capital structure: *16,8m ords Market capitalisation R21,8m*

Share market: *Price 130c Yield 2,1% on earnings, p e ratio, 48,1 12-month high, 150c, low, 130c Trading volume last quarter, 2,1m shares*

Year to June 30	***'88**	***'89**	**†'90**
ST debt (Rm)	n/a	4,1	2,8
LT debt (Rm)	n/a	6,0	8,4
Debt equity ratio	n/a	1,30	1,34
Shareholders interest	n/a	0,35	0,26
Int & leasing cover	n/a	1,89	1,19
Return on cap (%)	n/a	14,0	8,9‡
Turnover (index)	237	315	409‡
Pre-int profit (Rm)	2,4	3,1	2,8‡
Earnings (c)	7,5	8,8	2,7‡
Dividends (c)	n/a	nil	nil
Net worth (c)	n/a	46	50

* Year to April 30, 1988 figures pro forma only
† 14 months to June 30
‡ Annualised

In the upshot, there appears to have been a loss in the second eight-month "half." There is no dividend and the directors don't expect to declare one this year

Chairman Yacoob Paruk says in his review that main operating subsidiary Elangeni Oil & Cake Mills (Pty) had a "satisfactory" year Despite increasingly difficult trading conditions, it made a "satisfactory" profit Expansion of the plant and new soap manufacturing facilities were completed.

He expects a "significant real increase" in operating profit this year and says the group is well placed to increase production. The MDs add that a plant to convert soap by-product waste into marketable glycerine is being built. It should "generate significant savings" and "contribute substantially to profit margins." New toilet soap brands will be launched this year. They believe the soap plant will operate at capacity

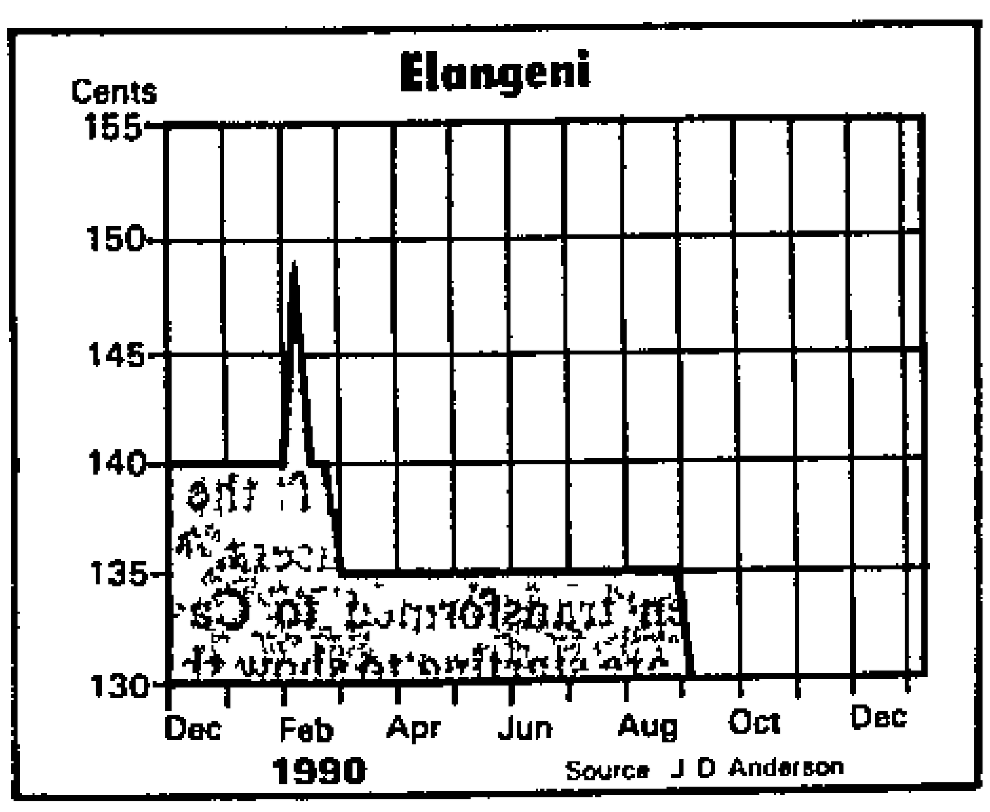
The group spent R5,6m on fixed assets last year, making R15m in the two years since the listing (via a reverse takeover of Advance Laundries at 110c a share) It was also necessary to finance stocks up from R3,1m to R7,6m. While trading profit rose to R3,3m (14 months) from the previous R3,1m, an interest bill up from R1,7m to R2,8m bit deep into the bottom line

The net result is a sharp rise in borrowings and tenuous interest cover The interim report anticipated a R3,5m convertible debenture issue by year end So far, none has materialised, though a rights issue is still planned

Elangeni is one of those companies that holds AGMs at the inconvenient time between Christmas and New Year. As management does not respond to phone calls — even an attempt to establish contact through non-executive director Christopher Seabrooke proved fruitless — the *FM* can't report whether anything of note happened, or if further details of the planned recapitalisation were provided.

This looks a classic case of a company that expanded fast — perhaps too fast — and got caught in a liquidity trap. The current price isn't justified in relation to either earnings or assets and investors should steer clear until the method and impact of refinancing can be assessed.

Michael Coulson



Fertiliser deal is to be scrutinised

ANDREW GILL (183)

THE manner in which Agriland Fertiliser's collapse last year benefited AECI's Kynoch is to be investigated by the Competition Board. B/Day 28/1/91

An announcement in Friday's Government Gazette said the board was investigating whether an agreement entered into by AECI, Indian Ocean Fertilisers (IOF) and two AECI subsidiaries, Kynoch Fertilisers and AECI Opencast Services constituted a restrictive practice.

The investigation follows complaints by the National Maize Producers' Organisation (Nampo) that the takeover by Kynoch of IOF's granulation installation at Richards Bay strengthened its position in the fertiliser industry.

The board is investigating whether this agreement gave rise to an acquisition and, if so, whether it was in the public interest.

Competition Board chairman Prof Pierre Brooks said yesterday AECI had entered into an agreement with IOF in terms of which Kynoch would use the production facilities at IOF's Richards Bay plant to produce fertiliser for SA.

Kynoch took over the lease of the granulation installation from Agriland Fertiliser, which had to close last year.

Brooks said the original terms for IOF's participation in the SA fertiliser industry was that it restrict itself to exports.

AECI chairman Mike Sander said that in terms of the agreement with IOF, AECI ceased supplying Natal from its Phalaborwa plant, and instead supplied Natal with the phosphate production purchased from IOF. The agreement meant AECI saved on freight costs.

IOF was owned jointly by Foskor and an international consortium, he said.

Competition Board looks at fertiliser operation

CAPE TIMES 28/1/91

Own Correspondent

JOHANNESBURG — The manner in which Agriland Fertiliser's collapse last year benefited AECI's Kynoch is to be investigated by the Competition Board.

An announcement in Friday's Government Gazette said the board was investigating whether an agreement entered into by AECI, Indian Ocean Fertilisers (IOF) and two AECI subsidiaries, Kynoch Fertilisers and AECI Opencast Services constituted a restrictive practice

The investigation follows complaints by the National Maize Producers' Organisation (Nampo) that the takeover by Kynoch of IOF's granulation installation at Richards Bay strengthened its position in the fertiliser industry

The board is investigating whether this agreement gave rise to an acquisition and, if so, whether it was in the public interest

Competition Board chairman Pierre Brooks said yesterday AECI had entered into an agreement with IOF in terms of which Kynoch would use the production facilities at IOF's Richards Bay plant to produce fertiliser for SA

Kynoch took over the lease of the granulation installation from Agriland Fertiliser, which had to close last year

Brooks said the original terms for IOF's participation in the SA fertiliser industry was that it restrict itself to exports

AECI chairman Mike Sander said that in terms of the agreement with IOF, AECI ceased supplying Natal from its Phalaborwa plant, and instead supplied Natal with the phosphate production purchased from IOF The agreement meant AECI saved on freight costs

IOF was owned jointly by Foskor and an international consortium, he said

Twins takes a low-key view of earnings rise

MARIETTE DU PLESSIS (183)

TWINS Pharmaceuticals was not expecting a major earnings rise this year, though the rationalisation of its businesses would have a positive impact on earnings in the medium term, financial director Bob Garnett said yesterday B|Day 30|1|91.

Turnover growth in the group's continuing operations exceeded inflation in the first half of financial 1991 but weaker sales and margins on consumer and Visioncare products would result only in bottom-line profits being maintained, Garnett said

Garnett expected benefits arising from the disposal of unprofitable operations to have a positive effect on the group's performance towards the end of 1992.

Wholly owned Safimed's profitability had declined and operations in the subsidiary that did not fit Twins' business objectives had been sold The pharmaceutical operations and the animal health arm had been rationalised into the equivalent divisions in Twins, Garnett said.

Since September 1990, Twins had also disposed of its knitting and garment operation Medical Textiles, a nursery, its Pretoria-based hardware store and Redken, a distributor of hair-care products, he said.

Garnett said sales of non-hydroquinone products, introduced when the production of skin lighteners containing hydroquinone was discontinued, were exceeding expectations.

Frankel Max Pollak Vinderine analyst Teigue Payne forecast an optimistic 18,2% increase in operating profits and margins, compared with the 9,7% and 16,9% respectively achieved in 1990.

He added, however, that Twins' margins were not expected to regain their high level of fiscal 1988 due to the diluting effect of the former Safimed businesses and the absence of the skin lightener cream business

He said Twins was benefiting from strong positive trends in the pharmaceuticals sector and forecast a 16,4% earnings a share growth for financial 1991

ZILLA EFRAT

Delisted Prochem 'will recover'

B Day 30/11/91

PROTEA Chemicals (Prochem) will not undergo major changes after its planned delisting and is on track to return to earnings growth following its recent rationalisation, say directors

The proposed delisting, through an offer to minorities, was announced by Malbak Industrial Holdings yesterday.

Prochem MD Mike Struwig says it cost about R100 000 each year to maintain the listing and much of the published information benefited competitors, a factor that has hurt Prochem in the past

Chairman Hugh Brown says Prochem has gone through a tough 18 months and it will take time to get back to previous profit levels

Prochem's 61% drop in attributable earnings to R4,1m in the year to end-August followed a marginal fall to R10,63m from R10,67m in the previous financial year

In the 1990 financial year, Prochem faced a highly competitive chemical market, a drop in commodity prices and a higher interest bill

It underwent a stringent cost reduction programme and reviewed all activities, closing or selling those that did not meet the group's investment criteria

183

Struwig says Prochem is now in a sound position to benefit from an upturn in its market, but this is not expected in the short term

In the latest annual report, Brown said Prochem could show some improvement in earnings towards the end of the current year

Malbak, which has 87% of Prochem's share capital, will offer shareholders 150c a share — a 36,4% premium on the latest market price It is the same as the price when Prochem was listed at in February 1987 The share closed at 110c on Monday

Net asset value is 128c a share

Valindaba 'struggling to find commercial footing'

MATTHEW CURTIN

(183)

THE Atomic Energy Corporation's (AEC) Valindaba uranium enrichment plant is battling to establish itself on a commercial footing, the New York-based Nuclear Fuel bulletin says its January report.

The report says AEC officials said at a conference in Tokyo at the end of last year that economic conditions continued to favour the plant's closure.

AEC experts are quoted as saying "the present enrichment plant may ultimately be phased out and replaced by more advanced technology". AEC GM P J Bredell would not comment yesterday.

The report says AEC, faced with high operating costs and the threat that government power subsidies will be withdrawn, is investigating centrifuges and laser technology to replace its helikon enrichment process, described "as extremely energy intensive".

The report says as a result of Valindaba's problems Eskom "would prefer" to enrich its uranium in facilities outside SA.

b|nay 31|1|91

The Valindaba or Z-plant provided its first load of fuel for Eskom's Koeberg nuclear power station in April last year, after coming on line in September 1988. But Eskom official Karen de Villiers said yesterday Eskom was not involved with the government in plans to reduce power subsidies to the Z-plant. Nor did Eskom expect to resort to foreign operators.

The report says AEC has researched centrifuge technology for 15 years, with a development programme expected to deliver a new design in 1992. A laser enrichment pilot plant may be on line by 1995.

PROCHEM FM 1/2/91

DELISTING PLAN (183)

Though Malbak's decision to delist its Protea Chemicals (Prochem) subsidiary caught many observers off guard, the steep rise in

FM 1/2/91 (183)

the chemical firm's share price — it has climbed from 65c to 110c since November — suggests some investors guessed something was afoot There has, in fact, been speculation about a delisting plan for a while Only a forthnight ago one director was asked to comment and told the *FM* he was unaware of any intention to delist the group

Malbak, which holds 87% of Prochem, is offering minorities 150c a share This is the same as the issue price when the company was listed in February 1987 and represents a 36,4% premium on the market price

Prochem chairman and Malbak executive director Hugh Brown says there are no plans to sell or restructure the group, which was one of the original divisions of the Protea conglomerate, which Malbak acquired in 1984 He says Prochem's results have been poor in the past 18 months and, even with improvements in its financial controls, it will be some time before profitability returns to levels of two years ago

"The share price was below net worth so we couldn't use paper to raise funds and with the cost of being a listed company approaching R100 000 a year we didn't seem to be getting any benefit out of being on the JSE," says Brown He adds that Prochem trades in highly competitive markets and, as a public company, is obliged to disclose information that could benefit competitors

In the annual report Prochem directors blamed the poor performance on the recession, increased competition and high interest rates The low gold price, which reduced demand for chemicals from the mines, as well as flat commodity prices also contributed Despite a slight rise in turnover to R384m, EPS slumped 61% Management cautiously forecast an improvement in EPS this year but earnings are expected to be well below 1989 and 1988 levels

Given that outlook, shareholders should welcome the Malbak offer of 150c

Simon Cashmore

Govt's policy on AEC outlay 'badly skewed'

B Day 1/2/91

MATTHEW CURTIN

THE financial priorities of the Department of Mineral and Energy Affairs, which allocated 70% of its 1990/91 budget on its loss-making nuclear energy programme, were badly skewed, Johan Kruger of Wits University's Geophysical Research department said yesterday

Kruger estimated government's funding for the Atomic Energy Corporation (AEC) to be about R1bn a year for the past 10 years although the budget was cut last year

All AEC had to show from this funding was the high-cost Valindaba uranium enrichment plant that was unable to compete on the international market. SA would do better to rely on cheaper foreign supplies of nuclear fuel, he said.

Kruger, who is about to complete a paper advocating the establishment of a state minerals corporation to be managed privately as a replacement for the department, cited government statistics which showed the department allocated R713m to nuclear research out of a total budget of R1,1bn for 1990/91

Oil exploration was allocated R194m, but mineral activities received little more than 10% of the total (R152m) In all, R63m was allocated as assistance to the mines, R50m to Mintek, R22m to Geological Survey, R16m to the government mining engineer, and R3m to the Minerals Bureau

The department's assistance to the mining sector was "woefully out of proportion" to the mines' contribution to government revenue Kruger said government's income from mining profits and mining taxation last year amounted to R2,8bn

The department should concentrate on training and research geared to manufacturing metallurgy to achieve the beneficiation of mineral production which would reap greater economic rewards SA was heavily dependent on primary production, 60% of exports were mineral-related.

He said the future of nuclear power was far from certain, being dependent on a new political dispensation and a future government's attitude towards both nuclear power and nuclear weapons.

University research of all kinds had "been slashed", while the department had starved the mining sector, which provided "the bread and butter" of the economy, of valuable funds

Costs

183

Department director-general P J Hugo would not comment yesterday on the way his department's funds were distributed.

He said the high proportion allocated to AEC probably reflected the high costs of the AEC operation

AEC CE Waldo Stumpf said yesterday he could not comment on departmental policy

But he said SA's coal supplies were set to run out by the year 2040 and the country would then be heavily dependent on nuclear power.

AEC's task was to maintain SA's nuclear power capability, and the corporation attached great importance to beneficiating uranium ore on a competitive basis

Stumpf said AEC had adopted a commercial strategy recently and was intent on long-term financial independence from government

COMMODITIES

Privatisation: Foskor prospects a lure for buyers

BDay 11/2/91 · ZILLA EFRAT (183)

FOSKOR's privatisation, under consideration, could interest a number of buyers because, while the phosphate producer's short-term prospects are not too rosy, the longer-term outlook is sound.

The developments regarding the privatisation of Foskor — owned by the Industrial Development Corporation — are being watched with concern by fertiliser producers, the farming community and potential investors.

Fertiliser companies say the important factor is how Foskor is privatised. It is believed that the viability of SA's overtraded R1bn-a-year fertiliser industry could be affected by a privatised Foskor's pricing policy and its forward integration plans.

The likely options for privatisation are a partial listing, selling it off to a large group, as was done with Alusaf, or offering customers a shareholding.

In June 1989, government valued Foskor at about R330m, but Davis Borkum Hare analyst Alex Wagner estimates that Foskor could be worth between R450m and R500m, depending on the IDC loan position.

Given current economic conditions and the state of world commodity markets, observers say the time may not be right for a JSE listing à la Iscor. However, a possible buyer could be Rio Tinto's Palaborwa Mining Company which operates on the same deposit as Foskor

The three major fertiliser companies, AECI's Kynoch Fertilizers, Sasol Fertilizers and Omnia, also may be interested in buying Foskor or taking a shareholding in proportion to their offtake

AECI's Kynoch Fertilizer MD John Skeen says his company would be interested in acquiring a stake in Foskor if the price related to future earnings

SA's hard-hit farmers might be interested in taking a stake through their co-operatives, but observers say their concern over keeping fertiliser input costs down could conflict with the profit motive of owning Foskor.

Subsidies

Foskor's attributable profit has shown a compound growth of 102,6% in the six years to 1990 But earnings in the year to June 1990 dipped 4% as Foskor faced depressed conditions and higher finance charges.

MD John Stanbury says the Gulf war is affecting Foskor with some nervousness from Turkey, a large customer Also, fertiliser subsidies in Eastern Europe have been withdrawn and consumption has fallen

Stanbury expects market conditions to improve within two or three years Because the phosphate market's growth is linked to population growth, he says the longer-term outlook is sound

Some type of agricultural restructuring can be expected on the local market which will lead to improved consumption and he is confident about continued long-term international demand In addition, the easing of sanctions is an added bonus, says Stanbury.

He says it is very price competitive and the grades of major competitors Tunisia, the US and Morrocco are declining while Foskor's grade is consistently high.

Further expansions for the processing of phosphate rock, copper and baddeleyite were completed by the 1990 year-end and a zirconia plant is set to be commissioned These will enable Foskor to make available a larger percentage of its production in an upgraded form suitable for the international market

It is also examining capital expansion options.

Privatisation Unit adviser Eugene van Rensburg will not provide further details on privatisation discussions, but expects some clarity in the next two months.

Fertiliser sales hit 20-year low

S/Times 3/2/91.

(183)

LAST YEAR's fertiliser sales are expected to be the lowest for 20 years.

Drought and the high cost of borrowed money have slashed farming incomes

Sales in the R1-billion-a-year fertiliser industry are estimated to have fallen by 8% on 1989 figures to below 2-million tons

That is the lowest since 1970 when sales fell to 1,95-million tons, says John Ranwell, manager of the statistical division of the Fertiliser Society of SA

Sales for the year will be available in the middle of February

Rains

Sales in 1989 were 2,12-million tons and 2,17-million in the previous year

Mr Ranwell says, however, that late rains could result in an increase in sales of nitrogen-based fertiliser in January

John Skeen, managing director of AECI's Kynoch Fertilizer, says that Government's policy of forcing a market-related economy on farmers by reducing subsidies is putting severe pressure on agriculture

Dr Skeen says "We cannot continue farming without subsidies Nowhere else in the world, inlcuding America and Europe, do farmers exist without subsidies

"The Uruguay round of Gatt has collapsed and agricultural subsidies by America and the EEC countries remain in place How can our agriculture expect to compete against those economies?"

Dr Skeen says the Government cannot allow the planting of only 2,7-million hectares of maize at the current low yield of about 2 tons a

By DON ROBERTSON

hectare This will provide a crop of between 5-million tons and 5,2-million tons compared with a domestic demand of 6,5-million tons

A planting of at least 3,5-million ha is needed, but market-related economies do not allow this

Dr Skeen is not, however, calling for a subsidy on the end product, but on input costs, such as tractors, implements, fertiliser, fuel and crop chemicals

Reacting to the Competition Board's decision to investigate AECI's recent purchase of the granulating plant from India Ocean Fertiliser at Richards Bay, Dr Skeen says "We believe noses are clean"

Omnia managing director Neville Crosse also believes that farmers are in jeopardy He says that although fertiliser sales last year fell, his company sold all it produced

Prices have been affected by the increase in the cost of nitrogen-based products, such as ammonia and urea, which are energy based in their production

Profile

Some fertiliser prices rose by up to 11% last year because of the uncertainty over the Persian Gulf They are expected to increase by 7% to 8% this year

Omnia, which has adopted the lowest profile of the major fertiliser producers, launches an advertising campaign in this week's Sunday Times, quoting American president George Washington as saying, "I know of no pursuit in which more real service can be rendered to any country than by improving its agriculture"

Star 6/2/91.

Toco gets control of Premier Chemicals

183

By Jabulani Sikhakhane

Industrial products manufacturer and distributor Toco Holdings has acquired outright control of Premier Chemicals, a major supplier to the automotive refinishing market.

The deal is effective from July 1990

The price of R6,596 million will be settled through the issue of 6 662 million new Toco shares at 90c per share (being the ruling price on the JSE when negotiations began) and the issue of R600 000 of redeemable preference shares by a wholly owned Toco subsidiary

Of the ordinary shares, 5,5 million have been placed with institutional and other investors at 90c each. The remaining 1,162 million shares have been distributed to shareholders of Premier (other than Toco).

Toco first bought a 14,4 percent stake in Premier in April 1989, increasing it to 24 percent in September of that year.

Ownership

Managing director Adrian Goodman said yesterday Toco management had decided that 100 percent ownership of Premier Chemicals by Toco would help Premier fully exploit the opportunities arising from the retention of existing motor vehicles and through the emergence of panelbeating shops operating in townships.

Had the transaction been effective throughout Toco's financial year to March 1990, it would have had no material impact on Toco's earnings or net tangible asset value per share.

Mr Goodman said because Premier benefited more fully from the application of Toco's marketing expertise, on-going earnings benefits were expected to accrue to Toco.

Premier's existing management team will be retained, while the executive directors of Premier have entered into employment and restraint contracts for the benefit of Toco.

Premier is a manufacturer of synthetic body fillers for the automotive refinishing market.

These products, including related materials and equipment, are distributed to panelbeaters and the DIY market through a nationwide network of 800 dealers

Engen well ahead on lead-free petrol

B/Day 12/2/91.

ROBERT LAING

ENGEN might have stolen a march on its competitors if government rules in favour of lead-free petrol

The company began upgrading its Genref refinery in December to produce unleaded petrol by 1994, while the rest of the industry is waiting for government's decision on future exhaust emission standards before making its move

Local oil companies are busy studying the cost and lead time of introducing lead-free petrol to SA The National Energy Council (NEC), which is co-ordinating the study, said it hoped to place its findings before government in May Its deadline is June

NEC transport energy group executive Robert Scott said "The study is only looking at the economics of lead-free petrol We are steering clear of the environmental debate over the need for tighter exhaust emission standards"

Industry sources estimate it would cost R500m to upgrade SA's four refineries to lead-free capability Higher quality crude oil would have to be imported, which would add 7c to every litre The final petrol price increase would be at least 10c a litre Filling stations and most of SA's cars would also have to undergo alterations for lead-free capability

"The question is who will pay — the government or the motorist? The British example shows that less than 1% of motorists were prepared to pay extra for lead-free The government had to subsidise it," an oil company spokesman said

The lead content in SA petrol has been gradually reduced from 0,836 grams to the present 0,4 grams a litre Lead remains by far the most economic way of boosting the octane rating of petrol, so refineries use the maximum permissible limit

A Sasol spokesman said the company's synfuel could be made lead-free "If the maximum lead limit is further reduced, all SA's refineries — including Sasol's — would have to install additional units at considerable cost"

The organisation lobbying for lead-free petrol, Lead-Free Campaign, says the need for tighter legislation on exhaust emmissions is desperate It claims blood-lead levels 40% above the US Environmental Protection Agency's safe limit have been found in SA children. The study has, however, been criticised for being conducted in an area where water was contaminated by lead pipes

"In Europe the environment is a major issue In SA, housing and education should be given precedence," the oil company spokesman said

193

Chemserve back on form

(183)

B/Day 12/2/91.

ZILLA EFRAT

CHEMICAL Services (Chemserve) increased its attributable earnings 20% in the year to end-December, declaring a total dividend of 120c a share, also up 20% and covered three times.

The speciality chemicals group in the AECI stable posted attributable earnings of R22,8m or 367c a share

MD Peter Francois says the group has budgeted for similar earnings growth in the current year, which will primarily be a period of consolidation

The latest results follow a flat 1% growth in earnings in the previous year after a poor performance from subsidiary Chemserve Steinhall and high interest costs

Chemserve has, however, shown an average annual compound growth of 21% in earnings a share and 19% in dividend payouts over the past five years.

During the year under review, its mining and automotive divisions faced depressed markets and did not produce good results

But financial director Lex van Vught says the group's other divisions performed well, with Chemserve Trio, Chemserve Technical Products and Akulu-Marchon producing particularly good results

Chemserve Steinhall, which produces guar powders and modified starches, showed an improvement over the previous financial year

However, Francois says its performance remains unsatisfactory Its problems are being given serious management attention

● FRANCOIS

At the beginning of the year, the group acquired full control of SA Paper Chemicals, which is involved in speciality chemicals for the paper industry, and Akulu Marchon, which produces raw materials for the detergent, toiletry and cosmetic industry

Francois says these acquisitions have been consolidated into Chemserve and both companies produced better than expected results.

After these acquisitions, which cost R25m, gearing reached 65% at the interim stage, but fell to 53% (31%) by year-end

During the year, Chemserve's turnover improved 33% to R446m through organic growth Its net trading income jumped 46% to R53,9m and its interest bill increased 43% to R8,6m

Van Vught says the pre-tax margin improved to 10,2% (9,2%), but the group's tax bill also rose to 49% (44%) because of a decline in tax-exempt items

In January this year, Chemserve merged its chemical distribution subsidiary with that of AECI Explosives & Chemicals because of the overtraded conditions in this market

The new company, Crest Chemicals, is trading well and substantial synergistic benefits are expected

Chemserve was previously the local distributor for the world's largest soda ash supplier, Ansac, but from early 1991 it will represent Soda Ash Botswana

The move is expected to bring about working capital benefits

Francois says the international soda ash market has remained strong, despite world recessionary conditions and softer international chemical prices

The share closed untraded at 2 000c on the JSE yesterday, down from its yearly high of 2 400c in August, but up from its low of 1 900c at the end of November

Uproar over pool chemical claims

B Day 14/2/91. (183)

POOL chemical suppliers were inundated with calls yesterday following claims on an SABC TV news programme that cyanurates or stabilised chlorine could endanger the safety of swimmers.

Executives held hurried meetings over what to do about the report, and statements were issued to allay public concern

During the programme viewers were told that the dangers of swimming included "cancer, retina failure, kidney disorders and birth defects"

The SABC comments were based on information from Control Chemicals research director Leon Buchan, who said in a statement yesterday laboratory tests conducted over 30 years in the US had indicated stabilised chlorine could be linked to renal failure as well as kidney and pregnancy disorders

The Department of Agriculture has already decided to investigate the allegations by Control Chemicals that pool chemicals containing cyanurates are hazardous to human health.

Cyanurates are contained in stabilised pool pills and stabilisers put into pools in powder form.

Control Chemicals is an agent for Olin, which markets unstabilised HTH granulated chlorine and pool pills

The claims were considered yesterday by AECI subsidiary Swimline and SA Druggists subsidiary Heynes Mathew, which makes Poolbrite

ZILLA EFRAT

Both use stabilised chlorine in some of their products, and were mentioned by name in the programme.

Swimline described the allegations as "unsubstantiated". AECI said in a statement that stabilised chlorine was approved for use in swimming pools by the World Health Organisation, the American Environmental Protection Agency (EPA), the Food and Drug Administration (FDA) and the US Department of Agriculture.

The product is also approved for use in a number of other countries including the UK, and in Western Europe and Australasia.

AECI said: "The research data upon which the Control Chemicals allegations are based is, almost without exception, inconclusive with the bulk of it being conducted between 1974 and 1976.

"Subsequent detailed research reaffirmed the safety of stabilised chlorine as a swimming pool sanitiser, and worldwide registrations were confirmed."

AECI said it would co-operate with the Department of Agriculture to confirm the safety of the product in SA. In the meantime, it said, it would contest any attempt to "besmirch the product by innuendo".

Heynes Mathew national sales manager Eric Bartmann said his company, which had not been asked to participate in the news programme, was investigating the situation to decide what action to take.

FM 15|2|91 (183)

ROYAL (183)

JAM ON IT

FM 15|2|91

To describe Royal's purchase of fruit canner SA Preserving Co (Sapco) as money for jam is stretching the point, but the terms of the acquisition do look favourable

Royal is to pay divesting US conglomerate Del Monte Foods International R113m for a company with tangible assets of more than R100m, trademarks valued at R35,9m and earnings last year of R18,4m

Nearly all its turnover is generated by exports of canned fruit to Del Monte in the UK and Europe Provided international prices remain steady, favourable exchange rates are likely to ensure the operating margin remains well above 20% Export incentives, which have kept the tax rate at no more than 26% for the past five years, are likely to continue

Less positive is that the sales and operating profit of Sapco have shown little or no real growth in recent years A big adjustment in the tax rate was mainly responsible for last year's 37% climb in earnings Similarly, operating income at chemical manufacturer Ferro, which Royal is also buying from a divesting US conglomerate for R38m, has not improved in the past two years

The performance of Sapco and Ferro will have a great effect on Royal's food and chemical interests, Royfood and Roychem, being listed separately on March 14 (*Fox* January 18) Royal's management expects the former US subsidiaries each to contribute at least half the earnings of Royfood and Roychem in the year to February 1992.

Royfood also comprises the businesses of Sapco's former sister company Royal Beech-Nut, acquired from RJR Nabisco in 1989, while chemical and pharmaceutical group Roychem includes Royal's Holpro-Lovasz operations

Group financial director Jacques Fragis says the US parents of Sapco and Ferro paid little attention in recent years to improving the profit of the two companies Sapco was used as a production facility for Del Monte's European operation, he says, while Ferro attempted to reduce the effects of double tax by investing heavily in plant and research and development Fragis reckons little, if any, capital investment is needed in either company and he expects both Sapco and Ferro to improve earnings by about 25% in the next financial year

Sapco and Ferro have secured 25-year trade and technology agreements with their former parents Sapco will continue to supply Del Monte and will open new markets in Europe and North America as well as introduce its products in SA

Sapco intends improving the efficiency of its production operations — which were only used during the five-month deciduous fruit season — by canning other produce such as pineapples, asparagus and vegetables The decline of Gants creates opportunities. Ferro plans to introduce several chemical products its former parent withheld from the local market

Old Mutual is underwriting the placing of Royfood and Roychem shares with institutional shareholders in Royal and its Royhold parent, as well as a rights issue to minorities in Royal and Royhold The shares are likely to be tightly held, with controlling shareholder Royal and institutions expected to take up 97% of Royfood and 96% of Roychem

Most analysts expect management to achieve the 31,2c and 34,5c EPS forecast for Royfood and Roychem in the February 1992 year However, some express concern at the high issue prices of the shares

At an issue price of 335c Royfood would have a market capitalisation of R326,4m and, on pro forma earnings for the year to February, a p e of 13,4 This compares with Cadswep's 21,5, Tiger Oats' 15,2 and Pre-

FM 15|2|91 (183)

mier's 12,2 — all groups with much longer track records NAV at end-February is given as 197c, or 126c excluding trademarks

With a pro forma p e of 9,6, Roychem — capitalised at R125m — appears expensive at 260c NAV at the February year-end is 195c, of which 53c comprises trademarks In the chemical and oil sector, Engen stands on a p e of 14,9, Sasol 9,5 and AECI 7

Royal and Royhold shareholders can accept what looks an expensive rights offer in the two new listings, or wait to see if the shares can be bought more cheaply later. Support from Mutual and other institutions is likely to affect trading, at least in the short term Investors hoping for a lower price could be disappointed *Simon Cashmore*

FM 15/2/91

TNC intends repaying one of its foreign loans of US$26,1m over two years from January this year Further earnings improvement is forecast for the second half However, the share looks fully priced at 1 100c, on a historical dividend yield of 5,6%

Brendan Ryan

NORVIC FM 15/2/91 (183)

CONTROL CHANGE

The directors of shopfitter Norvic Manufacturing have been replaced after a hostile takeover of the DCM-listed group

Antonios Kreouzis has acquired 44% of Norvic's shares and secured irrevocable rights to buy a further 25% that are under the control of the Reserve Bank The latter shares, held by Lanchem and its subsidiary Garage Distributors, were frozen by the Bank as part of an investigation into possible exchange control contraventions by some of the companies' shareholders

The investigation, yet to be concluded, led to the suspension in November of Norvic's shares, with those of Lanchem and mining group Osprey. The suspensions were lifted in December.

Kreouzis, owner of a Johannesburg construction firm, seized control of Norvic last week and immediately replaced the group's directors In agreeing to step down, the former directors undertook to sell Kreouzis their 23% holding in Norvic

Kreouzis claims to have paid 9c-15c a share in building up his portfolio of 44% of Norvic stock, which is now valued at R930 000 In terms of the new Takeover Code he is making an offer to minorities of 15c a share — the current ruling price. The offer closes on March 1.

Norvic, formerly the shopfitting arm of Checkers, was listed in January last year through a private placing of shares at 50c each. They came on to the market at 60c, but steadily plunged to a low of 8c towards the end of the year

Norvic fell far short of its forecast at listing of after-tax earnings of R713 000 and recorded a loss of 4,3c a share in the 11 months to June 1990 Kreouzis says figures for the six months to December, due to be published next month, will again show a loss though a detailed picture of the balance sheet will emerge only when a full audit has be completed NAV is likely to be lower than the 30c given at June last year, he says Whether it will drop close to the 15c share price remains to be seen

Kreouzis says substantial reductions in overheads and improvements in productivity are essential if the group is to return to profitability He says customers have reacted well to the changes in management and he hopes to have turned the company around by next year

Investing in the DCM is intrinsically high risk Minorities who bought the share early last year will have to decide whether to stick with the company in the hope that a turnaround can be accomplished, or cut their losses and accept Kreouzis's offer Selling the share looks the better option

Simon Cashmore

FM 15/2/91 (183)

FOX

KLIPTON FM 15/2/91

LOCKING IN PROFIT

The full effect of Klipton's R17,2m acquisition spree in financial 1990 — the Access & Mobility Group (AMG), comprising the Castor & Ladder and Forlezer operating companies and Austen Safe — appears in the accounts for the six months to December 31 Turnover was up by 24,5%, but attributable profit was 39% higher, largely because the effective tax rate fell and the minorities' share of profit was 38% lower at R19 000

Joint chairman Robin Matthews says Austen Safe was the best performer As one of the two major players in the local physical safe market, it benefited from the ongoing institutional and commercial upgrading of safes Matthews contends that safes made before 1964 are now obsolete, so there is a

continue PTO

Nash family buys Cadac back from Shell

MARC HASENFUSS

IN A deal involving a transfer of assets worth R30m, Shell SA has sold gas company Cadac Ltd to Astra Group Holdings and local businessman Simon Nash, in association with senior Cadac executives

A joint statement released yesterday said the sale came about as result of a joint approach to Shell by the Astra Group and the management of Cadac

Analysts said last night the sale did not indicate any move by Shell to disinvest in SA Shell's shedding of Cadac pointed to the oil giant reviewing its peripheral businesses in order to concentrate on its core business, analysts said (183)

Newly appointed Cadac chairman John Nash said he had great confidence in the business and expected to expand Cadac's range of products considerably

☐ To Page 2

Cadac

BDay 15/2/91.

(183) ☐ From Page 1

Cadac dominates the local gas appliance market

It also holds the manufacturing licence for the Primus paraffin stove and has exclusive marketing rights in SA for the products of French Camping Gaz International, the world's largest manufacturer of portable gas appliances

The Astra group, which controls a wide range of industrial, aviation and property interests, is controlled by members of the Nash family who initially acquired Cadac in partnership with General Mining in 1964 The British Valor Group acquired Cadac in 1972 and sold it to Shell in 1985

Astra becomes the controlling shareholder of Cadac

John Nash is chairman of JSE-listed Sable Holdings, while his son Simon Nash, who rejoins the Cadac board, is the executive director of JSE-listed manufacturing and trading group Valard

Problems all the way for AECI

183

By Ann Crotty

STW 20/2/91

AECI's results for the 12 months to end-December were well down on expectations Earnings per share dropped 24 percent to 154c (203c)

A final dividend of 57c a share was declared making a total distribution for the year an unchanged 87c

At the interim (when a 13 percent cut in earnings was reported), management indicated that a firming in prices and activity in its major markets could recover the situation in the second half with the chance for unchanged earnings for the full year (AECI's business pattern tends to favour second half results)

But in November management warned shareholders that a severe decline in local and international market activity and increased raw material costs would result in a cut of around 15 percent in full year profit.

But worse was to come.

In November management had not reckoned on the impact of the drought This severely dented third quarter performance in the agricultural division and resulted in the full year's gloomy picture coming in as a 24 percent drop in earnings.

The list of difficulties facing the group in financial '90 included weak local and international economic conditions, surplus capacity in the international commodity market which squeezed margins, higher world oil prices (resulting from the Middle East crisis) which pushed up AECI's raw material costs and, unfavourable weather in the summer rainfall area

More specifically on the local front, the mining industry was squeezed by a weak gold price and a relatively strong rand which meant that there was little demand from this front.

In addition the group was faced with an increased debt level (due to capex) and higher interest rates.

Turnover for the 12 months was up 5,7 percent to R5 billion (R4,75 billion) MD Mike Sander points out that this represents an overall volume decrease of about 5-6 percent. Exports accounted for R434 million (R453 million) of turnover with South African Nylon Spinners (SANS) making a significant contribution on this side.

Operating income was down 17 percent to R499 million (R604 million) reflecting a sharp squeeze on margins to 9,9 percent from 12,69 percent. This was due to AECI's inability to get price increases in line with its own cost increases and in turn reflects the weak state of the market

(Given the expected continued weakness of the markets it is unlikely that the group will be able to recoup the full extent of the oil price increases as these work through the production system)

Financing costs rose 19 percent to R130 million (R109 million) This reflected the impact of higher interest rates and capex of R320 million. Management was able to squeeze working capital which helped to ease the borrowing requirement Despite this, debt was up R230 million lifting gearing to 57 percent from 42 percent.

Pre-tax income was down 25 percent to R369 million (R495 million), a reduction in the tax rate held the drop at earnings level at 23 percent — down to R248 million (R322 million)

For financial '91 management is looking to unchanged earnings Even if market conditions do not improve, this may be a little pessimistic given the number of one-off factors that dented '90's performance — the massive destocking among customers can hardly be repeated, in the region of R20 million had to be paid out in retrenchment, there were costs attached to the rationalisation of the fertilisers operations, the Gulf war should be resolved and, the drought will not be repeated

Further down the line the group can look forward to the export boost (of value-added products rather than commodities) from the dropping of sanctions

Downturn dents AECI's income

B/Day. 20/2/91 (183)

ZILLA EFRAT

THE local and international economic downturns, unfavourable weather conditions and the lower gold price dented chemical giant AECI's earnings in the year to end-December

Already in October, shareholders were advised that earnings for the year would be significantly lower than previously expected Profits were 13% lower at the interim stage and 15% down for the nine months to September

For the year attributable earnings fell 24% to R238m or 154c a share MD Mike Sander says adverse local and international economic conditions, which have resulted in soft commodity markets and prices, persisted in the final quarter of the year

In addition, AECI's fertiliser business was affected by unfavourable weather in most of the summer rainfall area. As a result, the normal business pattern which favours second half results did not materialise After a final dividend of 57c a share, the total distribution for the year remains unchanged at 87c a share, with dividend cover lower at 1,8 (2,3) times

Last week AECI's listed subsidiary Chemical Services announced a 20% rise in earnings, but all the other operations of the group were affected by weak local and international economic conditions

Sander says the Gulf war strengthened the prices of some raw material inputs towards the end of the year, but the finished product price benefits will come through only in the current year

The low gold price also left its mark on AECI's results with gold mines mining less rock in favour of richer ores

AECI's turnover for the year grew only 6% to R5bn Reduced economic activity in foreign markets saw AECI's exports fall 4% to R434m

On lower operating margins of 9,9% (17,7%), AECI's trading income fell 17% to R499m Finance costs rose 19% to R130m because of higher interest rates and significantly higher borrowings.

The tax rate declined to 39,6% (42,4%) and investment income, which includes AECI's share of the taxed net income of associated companies and dividends from foreign subsidiaries, fell 32% to 25m.


● SANDER . aligning operations

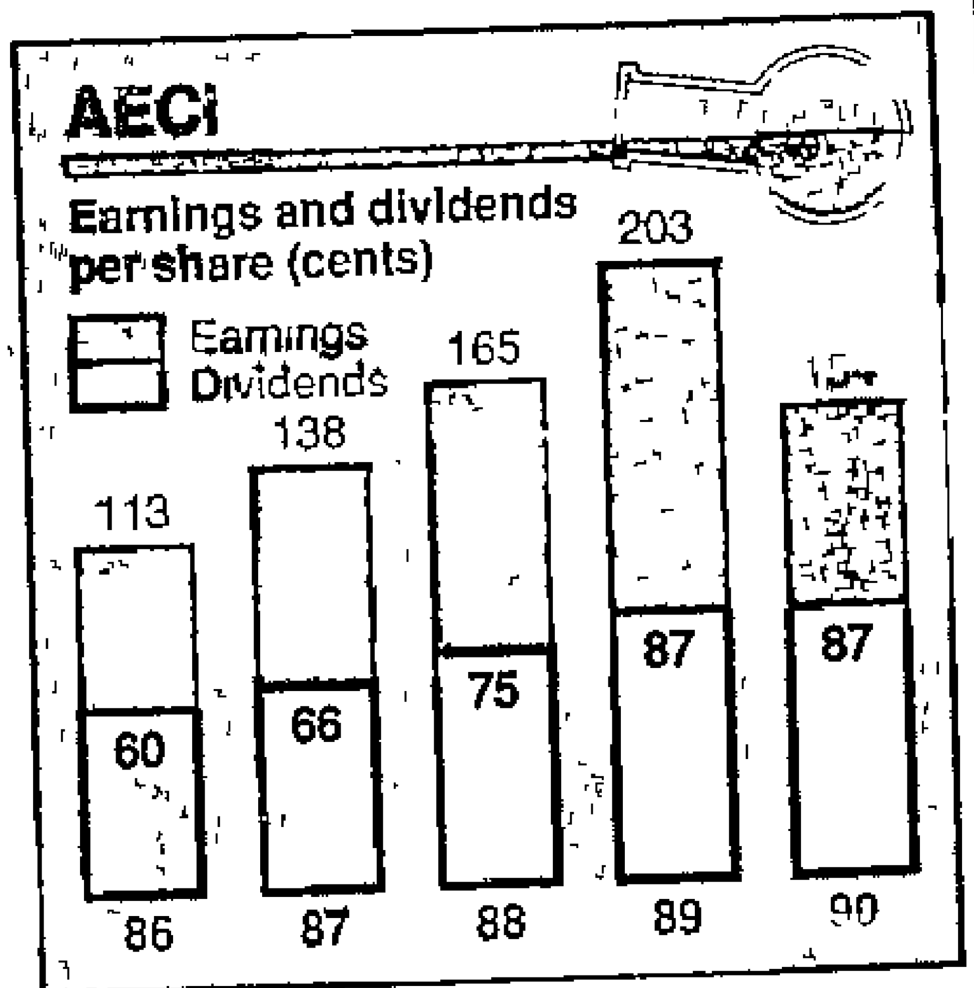
Sander says despite difficult trading conditions, continued attention to asset management reduced the ratio of working capital to sales to 21% (23%) Gearing, however, rose to 57% (42%) as additional borrowings were raised to fund part of AECI's substantial capital expansion programme

Capex in 1991 is expected to match the R320m spent in 1990 and will involve upgrading, de-bottlenecking and modernising plant

He says while the adverse conditions which led to the decline in earnings in 1990 are unlikely to improve materially in 1991, the group is well advanced in aligning operations to match the varying circumstances prevailing in its diverse markets

AECI intends adjusting its business to better meet the needs of cost-competitive customers and to support export growth In addition, it is looking hard at its cost base

Subject to containment of the Gulf conflict, earnings are expected to be at least maintained in 1991



Graphic: FIONA KRISCH Source AECI

AECI's weak results reflect SA's economy

B/Day 20/2/91 ZILLA EFRAT (183)

CHEMICAL giant AECI has posted a 24% fall in attributable earnings for the year to December. MD Mike Sander attributes the decline to adverse local and international economic conditions, unfavourable summer rains and a lower gold price.

Attributable earnings of R238m (R314m) or 154c (203c) a share are expected to be at least maintained in 1991 The annual dividend is unchanged at 87c a share

Sander says "Because AECI is broadly based across the economy, it is a fair reflection of the economy as a whole"

Demand remained weak in most of its markets, resulting in a 6% rise in turnover to R5bn Local and export volumes fell

The fertilizer business's sales volume fell 8%, textile fibres dropped 17% and construction industry demand was down more than 20% on the previous year's.

● See Page 8

AECI

SALES VOLUMES SHRINKING

(183) FM 22/2/91

AECI's sales volumes were slackening by the second half of 1989 and continued to weaken during the 1990 year Largely as a result of this, trading margins have buckled, leaving EPS down by virtually a quarter

Turnover was up by 6% but there was a 17% slide in operating income, with the group margin cut from 12,7% to 9,9%

MD Mike Sander says volumes declined by 6%-8% across the board last year, owing to the general economic slowdown, customer destocking in the second quarter and plant problems in the group's plastics and heavy chemical divisions The customer destocking resulted in lost sales for AECI for periods equivalent to one to six weeks, depending on industry type

Demand weakened in every domestic market that the group supplies Divisions supplying the automotive sector, for example, saw a 5% drop, while slowing activity in the housing and mining industries affected the group similarly Adverse weather in most of the summer rainfall area hurt the agricultural sector, as well as the fertiliser suppliers Overall, the normal business pattern, which favours the group's second-half results, did not materialise

Chris von Solms, the executive director who heads the explosives and chemical divisions, says the fertiliser market was down 8% on 1989. After rationalisation over several years, he does not consider competition in the industry to be "irresponsible " The industry is running closer to full capacity and, in 1989, there was even a modest profit recovery

VOLUME EFFECTS

Year to December 31	1989	1990
Turnover (Rm)	4 757	5 031
Operating income (Rm)	604	499
Attrib income (Rm)	314	238
Earnings (c)	203	154
Dividend (c)	87	87

There are some positive aspects to AECI's performance Sander says offtake related to consumables held up well, especially for the packaging industry Subsidiary Chemserve, which serves niches in the chemical market, lifted EPS and its dividend by 20% And management responded quickly to a severe setback in the textile market, where volumes dropped by 17%, by finding export markets

However, the group is encountering problems with export sales International prices of export products were weaker during the first nine months of the year and total export turnover fell by 4%. The situation worsened when international raw material prices started rising in the last quarter

AECI's Sander *not optimistic*

Sander notes that, with the Gulf War, it is not yet clear whether commodity prices will follow this trend. He says the "international picture is very unhelpful at present." Large international chemical groups saw profits drop by 40%-60% last year.

"In past slowdowns a rising gold price came to the rescue but nothing has materialised this time around," says Sander He is not at all optimistic about 1991 and AECI will simply "keep the hatches battened down."

Asset management helped to reduce the ratio of working capital to sales to 21%, from 23% in 1989 Gearing increased from 42% at the previous year-end to 57%, as borrowings jumped by R230m to fund the capex programme This includes a part of the Botswana Soda Ash project, a peroxide plant near Durban, a new fibre spinning operation at Hammersdale and the R25m acquisitions at Chemserve

The soda ash plant has been completed and should come on stream during next month, though Sander expects the debugging of the plant should take about a year Customers can be expected to evaluate the quality of the product before switching from their offshore suppliers Financial benefits for AECI are not expected before 1992 and will be in the form of dividends, as the group equity accounts its foreign interests.

Funds will be spent this year on modernising plant and gearing is not expected to improve Sander says any large new projects remain more than two years into the future, but offers no further details

On present indications, the group will be stretched to maintain earnings and a further decline seems more likely The share stands on a 7,4 earnings multiple, better than Sentrachem's 6,6 but lagging Sasol's 9,4

Gerhard Slabber

POOL CLEANER MARKET 183

MAKING A SPLASH

SA, home of the automatic suction pool cleaner, is going through something of a market rationalisation Overseas interests have acquired two of SA's three major pool cleaner manufacturers, Baracuda and Aquanaut FM 22/2/91.

Aquanaut SA, a wholly owned subsidiary of Sinclair Holdings, has been sold to Aquanaut Inc of the US, in which Sinclair Holdings has a 20% interest Baracuda's founder, Helga Schneider, has sold out to Automatic Pool Cleaner Holdings NV of the Netherlands In both cases, the payment terms have not been disclosed

Aquanaut MD John de Groot says the local company will be closed He says the reasons for its closure will be released later, but he stresses they aren't financial

The only one of the big three still in SA hands is Kreepy Krauly, owned by the Chauvier family The disappearance of Aquanaut means there will be a straight fight between Baracuda and Kreepy Krauly for the lion's share of the local pool cleaner market, believed to be worth R15m-R25m a year

The three companies also have the major share of the automatic suction pool cleaner markets in the US, Europe and Australia — largely because their SA-developed products are considered as superior All three export around the world and, with the exception of Baracuda, have their cleaners manufactured under licence abroad

Figures on relative market share are contentious, but Kreepy Krauly MD Sholto Manthe claims the local market absorbs 40 000 to 60 000 units a year and is worth R15m to R17m He says Kreepy Krauly's share has declined because the company reduced its advertising spending, but now that it's again promoting its units aggressively, surveys show it leads the field with a 53% market share He puts Baracuda next in line with 35% and Aquanaut at 12%

Louis Mynhardt, marketing director of Baracuda, puts the market at 48 000 units, worth R25m According to his surveys, Baracuda leads with a 51% share, followed by Kreepy Krauly with 28% and Aquanaut with 21%

Continue →

FM 22/2/91.

Manthe says Kreepy Krauly kept its local market prices high to discourage pirate exporters Mynhardt says Baracuda kept its prices low to gain market share, but he notes that they recently have been increased again

Aubrey Zelinsky, merchandising director of Pick 'n Pay, went back in the records and found that both Baracuda and Kreepy Krauly cleaners sold for R300 in 1985, for R250 in 1986 and 1987, for R200 in 1988 and 1989 and for R250 last year That makes pool cleaners one of the few products that have dropped in price in inflation-ridden SA ■

AECI hopes for post-sanctions export boom

(183)

By REG RUMNEY

THE waning of sanctions will allow chemicals and explosives giant AECI to concentrate on exports in the coming years. W/Mail 22/2 - 28/2/91

The group has just reported a sharp drop in earnings for the year ending December 1990.

"There will be opportunities for investment in plant specifically to serve export markets," notes executive director Neale Axelson. He surmises exports could boost turnover by 20 percent or more, but this is in the long term, over the next 10 years.

Now there is little possibility of boosting production to export more, though being able to sell into more attractive markets would mean higher prices for existing export volumes.

Up to now trade restrictions have led AECI to neglect investment in plant which could use South Africa's competitive advantage in certain areas to export. Instead it has concentrated on the domestic market. Products for export have come from excess domestic capacity.

Hence export revenue at R434-million (1989: R453-million) was only eight percent of turnover, slightly down from last year's nine percent. Total group turnover of R5 031-million was six percent up on the 1989 figure of R4 757-million.

Exports could have helped, but low domestic demand has coincided with world recession. This meant international prices were weak and revenue in rand, because of the relatively firm exchange rate of the rand in other currencies, likewise.

Axelson won't name the three or four export areas in which AECI sees opportunities to boost exports for fear of alerting prospective competitors. Profitable areas would be those in which only a few major companies compete, and the exports concerned would not be commodities.

AECI's poor results reflect what is happening in the real economy as opposed to financial markets. Most areas of business, except for speciality chemicals, were depressed.

Earnings a share dipped to 154c from 203c. The year's total dividend, however, was maintained at 87c.

Recession in South Africa and in other countries was compounded by poor demand for supplies from the hard-hit mining industry, particularly gold mining. Supplies to the mining industry of explosives and other chemicals account for around one-third of AECI's turnover.

Bad weather hit farmers hard, and meant demand for fertiliser dropped. Demand for AECI's products from the motor and the construction industries also dropped.

Unless the conflict in the Gulf drags on AECI expects earnings to be at least maintained at the lower level in 1991. The massive destocking in the manufacturing pipeline that took place last year, notes Axelson, can't possibly be repeated in 1991.

and

ance

tising

sified.

Wiehann said last year's agree- agreement will result in the broaden- have the

New bitumen product 'safer'

ZILLA EFRAT

A SENTRACHEM subsidiary, working in conjunction with provincial road departments throughout SA, has launched a new road surfacing product aimed at making the country's roads safer

Conventional bitumen (tar) has been modified with a specialised synthetic product containing Styrene Butadiene (SBR) latex

B'Day 22/2/91

183

Modified

This latex is manufactured by the Synthetic Latex Company, part of Sentrachem subsidiary Karbochem

SBR latex-modified bitumen is applied as a binder for surface treatments and in the manufacture of hot-mixed asphalt.

Bitumen which has been modified with SBR latex ensures better adhesion of the binder to the aggregate.

It also is said to improve elasticity and flexibility, particularly at low road temperatures and increased stability at high road temperatures.

This, in turn, improves resistance to permanent deformation

Karbochem Sasolburg GM Philip Hechter says "Today's need for more and better roads and streets demands greater service from construction materials

"Constant increases in traffic density, coupled with higher wheel loads and tyre pressures has made it necessary to develop and utilise the best possible materials and processes available."

SBR latex-modified bitumen is being utilised in all four provinces, with a total volume in excess of 30-million litres having been marketed to date

Plastic bags head for export market

BDay 22/2/91

PLASTIC bags made from polypropylene could become a major export item if SA takes advantage of the rising costs of raw materials from the Middle East and begins an intensive marketing campaign.

A spokesman for Pietersburg-based Sakkor, SA's third largest plastic bag manufacturer, says with polypropylene available at low cost as a local raw material it has become viable to export SA manufactured polypropylene products

"With the new technology being brought on line at Secunda, we no longer have to import polypropelene and pay exhorbitant import duties," he says.

Local

183

"Up to the early '80s, industries had to use hessian and jute bags imported from India and Bangladesh

"Today, manufacturers in SA produce sufficient bags for local demand using raw material produced in the coal to oil process"

He says there are hardly any countries, least of all in Africa, which have access to the oil from coal process and therefore have to import their raw materials for polypropelene products from the Gulf region

"We are in a position — especially if the Gulf War drags on — to take advantage of the polypropelene market."

Sakkor has established markets for its products, in Botswana, Zambia and, on a limited scale, Zaire.

ANIES

Staalchem needs assets for listing

BIDay 22/2/91

MARIETTE DU PLESSIS

RALE Holdings subsidiary Farm-Ag has not yet acquired assets needed to retain the JSE listing of Staalchem, which became a cash shell in October 1990, says MD Robert Maingard. (183)

He declined this week to comment on alternative plans for Staalchem, but said there was R600 000 in the cash shell.

JSE rules require Staalchem to acquire assets before March 1 or be delisted, a Frankel, Max Pollock analyst said.

Farm-Ag's interim results in August showed a 63% drop in attributable income mainly because of rationalisation and a R3,6m loss from discontinued operations.

At the time directors were confident that major reorganisation of Farm-Ag's Potter & Moore toiletries division would curb losses by financial year-end in February. They forecast a substantial rise in attributable income from associated firms.

Board gets hooks into coat hanger industry

ROBERT LAING

THE wire coat hanger industry is to come under the scrutiny of the Competition Board

Board chairman Pierre Brookes says he has received a complaint that the makers of plastic-coated hangers are in collusion, and an investigation has been launched

The owner of a dry-cleaning firm in Mamelodi has claimed that a collusive relationship exists between the only two manufacturers of the hangers used by the industry Single-channel marketing was causing exorbitant prices, he said

One manufacturer had apparently become the sole distributor of the hangers, leaving the production to the other

"This case is special because it is the first complaint we have received from a black businessman The Competition Board does not only exist for mega-corporations, but also to assist small businessmen," Brookes said

Both manufacturers of coat hangers listed in the telephone directory pleaded ignorance and said they had no idea who the guilty party could be

AECI has also become entangled in the case through being the sole local supplier of white spirits The businessman asked the board to examine the monopoly in dry-cleaning chemicals

Dry-cleaners told Business Day they were limited to buying coat hangers from Protea and chemicals from AECI

All dry-cleaners approached said they welcomed the board's investigation

An AECI spokesman said the small scale of the SA market made it impractical to have several suppliers of dry-cleaning chemicals

183

Bus Day 2/12/87

Curnow M & G boosts profit, turnover

CURNOW M & G, which distributes refinishing products to the car trade, boosted attributable profit by 34,5% on a 15,3% increase in turnover in the year to December Bloom 1/3/91.

The company distributes Duco paint, thinners and a range of allied products and equipment through 15 branches across SA. It is listed in the retailers and wholesalers sector.

(183) (39)

Attributable profit rose to R1,24m (R919 000), translating into a 30,2% increase in earnings a share of 5,6c (4,3c).

The final dividend has been raised to 1,25c (0,75c), bringing total distribution to 2,25c (1,75c).

LIZ ROUSE

The company posted a 44,6% increase in operating profit to R3,11m (R2,15m) on a R39,1m (R33,9m) turnover, with margins improving to 7,96% (6,35%).

Curnow M & G MD Mervyn Bloom said the benefits of a management and operational restructuring initiated in 1989 were now beginning to emerge.

He said the restructuring improved efficiencies at every level, contributing directly to the profit margin increase.

VADEK FM 1/3/91 (183)

CONTROL WRANGLE

Directors at Vadek Paints and its pyramid holding company, Claw Investment Holdings, are rejecting claims by rival firm Cedar Radex that it has acquired control of the two groups

Paint manufacturer and distributor Cedar Radex bought a 93% stake in Claw from International Bank of Johannesburg last month However, directors of Vadek and Claw intend taking legal action in an attempt to reverse the sale At the directors' request, shares of Vadek and Claw have been suspended

The Claw shares were lodged with the bank last year as security for funds, estimated at R13m, issued to a consortium of investors, which includes some of the current directors, to enable it to acquire control of cash shell Zozo This shell was used to buy Vadek and non-listed Albestra Businesses of Vadek and Albestra were then merged and Zozo, renamed Claw, became a pyramid holding 93% of the enlarged group

Vadek and Claw chairman Mike Jennings says the bank should not have sold the shares and questions the validity of the bank's surety agreement He contends the sale is not in the best interests of shareholders

The directors have announced they have sold the business of Vadek as a going concern, in terms of a cautionary announcement published on January 7 No details of the terms of the proposed sale have been released, and Jennings declines to identify the purchaser He says the timing of the transaction depends on production of audited accounts and a shareholders meeting

"The transaction is being proceeded with as it is wholly unconnected to the legal disputes at the ultimate controlling level," says Jennings If the transaction goes ahead, Vadek will become a cash shell

FM 1/3/91 (183)

International Bank of Johannesburg MD Peter Gray was unavailable to comment on the sale of the Claw shares to Cedar Radex

Cedar Radex paid the bank R8m for 16,9m Claw ordinary shares and 2,4m unsecured compulsorily convertible debentures This equates to 41,34c for each share and debenture In terms of requirements of the Securities Regulation Panel, Cedar is offering minorities 42c a share It is also offering to acquire three debentures for every 20 shares held by minorities at 42c each

Vadek's price was standing at 30c when it was suspended on February 21 and Claw was at 75c

Extraordinary costs of R2,9m, incurred as a result of an extensive reorganisation, pushed Vadek R1,5m into the red in the year to February 1990 The group expects to make a profit for the 16 months to its new June year-end

Cedar Radex MD John Kneen believes further reorganisation is needed if Vadek is to be profitable He is confident of exercising control of Claw and Vadek, and has asked the JSE to reinstate their shares

Kneen says he looked at acquiring Vadek and Albestra last year before they were bought by the current consortium A subsequent offer by the consortium to sell the group was rejected as the price was too high, says Kneen Jennings counters that Kneen was to have been part of the consortium that acquired Vadek and Albestra, but claims he pulled out at the eleventh hour, Kneen denies this

Simon Cashmore

FM 1/3/91. (183)

CHEMSERVE

RERATED

Release of results that signal a profit turnaround has resulted in a swift rerating of Chemical Services' share

Since the sharply improved profit figures were announced a fortnight ago, the price has gained 425c — or more than a fifth — and now trades at 2 425c

In 1989, the AECI subsidiary ran into a setback which brought an abrupt halt to its strong earnings record The market appears to be accepting the view that the group resolved its problems in 1990 The latest results bring the average annual compound growth in EPS for the past five years to 21%, while the dividend growth rate for the same period is 19%

The 46% increase in operating profit for the year, off a 33% turnover advance, indicates a return to better margins, though the figure was affected by two associated companies which became subsidiaries At the interim stage, consolidation of these companies contributed 18% of the 31% turnover rise

These two operations sell higher-margin products, which helped to boost the overall trading margin to 12,1% from the previous 10,9% Other subsidiaries also reported increased margins, but a 42% rise in the interest charge, and a 67% rise in the tax bill, owing to fewer tax-exempt items, eroded the bottom line yet still left attributable earnings 20% higher

Gerhard Slabber

VADEK FM 1/3/91 (183)

CONTROL WRANGLE

Directors at Vadek Paints and its pyramid holding company, Claw Investment Holdings, are rejecting claims by rival firm Cedar Radex that it has acquired control of the two groups

Paint manufacturer and distributor Cedar Radex bought a 93% stake in Claw from International Bank of Johannesburg last month However, directors of Vadek and Claw intend taking legal action in an attempt to reverse the sale At the directors' request, shares of Vadek and Claw have been suspended

The Claw shares were lodged with the bank last year as security for funds, estimated at R13m, issued to a consortium of investors, which includes some of the current directors, to enable it to acquire control of cash shell Zozo This shell was used to buy Vadek and non-listed Albestra Businesses of Vadek and Albestra were then merged and Zozo, renamed Claw, became a pyramid holding 93% of the enlarged group

Vadek and Claw chairman Mike Jennings says the bank should not have sold the shares and questions the validity of the bank's surety agreement He contends the sale is not in the best interests of shareholders

The directors have announced they have sold the business of Vadek as a going concern, in terms of a cautionary announcement published on January 7 No details of the terms of the proposed sale have been released, and Jennings declines to identify the purchaser He says the timing of the transaction depends on production of audited accounts and a shareholders meeting

"The transaction is being proceeded with as it is wholly unconnected to the legal disputes at the ultimate controlling level," says Jennings If the transaction goes ahead, Vadek will become a cash shell

FM 1/3/91 (183)

International Bank of Johannesburg MD Peter Gray was unavailable to comment on the sale of the Claw shares to Cedar Radex

Cedar Radex paid the bank R8m for 16,9m Claw ordinary shares and 2,4m unsecured compulsorily convertible debentures This equates to 41,34c for each share and debenture. In terms of requirements of the Securities Regulation Panel, Cedar is offering minorities 42c a share It is also offering to acquire three debentures for every 20 shares held by minorities at 42c each

Vadek's price was standing at 30c when it was suspended on February 21 and Claw was at 75c

Extraordinary costs of R2,9m, incurred as a result of an extensive reorganisation, pushed Vadek R1,5m into the red in the year to February 1990 The group expects to make a profit for the 16 months to its new June year-end

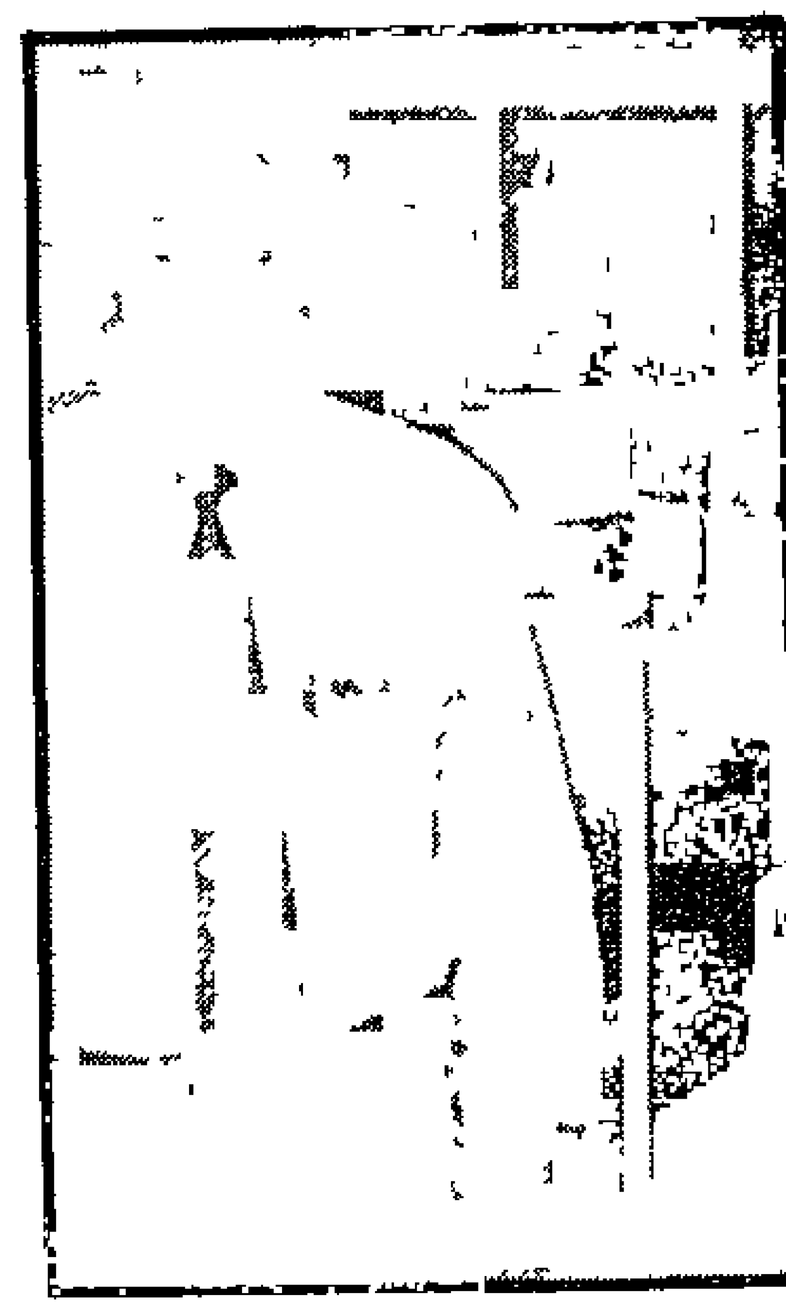
Cedar Radex MD John Kneen believes further reorganisation is needed if Vadek is to be profitable He is confident of exercising control of Claw and Vadek, and has asked the JSE to reinstate their shares

Kneen says he looked at acquiring Vadek and Albestra last year before they were bought by the current consortium A subsequent offer by the consortium to sell the group was rejected as the price was too high, says Kneen Jennings counters that Kneen was to have been part of the consortium that acquired Vadek and Albestra, but claims he pulled out at the eleventh hour, Kneen denies this.

Simon Cashmore

Sanachem set on drive into Africa

S'Times 3/3/91 (183)



ROBERT MAINGARD Rainy days bring promise of better business

SANACHEM, the biggest agricultural chemical manufacturer in Africa, is launching a drive to supply the continent

Sanachem — short for SA National Agricultural Chemicals — already has a foot in the door in Europe, the Americas, the Caribbean and the Pacific rim

Sanachem will increase manufacturing capacity by R15-million to lift turnover above R350-million

Managing director Robert Maingard says. "We are looking at African markets that can afford imports Our industry is important to Southern Africa and West Africa

"Crops in these areas are similar We can get the chemicals there faster than the Europeans"

"If need be, Sanachem sends experts to advise farmers about what pesticide to use and how"

Sanachem was formed through the merger of the Sentrachem and Farm-ag agricultural chemical divisions Both companies hold 50% of the company, which has assets of R100-million

Mr Maingard says replacement value of plant and infrastructure is R200-million

This huge replacement cost gives the new Sanachem a firm footing in domestic and foreign markets

Sanachem does a lot of toll manufacturing A fifth of production is from synthesising products for a fee for Bayer, Monsanto, ICI and other major pesticide companies

These companies would have to spend millions to set up plant for a product that is produced in relatively low volumes

By DIRK TIEMANN

Mr Maingard says the giants often have a few products which they sell but do not make because the capital expenditure is not justified

Sanachem is often approached to manufacture products for foreign companies who have registration for them but not the raw materials

"This business is increasing because we are the only ones in Africa who can do it The diversity of crops in SA means we have a good product spread"

Sanachem makes 22 pesticide ingredients and holds 187 registrations

"We can make five products in one small plant If we put up new plant we have the infrastructure in place to go on stream quickly"

Expansion plans include the doubling of MSMA herbicide production at the Canelands plant, near Durban Several reactors and vessels were made in-house

Chloorkop, near Kempton Park, will increase production of 2,4-D herbicide The expansion will also provide for the manufacture and distribution of mancozeb fungicide and aldicarb soil insecticide

"This total import substitution will offer considerable savings to SA farmers"

The Berlin factory, near East London, will be developed "as we go along" It is the only atrazine manufacturer in Africa Atrazine is a herbicide to protect mealies

"A small guy would kill himself with the cost of this infrastructure It took me nine years to set up my agricultural chemical manufacturing operation"

He has been in agricultural chemicals since 1956 The family had sugar interests in Mauritius, hence the interest in pesticides and with it, the exploitation of an untapped SA market

Mr Maingard says a new chemical product can cost hundreds of millions and this is why the company concentrates on those whose patents have expired Five "new" products, with expired patents are in the pipeline

"The idea is to replace imports and to export Sanachem makes the basic pesticides Sentrachem has the raw materials and the facilities to make feedstock which would otherwise be imported

"Both Farm-ag and Sentrachem were in different agricultural chemical fields and the merger gave us tremendous synergy"

Sanachem supplies half the agricultural chemical market valued at R700-million annually Profit forecasts of R22-million are unlikely to be met this year because of the severe drought and rationalisation costs This is expected to change because some people say 10 years of wet weather are about to start

Growth in the SA market has been static, but the rapid increase in population and better weather should take care of that, says Mr Maingard

Exports constitute 20% of turnover and are rising

Sanachem has a management team of seven headed by Mr Maingard, who says all teething problems should be ironed out soon

"People doubted that I could adapt, but they (Sentrachem) are great partners This venture will form a brilliant base for local industry and exports Export opportunities for SA are excellent if companies are run lean and people are prepared to get their hands dirty

"A strong company will be in place in four years' time, when Sentrachem takes full control"

Mr Maingard is happy with the agreement whereby Farm-ag shareholders benefit from the sale of the 50% stake in Sanachem to Sentrachem

"They cannot lose If the country crashes, we still get the net asset value Inflation is also discounted It is a foolproof settlement in four years' time Shareholders could be looking at a R7 share instead of the current R2"

He says Farm-ag will be in the black this year

The company has been slimmed down and the lawn-mower division sold

Interests in Bearing Man (23%), the biggest distributor of bearings in SA, Hacks (socks and yarns) and an export trading department, which sells "anything" that is made in SA, have been maintained

The toiletry division has been shrunk, automated and will concentrate on exports The plant will be shifted to Canelands from Bophuthatswana

Tickey-stock Royal takes a place in the guinea seats

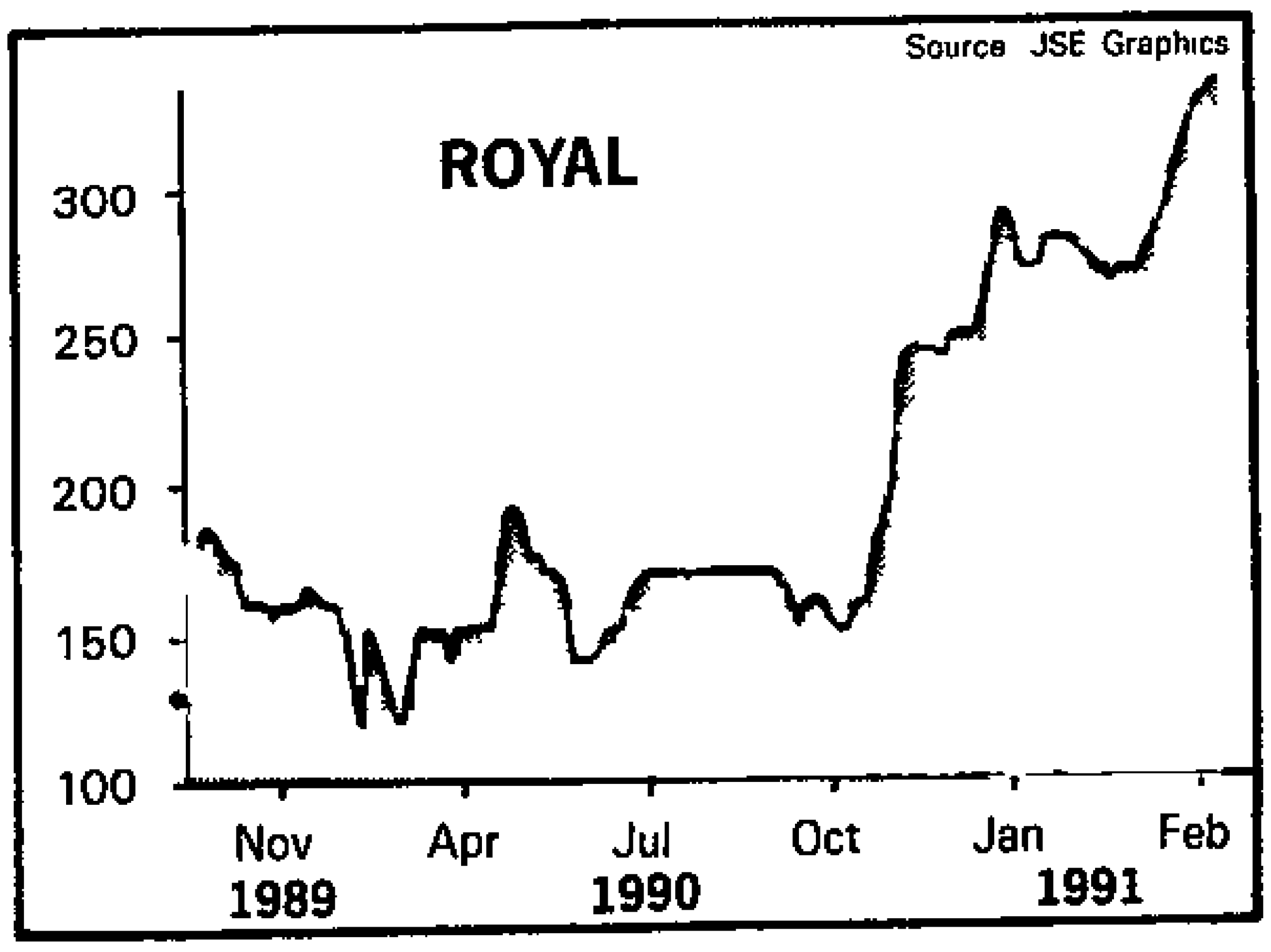
S/Times 3/3/91. (183)

UNSUNG Royal Corporation has one of the lowest profiles yet highest success rates of any public company

The 1987 listing under the Lovasz name has sprung into an institutionally backed light-blue chip

On value for money Royal group shares have the potential to grow at a faster rate than the bigger boys

Vice-chairman Sam Imerman bought a chemicals broking business out of a deceased estate 17 years ago His son Vivian — who now holds the reins — joined him straight from school a year later and soon saw that broking for commissions was not the best way to direct the business



Acting as principal, the Lovasz group grew

"I went from factory to factory, buying and selling," says Vivian Imerman "You learn a lot about companies through standing at the back door"

Again, the business reached too limited a size for Mr Imerman, prompting a 1987 listing

Did he foresee then that the group would come to own Holpro, Royal Beech Nut, Lovasz Chemicals, Sapco and Ferro within three years?

"I was ambitious," he replies, deadpan "We looked for things with good gross margins"

He slips in casually that 55% of the group's profit comes from exports The tickey stock is taking on guinea status

Royal Beech Nut (RBN) was hotly sought by SA's larger food companies, but secured by Mr Imerman because he had done a significant amount of spadework preparing the ground for the deal The seller preferred to sell to him

RBN was part of American food giant RJR Nabisco, which recently changed hands for $30-billion — much of it justified by its brands and its fantastic distribution systems The one established in SA will stand Royal in great stead

Royal already supplies 8 000 outlets with its existing range Any acquisitions will simply blend in A large warehouse is being built at Chloorkop, near Kempton Park, to make the distribution yet more efficient

The biggest acquisitions have been from disinvestments Mr Imerman says there is plenty of scope for improvement Bans on the investment of new capital in SA companies led to lack of interest and demotivation on the part of management

Now, the same managers operating under new shareholders have proved their worth to Mr Imerman Human capital in the form of managing director Doug Johnston and financial director Jacques Fragis bears witness They came with RBN and now help to run the group

Stand-alone management is the first of Royal's list of criteria to be met by companies it considers buying

Also on the list are branded products, good financial systems and controls, high barriers to entry by other parties and access to technological advances Following these rules Royal has not taken a wrong step

Ultimate endorsement comes through sizeable shareholder Old Mutual's agreement to underwrite the rights issues of shares in Royfood and Roychem It is not often the insurer undertakes to do that

The listed structure will change Pyramid Royhold will continue to own 52% of Royal, which will reduce its 100% shareholdings in the food and chemical divisions to 65% of Royfood and 58% of Roychem

Holders of 100 Royhold or Royal can subscribe for 50 Royfood at 335c and 30 Roychem at 260c, the proceeds to pay for the acquisitions The rights offer closes on March 15 Royfood nil-paid letters are currently 15c and Roychem's 5c

Shareholders should not hesitate to take up the rights The RBN acquisitions have been thoroughly digested and potential unlocked With it came a soft pre-emptive right to buy Sapco, which Royal exercised last year

Sapco's market leader Del Monte stands to boom from better exports, especially after the demise of competitor Gants Its expansion was precluded while under foreign ownership because of investment bans and double taxation

VIVIAN IMERMAN Knowledge gained at the back door

But Del Monte is no lemon — merely to maintain production the previous shareholders had to undertake major expenditure, from which Royal now benefits

"The phones have started ringing again from countries we have not heard from in years, looking to do business," says Mr Imerman

Ferro Industrial Products makes special chemicals, and is Royal's door to their manufacture

On the whole, the Royal group looks princely Plenty of revenue derives from exports, and 80% of food sales in SA is in the growing black market Recession does not overly hurt

Both Royhold and Royal shares are about 300c, almost treble the price a year ago Yet the group is being better rated rather than outgrowing its strength At this price, I like it

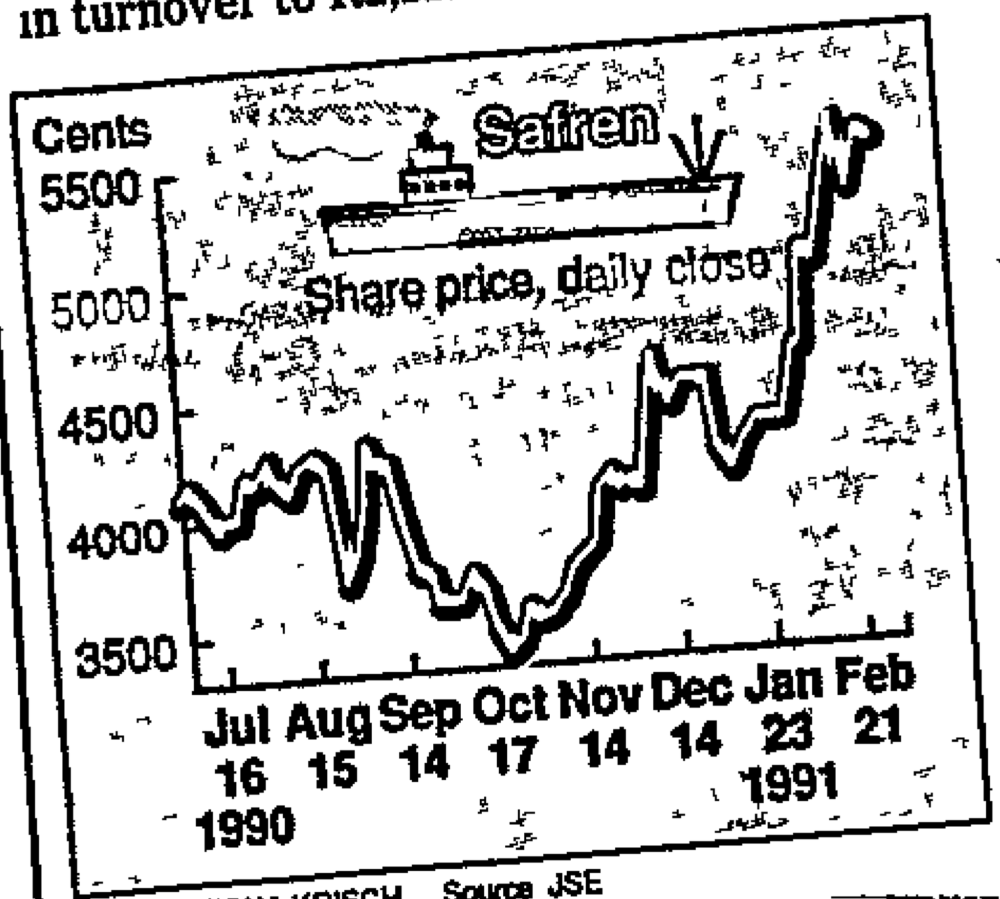
Slowdown in Safren's growth

BDay 4/3/91

LESLEY LAMBERT

183

CAPE TOWN — A decline in shipping and related activities has hobbled the pace of Safren's growth, resulting in a 3% increase in turnover to R2,1bn for the six months to December 31



Graphic: FIONA KRISCH Source JSE

But a good overall performance by the group's leisure interests, through its 76% stake in Kersaf, and a conversion of the comparative period's interest payments of R2,1m into interest receipts of R3,3m helped to boost attributable earnings by 11,3% to R120m

A breakdown of the three trading operations shows that Kersaf's contribution to group profits grew by 18,5% to R57,5m, while Safmarine's grew by 11,8% to R41,6m and Rennies by only 7,2% to R19,4m The contribution of other activities declined sharply from R4m to R1,5m

Safmarine normally contributes the lion's share of profits at year end because

☐ To Page 2

Safren

BDay 4/3/91.

183

☐ From Page 1

of the seasonal nature of its business.

But during the period under review, it experienced a disturbing 14,3% decline in import volumes from its core European and UK trade routes, CE Buddy Hawton said in an interview on Friday.

Bulk trade operations were affected by the international economic downturn and the Gulf war which softened rates, he said

The decline in trade volumes was partially offset by increased volumes from the US and the Far East Hawton said he expected US trade volumes to start benefiting from the anticipated lifting of sanctions and the likelihood that the rand would show less of a decline against the US dollar than it would against the currencies of other trading partners

Safair had performed well and was continuing to benefit from new domestic and regional opportunities in southern Africa, Hawton said

Rennies' slowdown was attributed largely to the impact of smaller trade volumes on its freight business But he said there had been healthy growth in bulk terminalling operations in Durban

The casino resort interests, through Kersaf, continued to cushion the group from the slowdown in shipping and related activities, largely because of good results from Sunbop and Interleisure Transun's profit performance was affected by a large rise in wage costs and the new casino levy negotiated with the Transkei government

Hawton said the group was happy with the state of the balance sheet. Net worth had increased by about 12,4% while the debt-to-equity ratio had declined from 18% last year to 16,7%

The low debt situation would be altered by substantial new investments.

An interim dividend of 60c a share was declared, 9,1% greater than the previous half-year's

Cost cuts by medical aid schemes infect Noristan

B|Day 5/3/91 (183)

MARC HASENFUSS

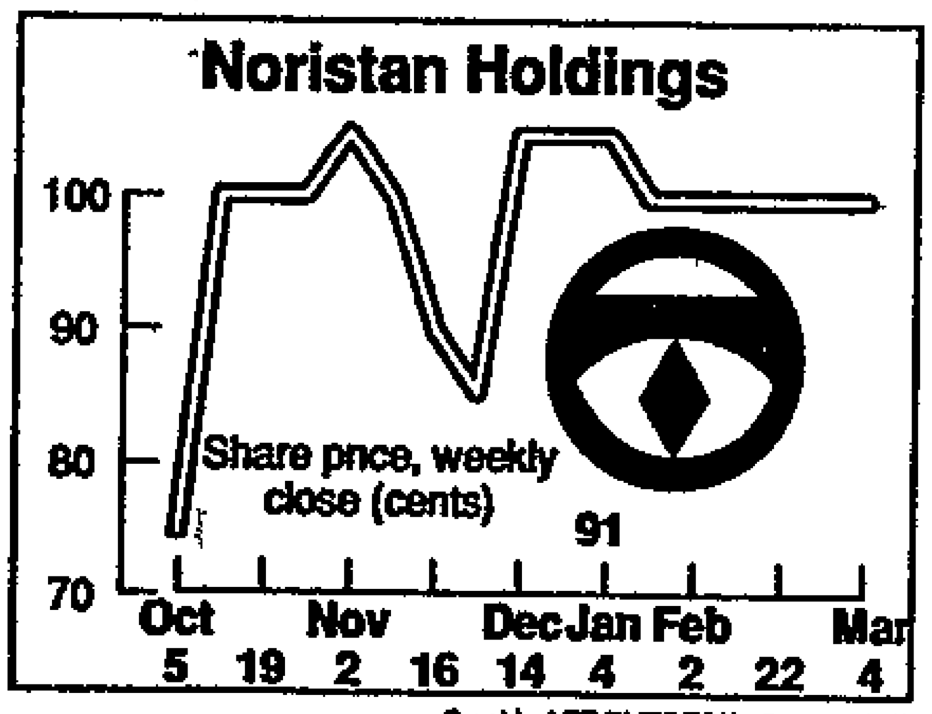
INCREASED cost cutting by state and private medical aid schemes slowed down the earnings growth of Pretoria health-care group Noristan Holdings in the six months to end December 1990.

Attributable profits lifted slightly to R3,7m (R3,6m), while earnings a share increased marginally to 6,9c (6,8c) after being diluted by an increased number of shares in issue.

However, strong demand for over-the-counter products (OTC) like Prohep, Redupon and Calmettes brought some relief and boosted turnover 33% to R51,3m (R38,7m). Tighter margins resulted in a 11% increase in operating profit to R4,6m (R4,2m)

In line with group policy no interim dividend was declared. W & A Investments has a 21% stake in Noristan.

Noristan MD Hugo Snyckers said the expansion of the core pharmaceutical business and improvements in other divisions are expected to yield material benefits in the medium and longer term



Graphic: LEE EMERTON Source: JSE

Norimed, a 79% held subsidiary, reported an operating profit of R1,1m on the back of a turnover of R8,8m Earnings were 40c a share

No comparative figures were available for Norimed as the group relinquished its property interests in order to focus on health-care activities

Norimed's long-term prospects would benefit from increasing demand for the provision of state-funded hospital services and the growth of private medical care, Snyckers said

Noriscel, the fine chemicals division, continued to be affected by delays in fully commissioning its salicylic acid plant, and costs would continue to be capitalised until it was operational

Computer division, Noridata, is undergoing rationalisation to adjust operations to marketplace needs, he said

Crest Healthcare — manufacturer and distributor of medical equipment for anaesthesia, critical care and patient monitoring — performed well

Snyckers said to expand production, storage and distribution facilities for the pharmaceuticals division, the main factory in Pretoria was involved in a R6m extension programme to be completed in July.

Engen rights issue looms

BDay 5/3/91

MATTHEW CURTIN

FUEL and energy giant Engen is on the verge of announcing a multimillion-rand rights issue to fund the second phase expansion of its Durban Genref refinery.

Engen chairman Bernard Smith said yesterday the rights issue would "take place soon, as the group is seriously considering the phase two expansion of the refinery and examining other downstream possibilities".

The group approved the first phase expansion at Genref on December 4 last year, at an estimated cost of R670m. MD Rob Angel said at the time the "three-phase expansion project will make Genref a world-class refinery in terms of its complexity and physical size"

The group gave notice it was considering raising extra funds, although it was able to fund the first five-year expansion phase from existing funds

Smith yesterday reiterated remarks he made in Engen's annual report last year that "the financing of available opportunities cannot take place entirely from internally generated funds" (183)

Engen investor relations spokesman Abbas Gani said yesterday the combined cost of the three-phase expansion programme would exceed R2bn

Gencor and Genbel had 84% and 9% holdings respectively in Engen, and were seeking to place shares with SA's largest institutions to reduce their combined stake in Engen by about 20%.

☐ To Page 2

Engen

BDay 5/3/91

(183)

☐ From Page 1

Genbel MD Anton Botha said a rights issue would be inadvisable without a wider shareholding.

Genbel had made formal offers of Engen shares, at a discount to the current market price, to institutions last week, and an official announcement concerning the allocation would be made later this week.

Botha said once "a proper spread" of shares had been achieved, Gencor and Genbel would be in a position to underwrite the rights issue.

Analysts said yesterday the parties were going ahead with the rights issue despite low market prices

Engen's prospects were good, but not as healthy as they were six months ago when the oil price soared and Gulf refining was disrupted in the wake of the Iraqi annexation of Kuwait. It was important to launch the issue sooner rather than later.

There was speculation yesterday Engen would formally announce the rights issue tomorrow, after institutions had been offered shares at a R1 discount on the current share price of R32,50.

'Spying' not unusual, court told

(183)

BPday 5/3/91

SUSAN RUSSELL

PETROL companies often took pump readings at opposition service stations to determine the feasibility of building their own in an area, the Rand Supreme Court heard yesterday.

This evidence was given by a BP employee, Emmanuel Bongani Nzama, who, with colleague Joseph Makgole, is suing a security company owner for R105 000 damages for unlawful assault and arrest.

They claim Garth van Aardt assaulted and detained them after they were found taking pump readings at a Caltex service station in Kibler Park.

Their claims against the Kibler Park Service Station and owner David van der Walt have been settled.

Nzama yesterday told Mr Justice Flemming he and Makgole went to the station at about 10pm on January 8 to take pump readings. Companies did this to establish the feasibility of building their own stations.

He said they had obtained permission from a security guard on the premises. Van der Walt had subsequently confronted them and assaulted him. The pair fled and hid. Nzama said he emerged from hiding, was handcuffed and then beaten by Van Aardt.

He was driven to Eikenhof and again assaulted by Van Aardt. Makgole, his hands bound, arrived later. They were released the next morning.

The case continues.

Noriston takes turn for worse

Star 5/3/91

183

By Ann Crotty

Tough trading conditions and the need for some rationalisation took their toll on healthcare group, Noristan with earnings for the six months to end-December virtually unchanged at 6,9c (6,8c) a share on a 33 percent hike in turnover

Capex is expected to lead to an increase in interest charges in the second half which means that there is little prospect for full year earnings growth

On a turnover of R51,3 million (R38,6 million) operating income rose by only 11,4 percent to R4,64 million (R4,16 million) This reflects a squeeze on operating margins from 10,8 percent to 9 percent.

Among the divisions suffering MD Dr Hugo Snyckers mentions Noriscel (the fine chemicals division which is affected by delays in the full commissioning of its salicylic plant), Noridata (which is adjusting to changing marketplace needs) and; Crest Healthcare (which performed well under difficult trading conditions)

Finance charges shot up to R798 000 (R182 000).

After tax of R1,2 million and outside shareholders of R187 000, attributable income was R3,65 million (R3,57 million)

Prelude to Engen rights issue

MATTHEW CURTIN

(183)

GENCOR and the group's investment holding company Genbel have shed about 20% of their shareholding in fuel and energy company Engen, a move which is a prelude to an Engen rights issue to raise funds for the second-phase expansion of the Genref refinery BDay 6/3/91

In a statement yesterday, a group spokesman said Gencor and Genbel had placed about 20-million Engen limited shares with institutional investors, at a discount price of R29 a share. Engen shares fell 4,6% (150c) to R31,00 on the JSE yesterday

Gencor held 92-million shares, 74% of Engen's issued share capital, at year-end 1990 Genbel held 9,4-million shares, 8% of the total share capital.

He said "with so many of its shares held by the Gencor group, Engen's stock has been rather untradeable and Gencor decided to place shares with the country's major investors"

Shares were placed with more than 30 institutions "including many of SA's major insurance companies and pension funds", the spokesman said.

Engen chairman Bernard Smith said yesterday the group had been able to finance the first-phase expansion of the Durban refinery with existing funds.

Additional funds were necessary for phase two, which would double existing capacity and amount to a 150% increase in capacity when both phases were complete in about five years time.

Smith noted that despite the common perception that Engen's operations were sensitive to the cyclical developments of the oil price, the company's profits were more importantly generated by refining margins.

Gencor places Engen shares

183

Star 6/3/91

Gencor and its investment holding company Genbel Investments have placed 20 million shares of energy group Engen with institutional investors, in anticipation of Engen's rights issue.

In an announcement Gencor said that Gencor and Genbel controlled about 80 percent, or just over 100 million shares of Engen's share capital at the end of August last year

With so many of its shares held by the Gencor group, Engen's stock has been rather untradeable and Gencor decided to place shares with the country's major investors, the statement said

The share exercise reduces the Gencor group's stake in Engen to around 75 percent The shares were placed with 30 financial institutions at a price of R29 per share

Shares have been placed with over 30 institutions including many of South Africa's major insurance companies and pension funds.

In its annual report Engen's chairman Bernard Smith said that the company has extensive expansion plans.

"The refinery in Durban is due to be doubled in capacity and extensively upgraded over the next five years The development of a viable chemical business and expansion activities are also planned

"The financing of available opportunities cannot take place entirely from internally generated funds Raising further capital through a rights issue is an alternative currently receiving attention"

Both Gencor and Genbel have indicated their intention of applying the proceeds arising from the placing to subscribing for new Engen shares in future rights issues — Sapa

Sinclair sells Aquanaut to US company for $7,1m

B Day 7/3/91

BEVERLY HUCKLESBY

POOL cleaner company Aquanaut has been sold to an unnamed US company for $7,1m, it was announced today.

Aquanaut parts will no longer be manufactured in SA but will be available to users in the short term.

Although the supply of parts could not be guaranteed in the long term, maintenance for the pool cleaners would be available for at least two years, said Michael Psaff of parent company Sinclair Holdings.

Psaff said he could not divulge the identity of the US buyer but recent speculation pointed to US-based Aquanaut Inc in which Sinclair has a 20% stake.

However, an industry source said yesterday US pool cleaner company Arneson had bought Aquanaut SA

Psaff said the decision to dispose of Aquanaut was in line with Sinclair's stated intention of concentrating on the motor business after selling off other assets

This followed Aquanaut's heavy losses

(183)

Aquanaut MD John de Groot recently denied that the financial state of the company was the reason for the disposal.

After the payment of associated debt and liquidation costs of Aquanaut entities, more than R15m would be distributed among shareholders.

FOCUS: *Suspect cosmetics are still on sale in South Africa*

Toxic tanning – but producers deny it

183

WMail 8/3-14/3/91

CRITICAL CONSUMER

Pat Sidley

SEVERAL tanning preparations and other cosmetics — some of them still available in South African stores — have been withdrawn from sale in Australia after a chemical they contain was found to cause cancer in mice exposed to sunlight.

The chemical is called urocanic acid, a substance which occurs naturally in human beings According to the *Sydney Morning Herald*, studies conducted at Sydney University indicated that when it was painted on mice who were then exposed to sunlight, it suppressed immune response and promoted tumour growth

In December the Australian government's federal minister for consumer affairs asked the cosmetic industry to withdraw all products containing urocanic acid following a review by the toxicity committee of the National Health and Medical Research Council

Three of the cosmetic houses, whose products were on sale in South Africa, were Estee Lauder, Clinique (part of the same company) and Clarins

Although their products containing urocanic acid have in theory been withdrawn from the South African market, several outlets still have some in stock. Furthermore, the sales assistants have not been told about the scare or what information to give to consumers who may have heard about the problem, nor has any of the three informed the South African public about the problem In fact, the packages were not marked with sufficient information to allow consumers to know that urocanic acid was among the ingredients

When asked about it, all three houses said they had withdrawn the products, but gave several reasons for that action, none of them involving urocanic acid Representatives for all three houses stated that urocanic acid is harmless and said there was no connection between the Australian problem and the withdrawal in South Africa of products containing that ingredient.

The Clarins representative implied the university scientists had groundlessly scared the public and defamed the producers, the "two men" on whose findings the withdrawal was based are "in trouble with legal problems for saying this", she said

Urocanic acid has natural sun filtering properties against UVB rays. Australia has the highest skin cancer rate in the world, exaggerated by the culture of sun-worshipping This statistic is rivalled by South Africa, which has the second highest rate of skin cancer.

This means that in both countries, sun-screening products are in demand

All three houses cited health authorities in various countries who approved of urocanic acid Said Estee Lauder "Urocanic acid is approved as a sunscreen by Colipa, the cosmetics trade association of the European Community, and is also regarded as safe in Japan " Clarins said the US Food and Drug Administration had passed it

The companies maintained that the reason for the withdrawal from the market of their products had nothing to do with urocanic acid but with "reformulation" of their products

Clarins stated that certain media had "chosen to misinterpret our reasons for withdrawing our old range of suncare products from the market to make way for the launch of our new 'Tanning Treatments Range' "

The president of the company's International Division, Christian Courtin-Clarins, says in a statement on the issue that Clarins' philosophy for more than three years has been "to favour the use of natural ingredients of vegetal origin in our products" and that this was the reason for the withdrawal and reformulation The company stated however that none of its products contain urocanic acid any longer So did Clinique, and both companies also said the chemical has been used for years with no reports of adverse effects on humans

Clinique said the only product that had contained this ingredient was the 'Self-Tanning Formula' and that this had been reformulated worldwide for a "completely different reason — to improve its ease of application" In any case, it no longer contained urocanic acid

Estee Lauder said "As part of its ongoing product improvement and enhancement programme, the Estee Lauder Research and Development Department has reformulated those few products which contained urocanic acid and that ingredient is no longer being used This reformulation began last September The minuscule amounts of urocanic acide used in previous formulas present no health danger "

According to the December 22 *Sydney Morning Herald*, these products contained urocanic acid and were withdrawn from the Australian market

- Estee Lauder's Oil-Free Tanning Formula 6, Advanced Protection Formula 15, Sun Out Face Block 15 plus, Overnight Pre-Tan Accelerator, Signature Eyeshadow (single, duo and triad), Signature Powder Blush, Signature Face Powder (loose and pressed), Golden Shell Compact, Golden Alligator Compact, Touchstone Compact, and Golden Compact Refill.
- Clinique's Pre-Tan Enhancer and Self-Tanning Formula
- Clarins' Total Sun Screen SPF15 plus, Self-Tanning Milk SPF 6 plus, Sun Wrinkle Control Cream SPF 10, and Moisturising Sun Care Milk SPF 8 (natural) and SPF 9 (tinted).

A *Weekly Mail* reader who uses some of these products has found them still on sale and drawn the issue to our attention A check by this Critical Consumer at several department stores yielded the information that several Estee Lauder items on the list and one from Clinique are still on sale

Unionists find knowing your Marx isn't enough

W/Mail 8/3-14/3/91

181

Financial woes and retrenchments at South Africa's only union factory, Zenzeleni Clothing, have serious implications for labour and its drive for industrial democracy

DREW FORREST reports

THE framed union T-shirt hanging behind the reception desk leaves the visitor in no doubt here is no ordinary clothing factory.

On the shopfloor, where more than 100 workers are cutting, sewing and pressing workwear, the impression deepens "Quality starts with you," exhorts a notice, scrawled by a worker's hand, posters urge solidarity with Chile, and farmworkers to "organise or starve"

"South African managements are so uptight about what goes on notice-boards," says managing director Glen Cormack "We try to remove those areas of conflict."

The uniquely worker-centred atmosphere is that of Zenzeleni Clothing in Durban, launched two years ago by the South African Clothing and Textile Workers Union (Sactwu) But idle sewing machines on the T-shirt line are a tell-tale pointer that all is not well at South Africa's only union factory

Days earlier, Zenzeleni ("Do it yourself") retrenched 125 of its 300 workers Two shopstewards are directors, and workers had a more than usual say, but it was ultimately a decision of a union board of trustees It was a nightmare for Sactwu which launched the project to employ retrenched Frame workers with a view to ploughing profits into further job creation Following closely on the closure of a National Union of Metalworkers' supermarket cooperative in Port Elizabeth, Zenzeleni's woes have implications for labour's drive to increase workers' stake in the economy.

The battle for survival at the factory — reports put losses last year at R2-million — has done more than embroil Sactwu in painful contradictions Assistant general secretary Yunis Shaik estimates the union has injected R1-million to prop it up

What went wrong? Some setbacks have clearly been beyond Sactwu's control sales of political and union T-shirts, a potentially captive market, collapsed from 3 000 to 300 a month last year under the brunt of political violence, while R2,5-million pledged by Frame was drip-fed into the project, leaving it initially undercapitalised.

The key hurdles in servicing orders, Shaik complains, have been credit from textile mills and finance.

"Banks are happy to have our multimillion rand account — but for loans, they want double security; they fear it'll be politically sensitive if they have to foreclose It's infuriating that we don't get equal treatment."

He warns that if business refuses to play ball, labour will have to launch its own financial instruments

But Sactwu is also grappling with its own failures In a frank assessment, Shaik said labour had to learn "to make business,

Union democracy· Workers face the reality of making a business succeed
Photo: DREW FORREST

rather than political, decisions. Business is not run on the buddy system, and knowing your Marx is not enough — if you don't pay, the supplier cancels, if you don't supply, the customer cancels "

He said "We've got to be accountable for errors — we can't keep pointing to what we have suffered "

Setting up a factory to employ 300 and then seeking orders had been a mistake, Shaik added. "You need a workable plan based on business principles and managed by a businessman, not some arty-farty progressive "

For some union critics, the retrenchments expose a root flaw at Zenzeleni Sactwu is the workers' employer and representative Workers have unusual powers — dismissals, for example, are negotiated on the basis of a mutually agreed code of conduct

But in contrast with a classical co-op, they don't have the final say on the running of the enterprise or how earnings are distributed Pay is negotiated by Sactwu at the industrial council, and any surplus goes to the trust for further work creation

The National Union of Mineworkers' (NUM) co-ops embody a contrasting approach: although NUM provides loan capital and support services, these are producer-controlled

"We're critical of union-owned factories," said NUM co-ops co-ordinator Kate Philipp. "They set up irreconcilable differences between workers and the union "

For Shaik, the NUM schemes fail to address the key question of ownership, of how to "strengthen the economic stake of the class as a whole

"Through Zenzeleni, our 200 000 members have a stake, however small, in the economy and their own industry Ordinary workers — Dolly and Jayshree in the factories — paid for this project."

Shaik and Cormack stress that the aim is growing shopfloor control as workers acquire business skills, as well as a greater slice of the product One idea is the conversion of some profits to shares redeemable by workers on leaving the company

The approach was endorsed by Zenzeleni shopsteward Yusuf Smith, who urged closer co-operation between workers and managers, but told *The Weekly Mail.* "Maybe when workers are fully trained and experienced in the industry, they can take over. But it will take years, it's better like it is at the moment."

Shop-floor conflict sometimes sparked charges that "Sactwu is oppressing us", but only from "a few individuals", he said

Zenzeleni has a new plan involving stepwise reconstruction in tandem with the cultivation of credit — Frame has been helpful here — and Shaik is convinced the company can work.

He dismisses claims that worker involvement is an obstacle to business success: "There's no conflict between demands for higher wages and company growth " Certainly the Zenzeleni system has its advantages, Cormack says absenteeism is lower than one percent, as against three to five percent in normal companies.

"We paid a high price but we've now reached the top of the learning curve," Shaik says. "We had to live the dream to learn the reality "

Sentrachem getting thumbs up from market

(183)

Star 8/3/91.

By Jabulani Sikhakhane

After dropping to a low of 380c from 470c last October, Sentrachem's share price has recovered 42 percent to yesterday's 540c

The fall in the share price followed a 12,4 percent decline in attributable earnings for the 17 months ending August

Since then the price has tracked the movement in the industrial market. It firmed to 500c in December, eased back to 420c before picking up again in the recent renewed bullish sentiment on the industrial market.

Analysts say the recent recovery in Sentrachem's share price is due to institutions turning to shares which are exposed to cyclical pressures because most blue chips are over-valued at current levels

Sentrachem chief executive, Johan van der Walt says while the recovery in the share price is partly due to renewed bullish sentiment on the market, the revaluation of Sentrachem in the light of the results of other companies (like AECI) is also a factor.

Mr van der Walt says no improvement on last year's earnings is expected this financial year. "Our businesses are very broadly based and we are serving every sector of the economy from mining to the motor industry Our results will therefore reflect the perfomance of the economy in general."

On the positive side, Sentrachem has cleaned up its business, selling off underperfoming businesses and investing in niche markets.

Mr van der Walt adds that Sentrachem's operations are all running very well and have adequate capacity to meet market demand in the next economic upswing

But analysts point out that Sentrachem is highly geared. When profits are under pressure, the situation gets exaggerated due to high finance costs.

Mr van der Walt says gearing is currently at 70 percent from 67 percent at the end of financial 1990 He expects it to remain at the same level by year-end in August.

"End August is a bad time for us It's the height of the agricultural season when we are sitting with high stocks in preparation for spring We expect gearing to start edging lower next year coming down to 55 percent, then 50 percent and eventually dropping to our target of 40 percent"

Sasol to spend R300m on new ammonia plant

S/Times 10/3/91. (183)

Business Times Reporter

PAUL KRUGER Sasol MD

SASOL MD Paul Kruger has announced a R300-million ammonia plant to be built at Sasol One in Sasolburg

The project is part of the renewal plan for the Sasol factory in Sasolburg

The new plant, with a capacity of 240 000 tons a year, will replace a 68 000-ton plant and make South Africa totally self-sufficient in ammonia with an annual forex savings estimated at R42-million a year, said Mr Kruger

Although ammonia is mainly used as feedstock for explosives and fertilizers, Sasol is also researching other downstream applications

The contract has been awarded to UHDE on a lump-sum, turnkey basis The plant will be in operation by the beginning of 1993

Sasol announced six new projects in July last year with an estimated cost of R1,2-billion projected to provide growth in operating income of R300-million (18%)

These projects will lead to forex savings and earnings of over R400-million annually

More than half the investment (R750-million) will be spent at Sasol One

Kruger says these new plants will be large enough to be competitive with their overseas counterparts, although they will be directed primarily at replacement of imported industrial chemicals

The programme is the first stage of a series of 20 projects with an expected capital value of about R3-billion

The following projects at Sasol One should be in production by January 1993

- The wax expansion project, which will be directed at local and foreign candle wax markets and at the production of specialised waxes Sasol's total wax production capacity will be increased from 64 000 tons to 123 000 tons
- A paraffin facility will be built to produce products suitable as intermediates for the detergent and solvent markets

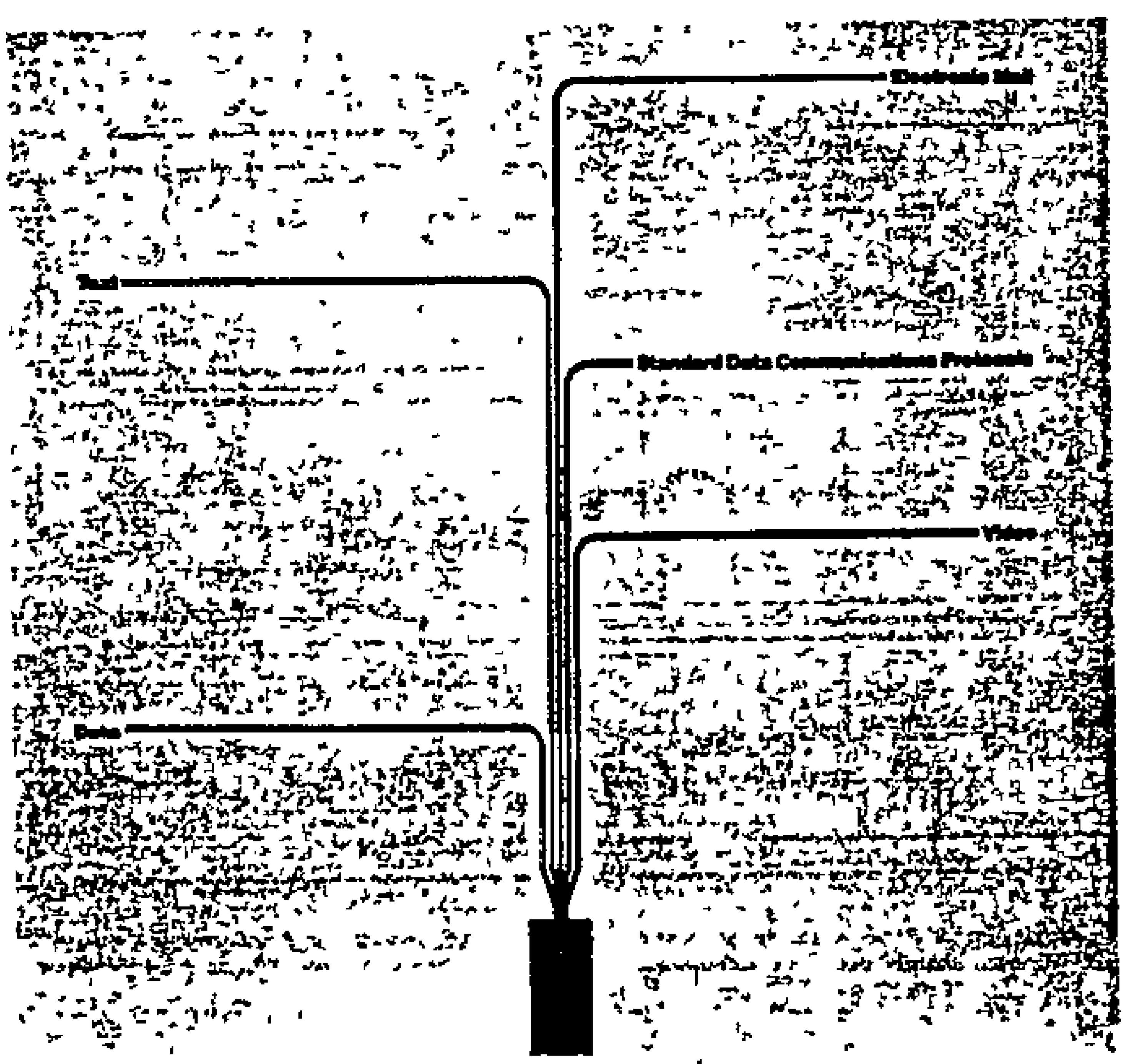
---

...minals a
moved and
Some lo
in a buildi
transmissic
solves the
ment of s
integration
A user can
location ar
The cost o
lieve that t
cost justify
3. Offic
further refi
Diverse inf
will becom
essing. Ve
voice field
to integrate
single wor
processing
functional
annotation
graphic im
As the
diverse, ex
cuits becoi
be process
noncoded
typed wor
bits (eight
spoken wo
transmittec
reality. Ho
station to

...form voice
processing of
documents
become more
unication cir-
ion forms to
, video, and
example, the
mission of 56
transmit the
000 bits to be
ion will be a
egrated work
ations in the

same facility will only be possible through the high-speed communications services of the local network.

Two dominant technologies, baseband and broadband, are utilized in local networks. Baseband-technology networks



Many office communications applications such as word processing, distributed data processing, electronic mail and video can be supported concurrently on a single cable-bus.

...ormation must pass
e availability of the
provide hundreds of
carry information
to communicate to
is are independently
ich other These net-
capacity because of

...luded from solving
their single-channel
ransmission integra-
multiple if not hun-
'ailable If transmis-
ork chosen must be

...itions

...aseband limits the
k to solve the prob-
n Image, video and
voice information are extremely bit-intensive Frequent transmissions of bit-intensive information forms will degrade the performance of a baseband network for other users. These networks cannot handle a realistic amount of voice information. They are excluded from handling video applications such as video conferencing and video-based security systems

If functional integration is desired and the network is to carry video information, or a reasonable amount of voice information, networks based on broadband technology are advantageous However, the ability to share data, processing and peripheral capabilities is not related to the contrasting technologies of broadband and baseband. It depends on the degree of symmetry the network employs.

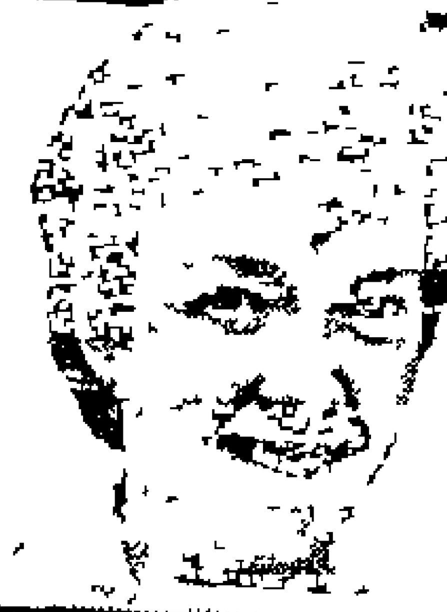
Symmetry can be defined as the degree of equality each system has in relationship to other systems of the network In a symmetrical network, systems can communicate information directly to other systems Symmetrical networks allow, security permitting, a user's work station to become a virtual work station on another system. In asymmetrical networks, direct-information transfer between peer systems is typically not supported. Asymmetrical networks use devices, generically known as servers, as intermediaries to accomplish document transfers between peer systems

Local networks can provide tremendous benefits to the installing organization. To receive optimum benefits, organizations will undergo a perceptual change in the manner that equipment purchases are made Since devices are shareable, cost-justification procedures will change as the use of these devices is spread over a wide community of users, perhaps even crossing departmental boundaries One of the major purposes of local networks is to promote the value of information by increasing its ease of access and speed of distribution Perhaps the more significant perceptual change resulting from the installation of a local network will be the understanding that shareable information is only surpassed in value by an organization's people TO

WILLIAM F. ROSENBERGER is product line director, networking, for Wang Laboratories, Inc., Lowell, Mass He began his career with the company as a sales representative and before assuming his current position was manager of telecommunications systems.

DIAGONAL STREET

By JULIE WALKER



Selling Royal rights gives you a discount

S/Times 10/3/91

FOLLOWING my article last week on the Royal group of companies, a reader has raised a valid point regarding the pricing of the rights in the offers of Royfood and Roychem

She says that investors will get better value for money if they buy either Royhold or Royal shares, rather than follow their rights in Royfood and Roychem

After the rights offer, Royal will own 65% of Royfood and 58% of Roychem There will be 97-million Royfood shares in issue and 48,2-million Roychem The two stakes added together are worth R285-million, equivalent to 420c for every Royal or Royhold share

Royal's current market price is 315c and Royhold's 310c In other words, by buying Royal or Royhold rather than following the rights to individual components, investors will be getting the same investments at a discount.

So sell the letters — the offers are both underwritten by Old Mutual — and apply the proceeds to shares in Royal

Roychem letters are trading at a cent — down from 10c — and Royfood's are at a high of 15c

One of the objectives of the separate rights issues is to unlock the underlying value of the group by making its components more identifiable

(483)

When the market has accorded values to Roychem and Royfood, the share prices of Royal and Royhold should adjust to reflect them

Kosher service keeps atomic energy body shining in the dark

SI Times 10/3/91 183

By CURT VON KEYSERLINGK

THE Atomic Energy Corporation's food irradiation facility has been saved from closure by a contract to irradiate all kosher food supplied to Jews serving in the SA Defence Force

Irradiation is a food preservation technique that has raised controversy in some quarters and restrictions on its use have contributed to underutilisation of the AEC's irradiation facility

This put its future at risk as the AEC is pruning unprofitable operations as part of its commercialisation drive

AEC and SADF officials will not specify the value of the contract but confirm that it involves processing kosher food supplied to the approximately 300 Jewish members of the armed forces

Efficiency

The project which is still in the experimental stage, was initiated for cost-saving and efficiency reasons Previously the Defence Force ran separate kosher kitchens in about nine of its canteens around the country and in the operational area

This was expensive and caused complications if Jewish servicemen had to be deployed to remote parts where there were no kosher kitchens

For example there is no kosher kitchen for the Jewish vet who may be needed at an army horse-breeding centre in the Karoo or for the Jewish doctor or accountant stationed near the border

With the new arrangement all kosher food is cooked under the supervision of the Beth Din, at a newly-completed kitchen on the premises of the AEC next to the irradiation facility Each serving is packed into laminated pouches and frozen at -20°C

The pouches are then exposed to radiation emitted by radioactive cobalt-60 This treatment kills bacteria insects and parasites that make food go off and enables it to be kept at room temperature for years without any deterioration in quality or taste

The pouches are despatched to army centres where kosher meals are required The meals are prepared by simply immersing the pouches in boiling water for a few minutes to heat the food

The food is packed in double pouches so that the outer pouch can be removed after its immersion in the water to comply with kosher requirements on the use of cooking utensils

Irradiation treatment does not render food radioactive and there is no evidence that it is dangerous to eat irradiated food There is also no known way of detecting whether food has been irradiated

The project has the full approval of the Beth Din which favours the idea of preparing kosher food under proper supervision at one central site The Beth Din also favours the use of irradiation over the alternative of heat sterilisation, which was offered by the Defence Force as an alternative method of food preservation

The project is also approved by the Department of Health

Tasty

Irradiated food is regarded as more tasty than food preserved by other methods Among the kosher food items prepared for the SADF are steak, bobootie, sausage, strogonoff and a variety of vegetables

The AEC has for years supplied irradiated meal pouches for the SADF special services and as survival packs for aircrew

It also sells to campers and hikers and supplied much of the food used by yatchsman John Martin for his round-the-world race

It is hoping to sell irradiated food to other institutions such as hospitals

Sasol I to spend R300m on ammonia plant

Business Day Reporter

SASOL would spend R300m developing a new ammonia plant at Sasolburg, it was announced at the weekend (960)

A spokesman confirmed the plant would have an annual production capacity of 240 000 tons and would make SA self-sufficient in ammonia — widely used in the production of fertilisers and explosives

The development would form part of a renewal plan for Sasol I and replace an existing 68 000-ton capacity facility (183)

The spokesman said the new plant was expected to save SA more than R40m in annual ammonia imports when it came on line in 1993 B\Day 11\3\91

A number of other projects were expected to come into production at Sasol I by 1993 These included facilities to produce specialised waxes and paraffin

Wax production at Sasol I would almost double from its current level of 65 000 tons to 123 000 tons

In July last year, Sasol announced six projects that would cost about R1,2bn and earn R400m in import savings and export income Sasol would spend more than half the new investment at Sasol I

Chemical engineering and processing company UHDE (SA) will construct the ammonia plant

Sasol plans new ammonia plant

Star 11/3/91

183

Finance Staff

Sasol is planning a R300 million expenditure programme at its Sasol I plant near Sasolburg to make South Africa self-sufficient in the production of ammonia

The group announced over the weekend it would be spending R300 million on a new ammonia plant, with an annual production capacity of 240 000 tons

The new plant, which comes on stream in 1993, replaces an existing 68 000 ton production unit

Ammonia is used extensively in the production of fertilisers and explosives and the new plant will save South Africa about R42 million in foreign exchange earnings. Ammonia is at present almost exclusively imported

Sasol says the R300 million cost of the project compared favourably with those of similar international plants.

The contract for constructing the ammonia plant has been awarded to chemical engineering and processing group UHDE (SA)

Sasol is also involved in the research of other lucrative downstream projects, including facilities to produce specialised waxes and paraffin

Prochem finds the chemistry's just not there

BDay 13/3/91

MARC HASENFUSS

PROTEA Chemicals (Prochem), possibly reporting its interim results for the last time, showed a sluggish performance in the six months to end-February with earnings falling 8% on the back of slackening demand for commodity chemicals.

Prochem ordinary shareholders meet on Friday to consider a scheme which makes provision for Malbak Industrial Holdings (MIH), a wholly owned Malbak subsidiary, to delist Prochem by acquiring its minority interests for 150c a share

Prochem shares are currently trading at their year high of 140c The share fell to 65c in October last year. MIH already owns 87% of Prochem's issued share capital

Attributable profit dropped to R1,9m (R2m) while earnings a share dropped to 4c (4,3c) In accordance with the proposed scheme of arrangements, no interim dividend was declared

"We predicted in the 1990 annual report that the group was unlikely to improve on last year's first-half results, and this has proved to be the case," ~~said~~ CE Mike Struwig

183

Turnover was down by 11% at R170m (R191m) for the period under review.

Operating profit dipped 29% to R6,2m (R8,9m) but was cushioned by a reduction in the interest bill and tax rate, the latter reflecting the impact of export incentives on a lower level of pre-tax profit

Finance costs were reduced 37% to R3,2m (R5,2m) and the tax bill dropped to R1m (R1,4m).

The balance sheet indicated a continued improvement in gearing at 49%, compared with 64,6% at the August year end and 79,1% at the previous interim stage

Protea Chemicals' earnings decline

183

Star 13/3/91

By Jabulani Sikhakhane

Prochem has reported an eight percent decline in net earnings for the six months ended-February to R1,9 million (R2,02 million) — equal to 4c (4,3c) per share

As Prochem is set to become a wholly-owned subsidiary of Malbak Industrials Holdings and delisted, no interim dividend has been declared

Due to depressed demand for commodity chemicals, turnover was down 11 percent to R169,6 million from R191,47 million But the decline at the operating income level was higher at 29 percent to R6,2 ,million(R8,78 million)

But a drop in interest paid and a lower tax rate (due to export incentives), cushioned the impact, limiting the drop in attributable earnings to only eight percent

FM 15/3/91. (183)

PLASTICS INDUSTRY FM 15/3/91

WINNING FRIENDS (183)

Despite environmentalist pressure, the plastics industry — which employs 45 000 people — appears to be weathering the recession better than many others

And a new, returnable 1,5*l* soft drinks bottle about to make its debut should see a further increase in plastic output

Though the use of plastics continues to grow, Murray & Roberts Plastics MD Ray Crewe-Brown, says consumption is still low relative to other countries A total of 17 kg per head is consumed here compared with 98 kg in the UK and a massive 130 kg in Germany

Crewe-Brown notes, for instance, that there has been little incentive to use plastics in SA-made cars because of the previous local content programme "When local content was defined by mass it was important to use the heaviest possible materials Now that local content is defined by value, plastic will suddenly seem more attractive — car bumpers are a case in point "

He says the medical field could also become a growth area if health becomes more of a national priority Plastics are used for a wide range of items in medicine from specialised plastic implants to disposable products such as syringes and gloves

Plastic packaging, which accounts for 43% of consumption, is riding high on the back of the growth in the beverage market Rigid-plastic fruit juice containers and 2*l* plastic bottles are steadily taking market share from traditional paper and glass products There has been even higher growth, however, in the nonpackaging use of plastics Total consumption has grown from 52% to 57% in five years

Consol Plastics MD Dave Spindler says, however "Markets have been soft over the past 18 months We have enjoyed growth by developing our own niches or products, for instance in childproof packaging and in-mould labelling "

Driving growth *new containers to the market*

Yet despite the overall growth, in some areas plastic manufacture is still a low-margin business There are 1 000 plastic converters in SA Says Crewe-Brown "Most companies have wanted to keep their machines running at any cost, so tended to take high-volume, low-margin work We have taken the opposite view We have cut out marginal work and concentrated on the profitable lines, even if it has meant working below capacity at certain times "

Higher returns are enjoyed only in areas where the product is either protected by a patent or a high cost barrier For instance, to import an extruder for specialised films costs R5m-R6m, which gives a significant advantage to companies that are already operating in the field, such as M&R's Mega Films

Both Nampak and Consol have made multimillion-rand investments in the new, returnable bottle because they are assured of large volumes By the end of May, National Beverages, which holds the Coca-Cola franchise, will launch the 1,5*l* plastic returnable It is designed to replace eventually the 1*l* glass bottle But Nampak's Trevor Evans warns "The success of the new bottle will be difficult to predict Its impact on the 2*l* bottle is difficult to judge because a bottle of this kind has never been launched on a market where there was already a well-established 2*l* bottle as well a traditional 1*l* bottle "

However, it was sufficiently successful in test markets to justify a nationwide launch The new bottle has the advantage that it is lighter than a glass bottle but fits into the same crates

The new bottle might, however, miss out on the lucrative beer market because bottling plants are not yet geared up for it SA Breweries' system of heat pasteurisation does not allow for plastic bottles to be used (cold pasteurisation has already made its appearance in Japan) Company spokesman Adrian Botha says SAB is aware of the 1,5*l* and 1*l* returnables being developed but has not done feasibility studies on them

"Plastic is not very significant to us," he says "We have a 2*l* plastic bottle but it accounts for less than 1% of sales The glass quart bottle accounts for 72% of beer sales and is very well entrenched "

As a visible, nonbiodegradable material, plastic is broadly considered far more environmentally unfriendly than glass or paper But it has withstood the Green revolution quite well — largely because the arguments against it are more emotional than rational

Says Spindler "We do not cause air, smell or sound pollution We do not generate as much industrial effluent as other materials and electricity consumption in the manufacturing process is far lower than it is with alternatives "

Packaging Council executive director Owen Bruyns says anybody who claims his product is more environmentally friendly should be treated with scepticism "The problem is not the material itself, but the abuse of the material through littering Biodegradability is not necessarily a plus point Biodegradable plastics are available but they are inappropriate for recycling "

In SA, 17,4% of plastic packaging is recycled compared with less than 3,3% in the US and 6,4% in the UK

In municipal dump sites in the US, the proportion of waste accounted for by plastics has increased from 16% to 17%, but paper waste grew from 37% to 54% over the past five years There has been an explosion in junk mail and the use of paper in the office, but only a small increase in the volume of plastic packaging

One indication that the tide might have turned has been the change of heart at Pick 'n Pay Chairman Raymond Ackerman announced last year that the company was considering changing from plastic to paper bags But a paper bag costs between two and three times more to make and the number of trees that would have to be cut down to make paper bags was enough to persuade him to bury the issue quietly ■

AFROX (183) FM 15/3/91

WINNING THE INFLATION WAR

STRATEGIES REST ON THE SHIFT FROM ENGINEERING TO SOCIAL SERVICES

With many blue-chip industrial groups struggling to maintain — let alone increase — earnings, investors have been scouring the market for companies with the ability to ride out the recession Afrox is near the top of most investors' lists

Since the mid-Eighties the UK-controlled engineering group — with extensive interests in the provision of gases, welding products and health care services — has built up an enviable record Earnings per share have grown at a compound rate of more than 25% since 1985, with dividend cover rarely more than twice earnings

Capital appreciation of the share has been impressive The price has climbed from 610c at the beginning of 1985 to just under 5 000c by the end of 1990, well ahead of the 20% compound growth in net asset value Confidence in the market that Afrox will continue to outperform most of the industrial sector, at least in the short term, has pushed the share to a high of 5 600c With a p e of 20,8 and dividend yield of 2,4%, much is expected of the group


Afrox's Peter Joubert

Chairman and MD Peter Joubert clearly believes caution is a virtue and is reluctant to forecast earnings for the current year Earnings growth may not be as high as last year's 27%, he says, but it will be in double figures

He's quick to point out that when he talks of growth he means real growth Since the Seventies Afrox has maintained a policy of current-cost accounting to offset the effects of inflation By constantly revaluing fixed assets and charging this depreciation against current revenues, management believes it obtains a much more accurate picture of the group's health and funding needs

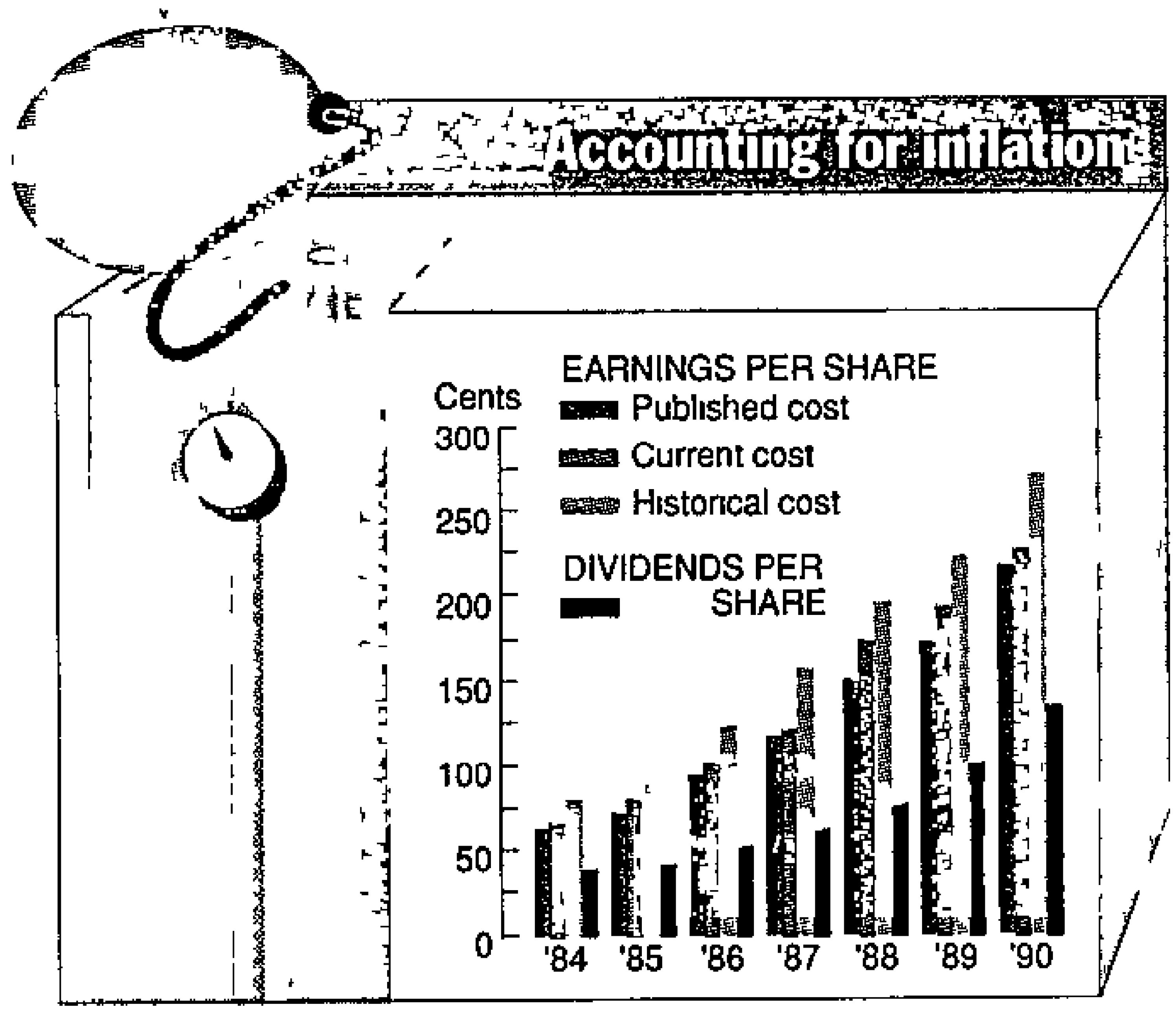
In the year to September these deductions helped to bring attributable earnings down by R15,7m to R66,8m, on a turnover of R903,9m EPS were in effect trimmed by 53c

Current-cost accounting is rare among listed companies in SA — but Joubert believes that with current levels of inflation, companies must be crazy not to adopt such policies Afrox's tight asset management, stringent financial controls and strong emphasis on productivity have been reflected in the group's balance sheet for several years Trading margins are a healthy 20%, while return on equity (ROE) — based on current cost accounts — stands at around 11,5%, ROE calculated on the historical cost accounts is about 23%

Joubert's unwillingness to employ a secretary for himself — an answering machine takes phone calls when he is out of the office — and the austerity of Afrox's head office in Selby, Johannesburg, are indications of the cost-conscious culture that permeates the group

Though Afrox has performed steadily since listing in 1964, only in the last few years has it effectively insulated itself against the fluctuations of the economy When Joubert took charge of Afrox in 1982, after a two-year stint running the UK business of its BOC parent, the group was heavily dependent on the engineering sector Not

Continue



only was the welding division closely tied to this market, Afrox also owned several engineering companies, including Dowson & Dobson, which were a drain on group resources

Joubert's strategy was simple reduce the exposure to the volatile engineering sector and move into essential services where consistent growth was reasonably assured The two new markets identified were health care and education

After selling Dowson & Dobson's heavy engineering assets to Klockner-Becorit Coalequip, and shedding most of the group's other businesses in 1983, Afrox began investing in acquiring and refurbishing private clinics The diversification came too late for Afrox to avoid being hit hard by the recession in the mid-Eighties, but today the health care division provides an efficient buffer against economic troughs Comprising 10 private clinics, including the Brenthurst and Lady Dudley in Johannesburg and Pretoria's Eugene Marais, health care operations contributed 17,5%, or R32,8m, of the group's pre-tax earnings last year, up from 13,7% in 1988/1989

Forays into education have been less successful

While Clinic Holdings and Rembrandt's Medi-Clinic may dispute Afrox's leadership in the private health care sector, there is no doubt the group dominates the gases and welding markets

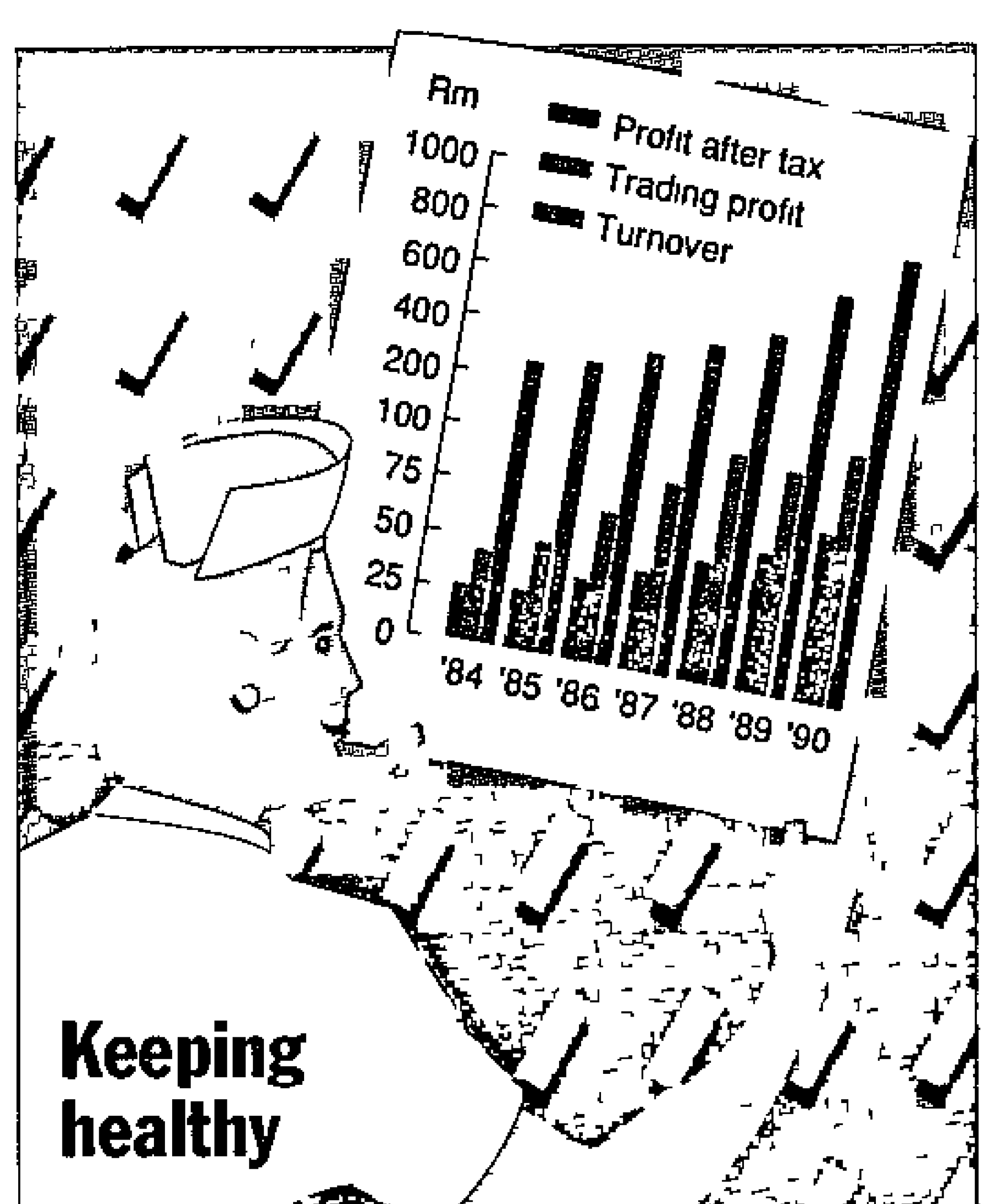
Afrox refuses, for competitive reasons, to split its welding and gases revenues, though their combined contribution to group pre-tax earnings fluctuates around the 80% mark Well under 5% of pre-tax earnings is contributed by the group's specialised engineering operations Industrial Research & Development, Industrial Petroleum Valves and the fluid handling operations of Dowson & Dobson Only one of these engineering companies, Industrial Research & Development, is critical to the group's future, according to Joubert

The gases operation is the mainstay of Afrox It supplies more than 120 industrial medical and speciality gases either in cylinders or using liquid tankers, or direct to customers from on-site plants Thirteen of these plants operate at customers' sites to provide gases to companies such as Iscor, Middelburg Steel, Impala Refineries, Scaw Metals and Unilever

Whereas BOC and most of its subsidiaries pulled out of welding it remains an integral component of Afrox's business and the local group has fiercely resisted attempts to erode its market share It supplies both welding materials and welding equipment — and applications range from DIY repairs to large-scale manufacturing using industrial robots to heavy engineering projects such as Mossgas Welding products and gas storage and transport equipment made by subsidiary Industrial Research & Development were responsible for the bulk of Afrox's exports of close to R90m last year Most of these sales were into southern Africa — the group operates subsidiaries in Namibia, Malawi, Swaziland and Mauritius — but the group intends stepping up business with Europe

All the group's main operations, but particularly health care and gases, are capital-intensive Capital expenditure in the past three years was close to R340m About 65% of this was spent on what Joubert terms regular expenditure, such as gas cylinders and tankers or sophisticated medical equipment, with the rest going towards new projects

Capital expenditure this year will increase by about 16% to R140m — most of which will be spent on the gases operations — and thereafter, Joubert says, it will be pegged at about R100m (at today's values) for the next few years After being caught with excess capacity in the mid-Eighties, Afrox has been much more cautious in expanding its gases operations



Keeping healthy

A strong operating cash flow has been sufficient to fund most capital expenditure and there appears to be little reason for this to change Borrowings last year swelled R21m to R221m to help cover interest, tax and dividend costs of R111m, though gearing was reduced from 28,2% to 25,8% and interest was covered six times by operating profit

No funding has been required from Afrox's British parent for decades Joubert says the two companies co-operate in the development and application of gases, but there is no interference by BOC in the running of Afrox The UK group reduced its shareholding in Afrox to 58% in order to help the local subsidiary set up a unit trust for its employees which now owns 7,5% of Afrox

Joubert says there has never been any discussion about BOC disinvesting With the warming of international attitudes towards SA, BOC is likely to remain committed to the local market Afrox contributes about 15% of BOC's total profits and the dividend payment reached R23m last year

Afrox is expected to achieve much of the growth in earnings Joubert expects for the group this year from its expanding gases business Earnings growth from this, the largest of the group's operations, is likely to continue to overshadow that achieved by the health care and welding businesses

However, both areas offer considerable growth potential in the longer term Afrox has frozen plans to build any new private clinics and has been strongly lobbying government to allow it to make more efficient use of some of the State's facilities, where an estimated 11 700 beds are idle A decision by government to open State hospitals to private contractors could spur rapid expansion of the health care division

The performance of the welding operation is closely tied to usage of domestic steel and activity in the engineering sector During recession, earnings from this division are usually flat, but it provides very good returns when the economy is growing

Though Joubert acknowledges that major infrastructural spending on fuel projects such as Sasol and Mossgas is unlikely to be repeated for some time, he is confident of heavy investment in coming years in strengthening SA's manufacturing base

The outlook for Afrox in both the short and long term appears sound — and barring some unforeseen catastrophe the group should continue to enhance its blue-chip status While its historical p e ratio and dividend yield suggest the tightly-held stock is currently expensive, the group's impressive track record indicates the shares still have much to offer for those who are prepared to look at the longer term

Simon Cashmore

PLASTICS INDUSTRY FM 15/3/91

WINNING FRIENDS (183)

Despite environmentalist pressure, the plastics industry — which employs 45 000 people — appears to be weathering the recession better than many others

And a new, returnable 1,5*l* soft drinks bottle about to make its debut should see a further increase in plastic output

Though the use of plastics continues to grow, Murray & Roberts Plastics MD Ray Crewe-Brown, says consumption is still low relative to other countries. A total of 17 kg per head is consumed here compared with 98 kg in the UK and a massive 130 kg in Germany

Crewe-Brown notes, for instance, that there has been little incentive to use plastics in SA-made cars because of the previous local content programme "When local content was defined by mass it was important to use the heaviest possible materials Now that local content is defined by value, plastic will suddenly seem more attractive — car bumpers are a case in point "

He says the medical field could also become a growth area if health becomes more of a national priority Plastics are used for a wide range of items in medicine from specialised plastic implants to disposable products such as syringes and gloves

Plastic packaging, which accounts for 43% of consumption, is riding high on the back of the growth in the beverage market. Rigid plastic fruit juice containers and 2*l* plastic bottles are steadily taking market share from traditional paper and glass products There has been even higher growth, however, in the nonpackaging use of plastics Total consumption has grown from 52% to 57% in five years.

Consol Plastics MD Dave Spindler says, however "Markets have been soft over the past 18 months We have enjoyed growth by developing our own niches or products, for instance in childproof packaging and in-mould labelling "

Driving growth *new containers to the market*

Yet despite the overall growth, in some areas plastic manufacture is still a low-margin business There are 1 000 plastic converters in SA Says Crewe-Brown "Most companies have wanted to keep their machines running at any cost, so tended to take high-volume, low-margin work We have taken the opposite view We have cut out marginal work and concentrated on the profitable lines, even if it has meant working below capacity at certain times "

Higher returns are enjoyed only in areas where the product is either protected by a patent or a high cost barrier For instance, to import an extruder for specialised films costs R5m-R6m, which gives a significant advantage to companies that are already operating in the field, such as M&R's Mega Films

Both Nampak and Consol have made multimillion-rand investments in the new, returnable bottle because they are assured of large volumes By the end of May, National Beverages, which holds the Coca-Cola franchise, will launch the 1,5*l* plastic returnable It is designed to replace eventually the 1*l* glass bottle But Nampak's Trevor Evans warns "The success of the new bottle will be difficult to predict Its impact on the 2*l* bottle is difficult to judge because a bottle of this kind has never been launched on a market where there was already a well-established 2*l* bottle as well a traditional 1*l* bottle "

However, it was sufficiently successful in test markets to justify a nationwide launch The new bottle has the advantage that it is lighter than a glass bottle but fits into the same crates

The new bottle might, however, miss out on the lucrative beer market because bottling plants are not yet geared up for it. SA Breweries' system of heat pasteurisation does not allow for plastic bottles to be used (cold pasteurisation has already made its appearance in Japan) Company spokesman Adrian Botha says SAB is aware of the 1,5*l* and 1*l* returnables being developed but has not done feasibility studies on them

"Plastic is not very significant to us," he says "We have a 2*l* plastic bottle but it accounts for less than 1% of sales The glass quart bottle accounts for 72% of beer sales and is very well entrenched "

As a visible, nonbiodegradable material, plastic is broadly considered far more environmentally unfriendly than glass or paper But it has withstood the Green revolution quite well — largely because the arguments against it are more emotional than rational

Says Spindler "We do not cause air, smell or sound pollution We do not generate as much industrial effluent as other materials and electricity consumption in the manufacturing process is far lower than it is with alternatives "

Packaging Council executive director Owen Bruyns says anybody who claims his product is more environmentally friendly should be treated with scepticism "The problem is not the material itself, but the abuse of the material through littering Biodegradability is not necessarily a plus point Biodegradable plastics are available but they are inappropriate for recycling "

In SA, 17,4% of plastic packaging is recycled compared with less than 3,3% in the US and 6,4% in the UK

In municipal dump sites in the US, the proportion of waste accounted for by plastics has increased from 16% to 17%, but paper waste grew from 37% to 54% over the past five years There has been an explosion in junk mail and the use of paper in the office, but only a small increase in the volume of plastic packaging

One indication that the tide might have turned has been the change of heart at Pick 'n Pay Chairman Raymond Ackerman announced last year that the company was considering changing from plastic to paper bags But a paper bag costs between two and three times more to make and the number of trees that would have to be cut down to make paper bags was enough to persuade him to bury the issue quietly ■

Air Liquide in R37,5m Sasol plant contract

MATTHEW CURTIN

AIR LIQUIDE, parent company of Liquid Air SA, has won a R37,5m contract from Sasol to build a gas-extraction plant for the oxygen plants attached to Sasol I and II, a company spokesman said yesterday BDay 19/3/91

Air Liquide would be responsible for the design, project management and commissioning of the plant, which would extract rare gases — krypton and xenon — from the oxygen plants.

Liquid Air MD Eugene Pont said in a statement yesterday that in addition to supplying the necessary technology to Sasol's synfuel operations, Liquid Air's parent company would market the industrial gases worldwide.

"The plant is part of a R2,6bn Sasol programme to boost the output of petrochemicals and other high value products," Pont's statement said. (183)

Air Liquide had a long association with Sasol and was responsible for the design and supply of 13 air separation units at Secunda in the south-eastern Transvaal.

Each had a capacity exceeding 2 200 tons of oxygen a day, the biggest producing 2 500 tons

Liquid Air, established in SA in 1948, supplied industrial gases to every industry sector and were leaders in the design and construction of air separation plants, Pont said

Sale of Aquanaut helps lift Sinclair's earnings

BDay 19/3/91 (183)

BEVERLY HUCKLESBY

INDUSTRIAL and Commercial Holdings (ICH) subsidiary Sinclair Holdings lifted earnings by 62,6% to 12,5c (7,7c) a share in the six months to end-December.

Turnover increased 11% to R121,6m (R109,7m) while a 74% drop in the interest bill and no taxation lifted net income to R3,2m (R2m) in the period under review

Net attributable earnings rose to R9,1m (R2m) as a result of the extraordinary profit in review period This related to the sale of pool cleaning subsidiary Aquanaut and the closing of two motor dealerships

No interim dividend has been declared.

It was announced earlier this month that Aquanaut had been sold to an unnamed US company for $7,1m The decision for the disposal was in line with Sinclair's stated intention of concentrating on the retail motor business after selling off other assets.

Because of the sensitive issue of sanctions against SA, the US company remains unnamed. Speculation in the industry pointed to US-based Aquanaut Inc in which Sinclair has a 20% interest and US pool cleaner company Arneson

MD Simon Koch said yesterday the necessary turnaround of Sinclair had started but there was still much to be done

"We are happy with the results of the disposal of Aquanaut and by next year the capital from the sale will have been distributed to shareholders.

"The company will now concentrate on the transport industry which is experiencing tough times in the present economic recession, but I am confident the rot that had begun to settle in the company has been stopped," he said

All the pressing administrative problems had been solved and the company was expecting earnings to remain in line with those of the first half of the financial year.

The next six months would see the restructuring of the company taking place and Koch predicted year-end earnings of 25c (6,7c).

He said Sinclair was looking to expand in the transport sector and related fields and was in the process of acquiring a property company.

Executive boss takes over

BDay 19/3/91 GILLIAN HAYNE (183)

JOHAN van der Walt, MD of Sentrachem, has been appointed executive chairman of SA Druggists following the resignation of MD Tony Karis for health reasons.

● VAN DER WALT

John Job will become MD of chemical company Sentrachem, having held the position of chairman of Sentrachem's Afrihold, Mega Plastics and Safripol divisions since 1988.

Both appointments are effective from April 1.

The announcement of Van der Walt's appointment comes in the wake of reports that delisted industrial company Federale Volksbeleggings (Fedvolks) is restructuring its divisions. Pharmaceutical group SA Druggists is owned by Fedvolks.

SA Druggists has not formerly had an executive chairman.

Van der Walt said that with the commissioning of the new NCP maleic anhydride plant, Sentrachem had completed its R250m expansion programme and now was an appropriate time for him to hand over the group's future direction to his successor.

ANNEXURE C

LEDGER - P SAUERMAN

REAL ACCOUNTS

10 CAPITAL

11 DRAWINGS

Bank 300

12 ACCOUNTS PAYABLE

20 FURNITURE AND EQUIPMENT

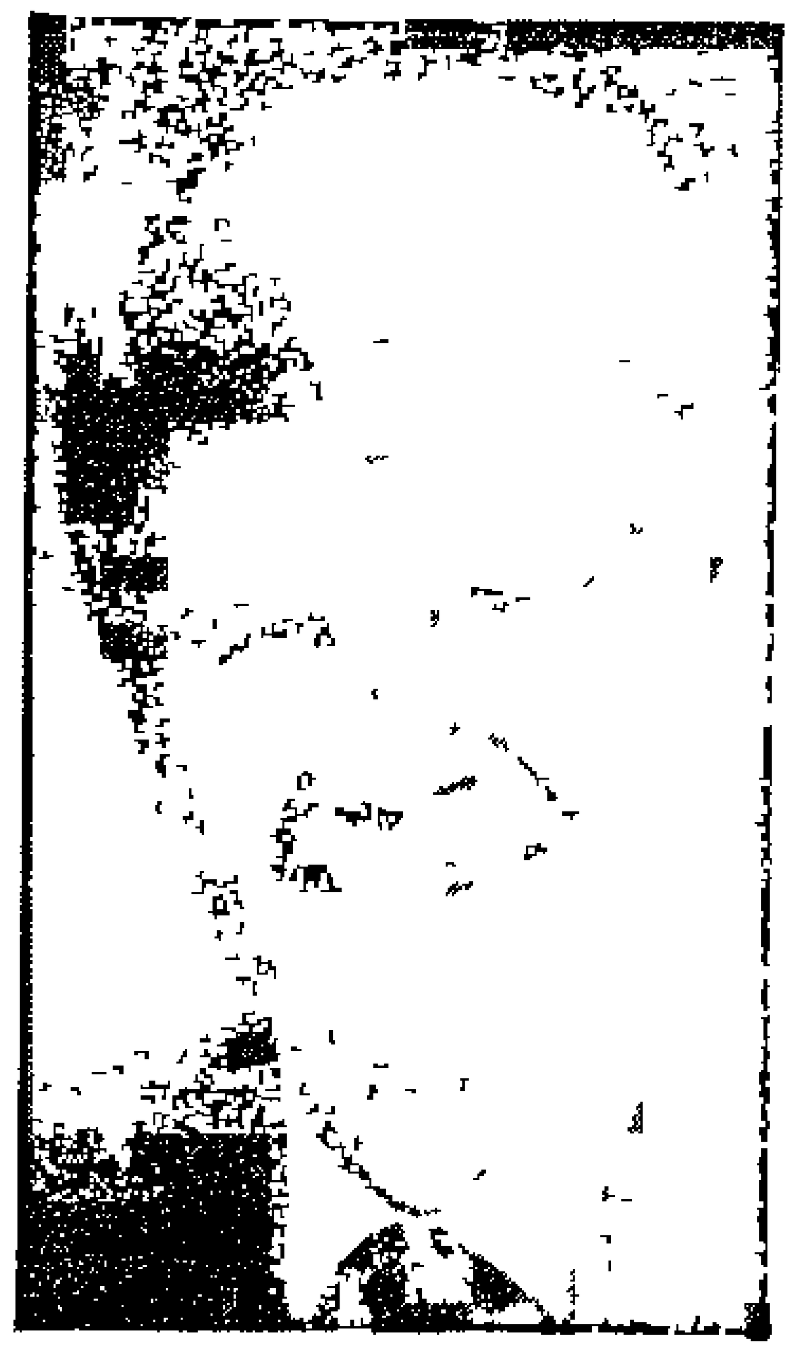
30

31

32

AL3

Johan van der Walt



John Job

Sentrachem MD takes over at SA Druggists

183

By Ann Crotty Star 19/3/91

Sentrachem MD Mr Johan van der Walt has been appointed executive chairman of SA Druggists with effect from April 1.

The move to SA Druggist means that Mr Van der Walt will be retiring as MD of Sentrachem a year earlier than expected.

Mr Van der Walt took the helm at Sentrachem three years ago and guided it through a period of tremendous change. In the past three years the group's emphasis has been switched from commodities to value-added products

Analysts believe that this change in direction gives Sentrachem management much more control over its market and that this in turn will help to sustain longer-term earnings growth

SA Druggist has gone through a tough period with earnings hit badly by among other things, very high shrinkage experience.

Mr Van der Walt moves in to SA Druggists as executive chairman, replacing Mr P J Van der Walt who was chairman.

Dr John Job is to become MD of Sentrachem. He is a former MD of the group's NCP division and was appointed to the Sentrachem board in 1988

Announcing the changes, Mr Van der Walt said that with the commissioning of the new NCP maleic anhydride plant this month, Sentrachem had completed its R250 million expansion programme and he felt this was an appropriate time for him to hand over the group's future direction to his successor.

Probe into price differences of pharmaceutical goods

183

BEVERLY HUCKLESBY

THE Competition Board is to investigate claims that the prices of pharmaceutical products distributed to drug wholesalers, retail pharmacists, dispensing doctors, private hospitals and clinics are inconsistent.

The investigation is to be gazetted today

The board said the probe had been launched in response to allegations that the pharmaceutical manufacturing industry discriminated against purchasers who sold drugs on prescription.

SA Druggists MD Tony Karis said he favoured the investigation as the drug wholesale industry received the worst possible price on pharmaceutical products.

"The drug wholesale industry is the largest supplier to the private sector of which private hospitals and retail pharmacies are a major part

"Dispensing doctors have been known to receive better deals than wholesalers who are paying a relatively high price per 10 000 units compared with the lower prices paid by dispensing doctors for 100 units

National Drug Wholesalers' Association president Maurice Goldstein said yesterday the association believed "restrictive practices" were prevalent

"This has been going on for a long time and the contention is that different prices apply to different buyers" B Day 22/3/91

The Pharmaceutical Manufacturing Association was unavailable for comment

Engen to launch R1bn rights issue

INTEGRATED energy group Engen would raise R1,1bn by way of a rights issue to shareholders in order to finance its expansions, the group announced today

Parent company Gencor would underwrite the offer

Funds raised would be used for the second-phase R1,5bn expansion of the Genref Refinery in Durban The group also planned to participate in the exploration and production of crude oil, the manufacture of petrochemicals and the Mossgas project

blDay 22/3/91

Shareholders would be offered 40 new Engen shares at R25 a share for every 100 Engen shares held at close of business on April 12

BEVERLY HUCKLESBY

183

Engen was created last year when the operations of Trek Beleggings, Mobil Oil Southern Africa, Gencor's investments in Mossgas and Gencor's exploration rights in the Bredasdorp Basin were consolidated

Engen chairman Bernard Smith said in a statement today the group had already announced a capital expenditure programme of R670m to expand the core business at the Genref refinery

This would double existing capacity when both phases were completed in about five years' time

"There is limited excess refining capa-

☐ To Page 2

Engen

blDay 22/3/91

183

☐ From Page 1

city in SA and unless there is a major refinery expansion in the near term, there will be no spare capacity for the growing needs of the South African market

"The creation of fuels-refining capacity will create a major opportunity for growth for Engen," he said

The project would include the production of low sulphur and low lead fuels

The rights offer would go a long way towards satisfying the demand for Engen shares as investors had been pushing for more shares to become available.

Smith said that at the beginning of March the Gencor group had placed about 20-million Engen shares, about 18% of Engen's equity, with institutional investors It was reported earlier that this was done at a discount price of R29 a share

The new rights offer would make an additional 44-million shares available Smith expected the marketability of Engen's shares to improve significantly

Engen shares were trading at R31,25 yesterday, marginally easier than the yearly high of R33,00 last month

Engen is planning R1,1-bn rights issue

183

Star 22/3/91

By Ann Crotty

Engen is having a massive R1,1 billion rights issue to help fund its capital expenditure programme

Shareholders will be offered 44 million new shares at R25 a share The issue, which is underwritten by parent Gencor, will lift the number of shares in issue by 40 percent to 154 million.

The size of the issue and the price at which it has been pitched appear to be at the top end of market expectations

Towards the end of calendar '90 Engen announced a R670 million programme to expand its core business at the Genref refinery in Durban.

Announcing the rights issue, Engen chairman Mr Bernard Smith noted that in addition to the expansion at Durban, "we continue to plan to participate in the exploration and production of crude oil, the manufacture of petrochemicals and the Mossgas project"

Earlier this year Gencor and its associate Genbel had a combined 93 percent stake in Engen. This has been reduced to 73 percent following the placement of 20 million shares with a number of institutional investors over the past few months It is understood that these shares were placed at around R29

According to Mr Smith, the investment community had been keen that more shares be made available to it in order to make Engen shares more marketable He believes that as a result of these moves the marketability of Engen shares will improve "quite significantly"

Engen which was listed through Trek last April traded at around R28 for most of last year but kicked up to R30 towards the end of the year Yesterday it was trading at R31,50

If all of the minorities take up their rights then Gencor (and Genbel) will be picking up 32,12 million of the new shares for a total cost of R803 million So the market will only be contributing around R300 million to the rights issue

Analysts believe that at a later stage, when the short-term prospects for Engen are more obviously bullish, Gencor may be prepared to release more shares to the market — at a higher price

The offer is open to Engen shareholders registered at the close of business on April 12

SOWETA

Mobil develops new dealer franchise

183

Sowetan 25/3/91

MOBIL has developed a new dealer franchise package in collaboration with 36 existing dealers and consultants from South Africa, Australia and the UK.

The final package will be presented to Mobil dealers for approval at a convention in Portugal during October

The company's managing director, Mr Neville Deudney, announcing the franchise last week, said· "As a South African-owned and managed company, we are in the unique position of being able to develop solutions to suit local market needs "

"Given that this franchise package is being jointly developed with our dealers, I am confident that it will cement the vital relationships between us, enhance the growth of small businesses, and improve our ability to assist the dealer to give the customer what he needs.".

Until now, it has been common for the petrol companies to own service station sites and lease them to dealers on a short-term (often for one year only) basis

For a service station dealer to put any capital into the business has been the exception rather than the rule

At most service stations throughout the country, investment money has been provided by the petroleum company and charged back against the dealer's revenue.

Barry Jordan, director of relate marketing, said "In franchising it is absolutely essential to have representative dealers involved in testing, defining and setting the standards"

Omnia's results affected by late spring planting

B/Day 25/3/91 (183)

BEVERLY HUCKLESBY

FERTILISER and explosives company Omnia Holdings lifted earnings 9,9% to 73,22c (66,64c) a share in the year to end-December with results being affected by late spring planting and unfavourable weather conditions

Turnover rose 13,3% to R380,8m (R336,2m) but income before tax dropped 5% to R27,9m (R29,4m) as a result of paying off long-term liabilities which declined to R27,8m from over R37m. A final dividend of 22c a share was declared with the total annual dividend increasing 15,4% to 30c (26c) a share

The fertiliser industry suffered short-term losses last year when small quantities of imported fertiliser increased pressure on domestic producers Also the entrance and subsequent demise of Agriland caused some disturbances in the market resulting in price discounting

Group MD Neville Crosse said he was disappointed that the company had not reached its intended target.

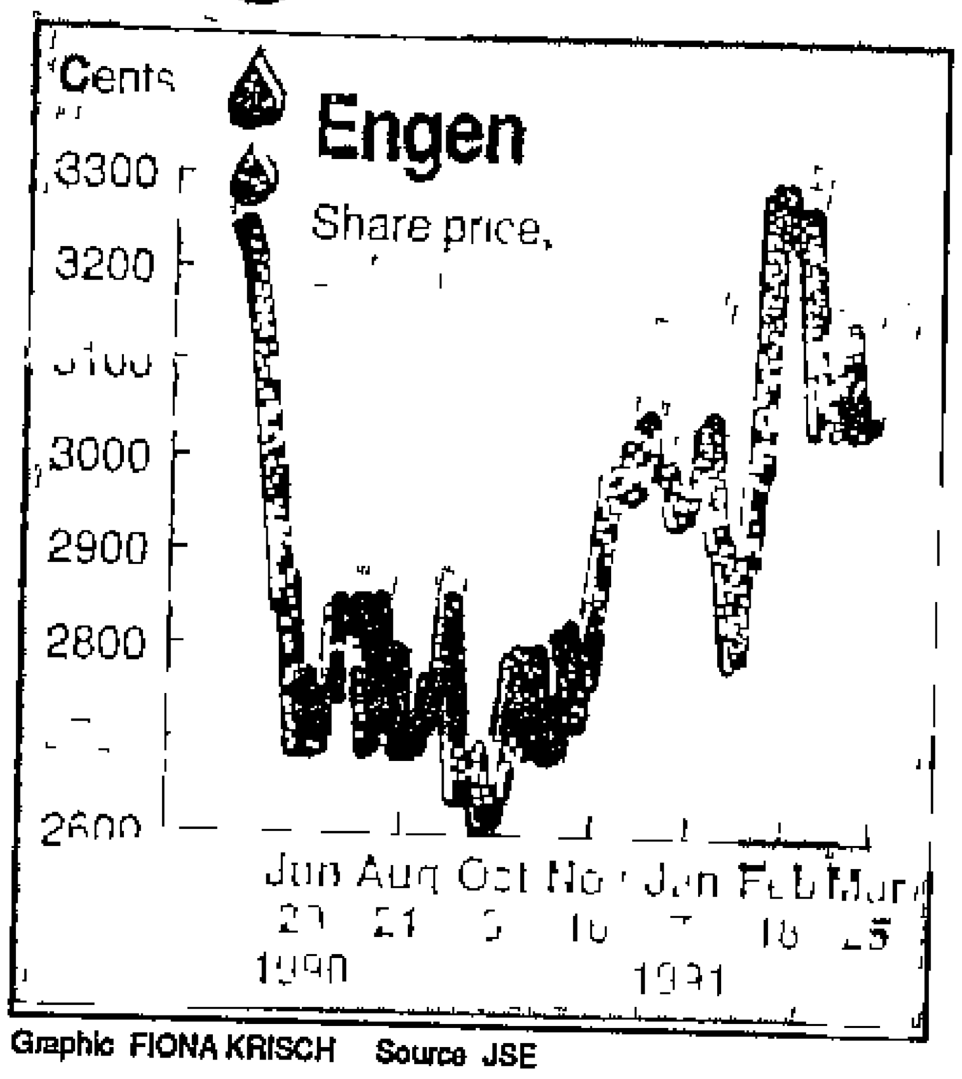
"Late spring planting and unfavourable weather conditions delayed sales of fertiliser causing disappointing results. However, our subsidiaries are developing strongly and are forming a good basis on which the company can grow.

"The explosives market is very competitive but the Bulk Mining Explosives subsidiary is progressing well and we are very pleased with its performance," he said

The financial year ahead was promising.

Engen soars despite setbacks

B/Day 26/3/91



Graphic FIONA KRISCH Source JSE

MATTHEW CURTIN (183)

ENGEN, the energy and fuel giant owned by Gencor, has turned in a slick interim performance in the six months to end-February Earnings a share climbed 21%, even though R120m in "inventory or windfall" profits made in the early months of the Gulf crisis were excluded

MD Rob Angel said yesterday after a small inventory loss in the year to end-September 1990, the group benefited from soaring petrol and crude oil prices in the wake of the Iraqi invasion of Kuwait

He said now the oil price was back at $15 to $16 a barrel, "it was not right to take these profits to book" as they might reverse themselves by year-end

□ To Page 2

Engen

B/Day 26/3/91

(183) □ From Page 1

The group declared an interim dividend of 42c a share, a 20% increase from last year Interim turnover rose to R3,1bn (R2,5bn) However, operating margins slipped to 5,3% from 5,6% — and from 5,8% at year-end 1990

Angel said the economic recession and "inflationary environment" were contributing factors Overall sales volumes for petrol were flat The group lost revenue in October when the Genref refinery was shut Margins were also hit by unrest which hampered deliveries

Angel said the outlook for the second half of the year was bright Engen's profits were driven by refining margins and the Genref complex was now running with "record through-puts"

Engen announced last week it would launch a R1,1m rights issue to fund the R1,5bn second phase expansion of Genref Angel said the 30% first phase expansion would be accounted for by export demand, market growth and processing crude oil to meet Trek's product requirements

The group was working to secure outlets for the second phase expansion capacity, and it was clear "a large chunk of this could be allocated to Africa" Export volumes to Africa had doubled in the last six months compared with 1989/90

Angel said Engen would examine whether it should take up its 30% stake in Mossgas only in late 1992-early 1993, "after commercial start-up of the operation"

● Picture Page 11

Engen powers through a flat period of sales

Star 26/3/91. 183

Diagonal Street

Jabulani Sikhakhane

Despite flat sales volumes in the six months to February, energy group Engen turned in an impressive set of results

Earnings per share rose 20,7 percent to 110,9c from 91,9c and an interim dividend of 45c (35c), up 20 percent, has been declared

Managing director Rob Angel says shutting down the Genref refinery in October for maintenance work partly contributed to flat volume sales

This was exacerbated by lower fuel consumption in the months of November, December and February

According to the National Energy Council, fuel consumption was down 10 percent in November and five percent in December Consumption rose two percent in January

But February turned out to be a very bad month as consumers held back on expectation of a petrol price cut, Mr Angel says

To compensate for flat sales volumes in the local market, Engen doubled exports to Africa and the Indian Ocean islands

Over the past three months, Engen has made fruitful visits to seven African countries

Mr Angel adds that part of Engen's 30 percent capacity expansion at Genref is targeted for exports to Africa and the Indian Ocean islands

At R3,093 billion, turnover was up 22,8 percent on the pro forma figure of R2,517 billion But higher cost inflation, which rose faster than the selling price, coupled with flat volume growth, trimmed the gains at the operating profit level to 17 percent at R165 million (R141 million)

This is reflected in the operating margin, which fell from 5,6 percent to 5,3 percent

The volatile crude oil and petroleum products markets created by the Gulf war benefited Engen The group realised inventory or "windfall" profits of R120 million

But these windfall profits have been excluded from pre-tax profits as they could reverse, should oil prices fall

For instance, Mr Angel says Engen's windfall profits stood at R230 million three months ago

Financial director John Roberts says the major benefit of the inventory profits is improved cash flow

In the review period Engen earned R5 million in interest, compared with an R11 million finance charge in the previous period

This helped boost pre-tax income by 30,7 percent to R170 million from R130 million

But the tax charge, which was up 65,5 percent to R48 million (R29 million), slowed the growth at taxed income level to 20,8 percent at R122 million (R101 million)

The group provided for an average tax rate of 28,2 percent (22,3 percent) Mr Roberts says Engen regards it as prudent to provide full tax for any excess profits because the group will be paying tax at a higher rate in the future

On the group's exploration programme, Mr Angel says Engen is a few months away from knowing if there are commercially viable crude oil deposits in the Bredasdorp Basin

Negotiations to take over eight percent of Gencor's 30 percent stake in the Alba and Kilda oil fields in the North Sea are at an advanced stage

Harwill records 5,2% rise

BEVERLY HUCKLESBY

CAPE-based Harwill Investments recorded a 5,2% rise in earnings to 11,31c (10,75c) a share in the six months to end-December.

The company manufactures low density polythene bags, shrink and stretch film, sheeting and tubing used for packaging in the clothing, textile and food industries and components and containers for pharmaceutical, cosmetic and liquor industries and medical equipment.

Despite a 68,2% decline in finance charges, profit before tax rose marginally by 9,1% to R2,4m (R2,2m).

Goodwill and restraints of trade written off shown as an extraordinary item lifted net profit by 27,5% to R866 000 compared with R679 000 in 1989.

Directors said in a statement today that subject to satisfactory results, a final dividend would be paid in November. No interim dividend has been declared.

Trading in traditional sectors of Harwill's markets was being affected by the continued economic recession. This, together with a four-month delay in the commissioning of a new plant, may affect sales volumes as well as profit margins for the next six months, they said.

183 (180)

Tip of the hat to Bowler Metcalf

183

Own Correspondent

CAPE TOWN — Plastic packaging firm Bowler Metcalf lifted pre-tax profits by an impressive 65% to R2,3m (from R1,4m) in the year to end-December. This was achieved on an 18% rise in turnover to R14,5m (R12,3m)

Operating profit after allowing R923 000 (R679 000) for depreciation was R2,8m (R1,8m).

The tax bill was R611 000 (nil), leaving after-tax profit of R1,7m (R1,4m). Earnings at share level were 6,8c (5,6c).

The final dividend is 1,5c a share, making a total of 2,75c (2,25c) for the year, covered 2,5 times

Chairman Geoffrey Spalding pointed out that the company — listed on the JSE in 1987 and included in the list of Top 100 companies in 1990 — produces a steady return on shareholders' funds at the 30% level.

B Day 27/3/91.

Enlarged

Predicting further growth, MD Horst Sass said, "We have continued to develop several new processes and are currently active in the roll-on bottle market which we believe has great potential considering the current animosity to aerosol propellants."

The Cape Town factory has been enlarged. The Johannesburg factory, opened in 1988, contributed 26% of bottom line profit. It is expected to contribute 35% in the current year

Sass says the group will be looking aggressively at other profitable areas of the plastic packaging field in 1992.

Director Michael Brain said it had expanded into Johannesburg without any takeover but it was now looking seriously at two companies. Good opportunities would arise in the current state of the economy.

Vadek Paints placed in provisional liquidation

BDay 28/3/91

MARCIA KLEIN

183

RETAIL-listed Vadek Paints was placed in provisional liquidation on Friday, Vadek and its liquidator Antrust confirmed

The liquidation follows a dispute over control of the paint manufacturer during the past two months.

An announcement in January by Vadek and its pyramid holding company Claw Investments cautioned shareholders that negotiations were taking place.

In February paint manufacturer Cedar Radex announced that it had acquired a 93% controlling interest in Claw from International Bank of Johannesburg (IBJ) for R8m, which was equal to 41,3c a share

This was done in "a sale of execution of a security given to IBJ by Jofamily Investments, the controlling shareholder of Claw, in respect of an indebtedness arising from a suretyship obligation"

Recent reports said that the Claw shares were lodged with the IBJ as security for funds of about R13m issued to a consortium of investors to enable it to acquire the cash shell of Zozo.

In March last year Vadek acquired Albestra Paints in a transaction which also consisted of the merging of the two businesses and the acquisition of the listed cash shell Zozo, which was renamed Claw Investments

Vadek and Claw announced to shareholders last month that the Cedar Radex announcement was not authorised by Claw and Vadek, and their directors disputed that Cedar Radex had validly acquired control of Claw They said at the time they intended taking action

Directors requested the JSE to suspend the shares of Claw and Vadek until such time as the legal rights had been determined — Claw and Vadek shares were suspended at ruling prices of 30c and 25c respectively

They also announced that an agreement had been reached for Vadek to dispose of its business as a going concern, but did not say who the buyer was government were not shown on the statement as the cash for these claims had not been received, they said

AECI slows after 5-year surge

B Day 28/3/91

BRENT VON MELVILLE

THE recent disappointing performance of chemical giant AECI brought to an end a five-year period during which earnings a share increased by 23% a year from the low point reached in 1984, AECI chairman Gavin Relly said in this year's annual review (183)

Relly said adverse local and international conditions persisted throughout the year, and unfavourable weather in most of the summer rainfall area during the last quarter exacerbated the position in the agricultural sector.

"In consequence, the normal business pattern which favours second-half results did not materialise," Relly said, adding that demand remained weak in most major industries supplied by the group and margins were generally reduced.

Relly said the decision by the board to maintain the dividend, despite the lower level of dividend cover, reflected the belief that 1990 marked the low point for the group in the current business cycle

COMPANY RESULTS WRAP-UP

No quick fix for AECI

(183)

Star 28/3/91.

The 1990 financial year marked the low point for the AECI group in the current business cycle, but the adverse conditions which led to the decline in earnings last year, are unlikely to improve materially in 1991, says chairman Gavin Relly.

In his annual statement released yesterday, Mr Relly, describes the 1990 group results, which recorded a 24 percent drop in earnings, as disappointing

"These results mark the end of a five-year period during which earnings a share increased by 23 percent a year from the low point reached in 1984".

Pointing out that substantive differences persist on how higher rates of economic growth should best be achieved, Mr Relly says to an extent, present differences of view reflect temporary political posturing rather than fundamentally opposed ideology

"It is patently illogical to call for immediate redress of past inequalities and the maintenance of sanctions at the same time

"Those who continue their advocacy call into question their concern for the future well-being of the people of this country."

He warns that prolonged diversion of resources away from directly productive assets will ultimately constrain growth

"Employees and trade unions will need to become thoroughly committed to raising the competitive capability of export enterprises on a continuing basis to world comparable levels of competence", he said — Sapa.

FM 29/3/91 (183)

PETROL SALES FM 29/3/91 (183)

FRANCHISING MOBIL

Mobil is moving towards franchising its service stations in preparation for the deregulation of petrol sales

In a deregulated petroleum industry, the petrol price will be free to fluctuate For the first time, service stations will compete on the basis of price, in addition to the various services they offer now Instead of being run by a manager having limited scope to make decisions that affect the operation's profits, service stations will be run by franchisees who are free to make decisions critical to their success

Barry Jordan, Mobil SA's director of resale marketing, says the company has been working on its "highly innovative dealer franchise package" since 1988 in collaboration with 36 dealers and consultants from SA, Australia and the UK

Details of the new scheme will be presented to Mobil dealers at a convention in Portugal in October

The change has been brought about by the realisation that deregulation will sorely tax the expertise of service station operators The primary objective, Jordan says, is to enable operators to maintain high standards for customers while optimising their own returns

Until now it has been common practice for petrol companies to own service station sites and lease them to operators on a short-term (often one-year) basis Capital expenditure is generally provided by the petroleum company and the cost of capital invested charged to operators against their revenue For a service station operator to put any of his own capital into the business has been the exception rather than the rule

Mobil, which is a subsidiary of Engen and is the largest SA-owned petroleum retailer, believes that allowing operators to own a stake in their service stations will involve them in the long-term planning of the business rather than in just running the operation day-to-day Whereas in the past, service stations have been top-down driven, Mobil will be relinquishing some of its control to allow the franchisee to become involved in policy-making and to share a greater responsibility for the station's profitability ■

ENGEN

LOOKING FOR FUNDS (183) FM 29/3/91

At R1,1bn, the rights offer that Engen, Gencor's energy arm, announced this week is one of the largest yet seen in SA, and is certainly the biggest held by an industrial company Yet the group could be making another such call on shareholders within the next two to three years

Chairman Bernard Smith emphasises that the current funding exercise is aimed only at ensuring capital is available for projects already announced, such as phase two of the refinery operation, Genref, and some other ventures being considered It makes no allowance for the cost that Engen would incur should it decide to take up its full option in Mossgas, assuming that project is judged to be a commercial proposition

"When we get to Mossgas, then we will set out its position very clearly," says Smith "It would be a separate funding exercise We would like to go to shareholders for a mandate"

Engen has 30% of the present equity investment of R100m in Mossgas The arrangement is that six months after starting commercial production, Mossgas will be refunded, with 40% of the capital contributed by shareholders, 40% by the Central Energy Fund and 20% in commercial loans, largely in the form of foreign export credits

Should Engen choose to retain its present stake in Mossgas, it would have to raise about another R1bn in additional equity capital, probably towards the end of 1992 or early 1993 Present indications are that an oil price of "something less than" US$25 a barrel — compared with the current levels applying to the synfuels industry of about $23 — would be needed in mid-1992 if the project is to be acceptable to shareholders

"I have a very strong feeling that we will follow our rights and that it will be a commercially sensible thing to do," says Smith

Meanwhile, the group is concentrating primarily on investment in its existing operations Work has started on phase one of the Genref expansion, which is essentially a debottlenecking process This is a R670m project to be funded from internal sources

Phase two of the Genref expansion is being planned now This will cost about R1,5bn and will double capacity as well as broaden the product range, providing capability of producing low-sulphur and low-lead fuels

It should create the capacity needed to meet the expected growth in local demand for fuels, while also enabling Engen to pursue its plans to expand exports to other African countries With further synfuel plants unlikely to be built in SA, that means the capacity to produce fuels by conventional means will have to be expanded more rapidly than the rate of growth in demand for fuels

REFINING BOOST

Six months to	Feb 28 '90	Feb 28 '91
Turnover (Rbn)	2 52	3,09
Operating income (Rm)	141	165
Attributable income (Rm)	101	122
Earnings (c)	92	111
Dividend (c)	35	42

MD Rob Angel adds that good progress has been made with exports, volumes of which have doubled over the past six months

Genref's expansion is seen as one of several areas in which the group expects to generate real growth over the long term Others include opportunities to move both upstream and downstream — and Mossgas

Terms of the rights offer are 40 new Engen shares for every 100 held, and the offer is being underwritten by Gencor, which earlier this month placed 20m shares, or 18% of the equity, with more than 30 major financial institutions

Smith emphasises that no dilution in EPS should occur Interest income from cash balances should boost income during the last few months of the August 1991 financial year, as well as for much of the 1992 year Capital spending is expected to rise rapidly over the next few years, reaching a peak of some R900m in about 1993

Phase one of the Genref expansion should be on stream by the third quarter of 1992, and financial director John Roberts says the financial benefits should be felt almost immediately Genref's phase two should be in production by mid-1995

Results for the six months to end-February underline the favourable conditions that Engen's core businesses are enjoying now The key influences on the group's profit performance are the refining margin and its volumes Given the known sensitivity of demand for fuels to fuel prices, it can be assumed that volumes weakened during the half-year

However, the Gulf War contributed towards further sharp improvement in world refining margins, to which local margins are linked When Engen was listed a year ago, it quoted refining margins of around $4,50 a barrel These had for some time been rising owing to a world shortage of refining capacity The Singapore margin is now being quoted at $8 a barrel Roberts feels it is unlikely to remain this high and could revert to around $4,50-$5 a barrel But the refining capacity shortage is expected to continue

Engen's turnover at the halfway stage was up by 22,8%, and the operating profit was up by 17% Angel notes that the operating margin dipped from 5,6% to 5,3% because costs rose marginally faster than selling prices, despite the rationalisation programme and the benefit of merging the Trek and Mobil distribution networks

Excluded from the accounts is an amount of R120m in pre-tax profit, which arose from inventory profit generated during the Gulf War This was, however, a cash inflow, which was largely responsible for a swing from finance expenses of R11m to finance income of R5m EPS rose by 21%, and the dividend was raised by 20%

The share was trading this week at 3 050c, down by 100c since announcement of the rights issue on Friday, but remains a highly rated growth stock on a yield of just over 3,1%

Andrew McNulty

Relly's recipe

(183)

S Times 31/7/91

By DIRK TIEMANN

PROFITABLE investment in sectors of the economy where most value is added to primary inputs is essential for long-term growth, says AECI chairman Gavin Relly

Mr Relly says the aim must be to export because even limited market penetration offers vastly greater potential for growth

Success requires international competitiveness in technology, quality, capital and operating costs and in offering risk-adjusted after-tax returns on investment.

This needs the co-operation of government, the private sector and the trade unions

The attempt by previous SA governments to select winning industries has failed, he says Selective and transitory aid packages should be avoided

Mr Relly says fiscal policy should be helpful and eliminate imposts on the cost of capital equipment Limited assistance with loan funding, similar to the deal offered to foreign buyers of SA capital goods, should be available.

Preferential rates of freight and power tariffs which recover only the marginal cost of use of excess capacity should be introduced

Tax at a low flat rate should be levied on the profits from incremental exports

The Government should support industrial growth and development

Mr Relly says anti-dumping measures are needed in the SA economy, but not import protection

Diversity pays off for Omnia

(183)

S Times 31/3/91.

By IAN SMITH

FERTILISER group Omnia Holdings is beginning to feel the benefits of greater emphasis on diversification

Against the general trend in a sector affected by the huge shake-up facing agriculture, Omnia forecasts continued higher turnover, income and dividends in the year to December

Group managing director Neville Crosse says the forecast is based on stable pricing conditions in the fertiliser market and increasing contributions from other subsidiaries

Showing its confidence, the traditionally conservative group has adopted a policy to increase dividends ahead of the rate of inflation

The group was on financial target right through to September last year, but low winter plantings because of the low moisture content in the land and the late spring rains caused a hiccup

In the year to December 31 turnover rose from R336,2-million to R380,8-million, but pre-tax income fell from R29,4-million to R27,9-million

The decision not to repeat a provision of R4-million for deferred tax meant that income before an extraordinary item — R645 000 from the sale of a Cape wine farm — was R28,4-million compared with R25,2 The total dividend was 30c compared with the previous year's 26c

Mr Crosse says the group wants to reduce debt exposure, increasing interest cover from about three to four times

Mining

Total fertiliser sales last year fell by about 6%, but there should be some recovery this year after good late rains

Omnia's Bulk Mining Explosives did well last year, and the group is investing heavily and investigating new opportunity areas in the mining industry, chemicals and bio-chemicals

Trading arm Omica, which is now in its third year of operation, produced "meaningful" profits for the first time It is the biggest grain trader in SA and handles Omnia's trade with the rest of Africa

African deals are already worth about R40-million a year and there is huge potential

While he is confident about the Omnia group, Mr Crosse says poor profitability in the whole fertiliser industry in the years of vicious price wars has stalled capital expenditure

"This could cost us dearly in the future," he says

N BRIEF

porate announcements
ispended ahead of Absa merger.
ibscribed, Roychem's 90%.
original negotiations are off, but
ireholders. Laser, Sure terminate
d.

e voluntarily and be delisted. M-
hase of business of Information

members to get about 127c. Last
lend is 12/4
the resignation of Chris Auret in
dealing.
Iermanus Redelinghuys to court
regulations on an offer to the Se-
s a 10-for-one share split. Pro
of Abacus (formerly Interboard)
the cancellation of 130-million

control of Elex at 3,354c a share,
ne Moonda proposes one-for-40
istenburg Toyota. Virgin Islands
buy 65% of Elex. Its name will
ransferred to the DCM
rs approve Malbak scheme of
Group announces the provision-
aries, proposes section 311 com-

'olkskas and SFS approve Absa

from

Acquisition gives scope for growth

Business Day 5/4/91 WA 183

INDUSTRIAL rubber and plastics group Wayne Manufacturing has acquired Cape-based Rubber Products & Mouldings for an undisclosed amount, a statement said yesterday.

Wayne Manufacturing executive chairman Robert Feinblum said the acquisition, effective from July this year, gave the group scope for further growth in turnover of about R23m A substantial portion of this growth would be experienced in the 1992 financial year, he said

Rubber Products & Mouldings, a major rubber moulding and extrusion manufacturer for the building and motor industry, will form part of subsidiary Wayne Rubber.

Feinblum said the acquisition would provide Wayne with a much needed production facility to supply Cape-based customers

The additional capacity would also assist in a rationalisation of Wayne's operations, and improve its cost effectiveness

MARC HASENFUSS

Rubber Products & Mouldings would retain its retail outlets, using the Rubber Products & Mouldings name

In line with group strategy to develop fully autonomous divisions throughout the country, a restructuring of Wayne sees the formation of Wayne Rubber Natal, Wayne Western Cape, Wayne Resin PE, Wayne Plastics Johannesburg, Phoenix Jacobs and Phoenix Apex

Feinblum said benefits envisaged with the streamlining included regional production of all customer requirements and better utilisation of plant

The Wayne Western Cape product range, which will include shoe components for holding company Conshu, will be complemented by existing products manufactured by Rubber Products & Mouldings

FM 5/4/91.

FM 5/4/91 (183)

Malbak's Thomas pleased with the margin

advance in turnover was th[illegible]ed at the bottom line

Borrowings dropped from just over a R1bn to R951m, a reduction which Thomas attributes mainly to shrinking working capital, with average debtor days dropping to 52 and average stock days to 66 Gearing declined from 62% to 49%, and Thomas expects it will be about 40%-45% by the year-end That, with the cut in rates already announced (the group's debt is mainly short-term), would imply a further fall in the interest charge in the second half

But Malbak's second-half trading result will depend on how well markets — particularly spending on consumer products — hold up A recession in which suppliers of consumer durables and semi-durables keep growing strongly in real terms remains improbable

Management is forecasting a modest earnings improvement in the second six months, and the group is almost certainly looking at a maintained dividend for the year Underlining the market's expectations of at least stable results, the current 875c share price is about a third above the February 28 NAV — at the end of August, the price was only 600c compared with NAV of 671c

Andrew McNulty

VADEK FM 5/4/91 (183)

IN A CORNER

Minority shareholders in Vadek Paints and its holding company, Claw Investment Holdings, must be viewing with dismay the battle for control of the two groups

Reluctance on the part of customers to place orders with Vadek and nervousness among suppliers have resulted in the paint supplier being placed in provisional liquidation by a major creditor

Shares in Vadek and Claw (which holds 93% of Vadek) were suspended in February at the request of the then management, after it challenged the sale by International Bank of Johannesburg of 93% of Claw to rival paint manufacturer Cedar Radex (*Fox* March 1) The Claw shares were lodged with the bank as security for funds, estimated at R13m, used to finance acquisition of cash shell Zozo and its purchase of Vadek and non-listed Albestra which were then merged Management contested the authority of the bank to sell the interest in Claw

However, last week Cedar Radex, acting as the majority shareholder in Claw, called a general meeting and replaced all the directors In consultation with liquidators Antrust, Cedar Radex was appointed interim manager of Vadek's assets The paint supplier was previously being run by Martin Summerley who, according to former Claw chairman Mike Jennings, was appointed temporarily to head the company in October

Bill Archbold, spokesman for the Claw directors deposed by the Cedar Radex action, says he and fellow board members have yet to be informed of the changes

Cedar Radex MD John Kneen says dispute over control of Vadek has caused a serious deterioration in the business and resulted in staff leaving The new management is investigating the affairs of the company

Terms of Cedar Radex's acquisition of its stake in holding company Claw are being reviewed, says Kneen, and its offer to Claw minorities suspended The group was offering minorities 42c a share and was prepared to acquire three debentures for every 20 shares held by minorities at 42c each

Simon Cashmore

SAGE HOLDINGS

GRASPING THE NETTLE

FM 5/4/91

With the bad news now confirmed, and the potential benefits in the creation of Amalgamated Banks of SA (Absa) becoming apparent, Sage Holdings' share price has begun to recover It was trading this week at 740c compared with November's 625c low and the

BOUSTRED S

SA's Mr Coal, Graham Boustred, is stepping down as chairman of both the Richards Bay Coal Terminal (RBCT) and of Anglo American Coal Corp (Amcoal)

Boustred's decision to retire as RBCT chairman was officially announced last week, but his decision to hand over the reins at Amcoal was not intended to be made public until the next Amcoal board meeting on May 15 He has nominated present Amcoal MD David Rankin to be the next chairman of Amcoal, but this will only be officially approved at the May 15 meeting. Boustred, who turns 66 this year, will remain a deputy chairman

Dates of Engen rights offer

(183)

B Day 10/4/91

GILLIAN HAYNE

APRIL 12 has been decided upon as the final date to determine those Engen shareholders entitled to participate in the group's R1,1bn rights offer being made to fund its capital expenditure programmes

The offer of 44-million shares at R25 a share opens on April 19 and closes on May 10 and will take place on the basis of 40 new shares for every 100 shares held

The last day to register for the Engen interim dividend is April 12

The purpose of the rights offer is to help fund a R670m expansion programme at Engen's core business at the Durban refinery, Genref.

Further expansion plans for the refinery, at a cost of R1,5bn, are at an advanced stage The group is also looking to participate in the exploration and production of crude oil, the manufacture of petrochemicals and the Mossgas project

Engen pitches offer at R25 a share

Finance Staff (183)

Shareholders registered by this Friday will be entitled to participate in Engen's 40-for 100 rights offer to raise R1,1 billion

The offer is pitched at R25 a share against a current market price of around R31. Star 10/4/91

The funds are being raised to facilitate the expansion of Engen's core business at the Durban refinery Genref.

Engen has already announced a R670 million capital expenditure programme at Genref to accommodate the refinery needs of Trek petroleum from september 1992.

"Currently excess refining capacity is limited and will be unavailable in the absence of a major refinery expansion in the near term. says chairman Bernard Smith.

"The creation of fuels refining capacity, particularly in a business environment that is unlikely to see further growth in synfuels production, will create a major opportunity for growth for engen."

(183) FM 12/4/91 (183)

(182) FM 12/4/91

Nevertheless, the 5,8% yield is higher than one would expect from a blue chip, probably reflecting the short-term dividend outlook, and perhaps the fact that, when earnings are moving again, a gradual increase in dividend cover can be expected

Even so, the price is fairly attractive for those prepared to take a medium-to-long view, and the uptrend should extend if management's expectations as regards this year's results are confirmed at the interim

Brian Thompson

AECI FM 12/4/91 (183)

TRYING TO ADAPT

Activities: *Chemicals, explosives and plastics manufacturer and trader*
Control: *Amic 40%, ICI Plc 38%*
Chairman: *G W H Relly; MD M A Sander*
Capital structure: *154,7m ords Market capitalisation R2,32bn*
Share market: *Price 1 500c Yields 5,8% on dividend, 10,3% on earnings, p e ratio, 9,7, cover, 1,8 12-month high, 1 800c, low, 1 025c Trading volume last quarter, 645 000 shares*

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	178	337	289	460
LT debt (Rm)	347	336	334	331
Debt equity ratio	0,49	0,56	0,41	0,57
Shareholders' interest	0,45	0,42	0,44	0,43
Int & leasing cover	5,4	6,0	5,4	3,8
Return on cap (%)	15,9	16,6	19,3	15,3
Turnover (Rbn)	3,28	4,08	4,76	5,03
Pre-int profit (Rm)	369	473	604	499
Pre-int margin (%)	11,3	11,6	12,7	9,9
Earnings (c)	138	165	203	154
Dividends (c)	66	75	87	87
Net worth (c)	656	745	874	877

Erratic and unstable business conditions, here and abroad, caught AECI off balance last year if the fate of its various forecasts is anything to go by At the start of the year the

AECI's Sander .. *commissioning the soda ash project*

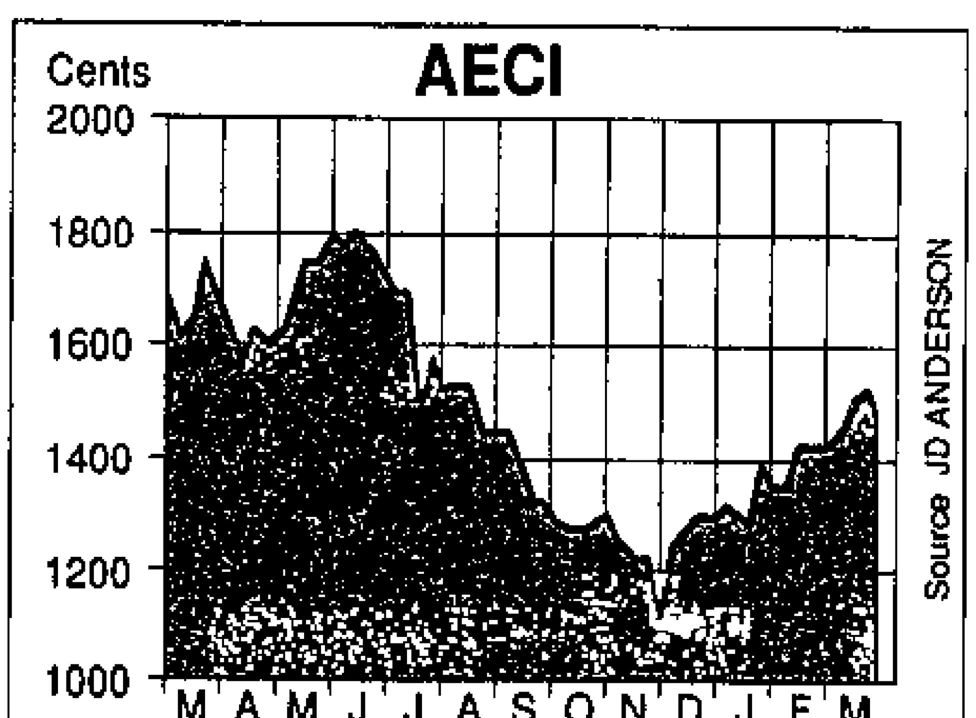
prognosis was that the group would be able to extend its run of earnings improvements Even after a 13% decline at the interim stage management hoped that a second-half upturn would enable earnings to be maintained

When by October it became apparent there was not going to be any help from the agricultural sector, shareholders were warned to expect significantly lower earnings — which, after nine months were running 15% below the corresponding 1989 period Perhaps it was third time lucky, or that the group was simply becoming more realistic. By year-end the rate of decline had accelerated to 32% to give an overall shortfall of 24% for the year

While a pattern such as this would not normally generate much optimism, chairman Gavin Relly hopes that steps taken to align operations to market conditions will at least stabilise the bottom line, ahead of a probable upturn in 1992

If so, this would be a repeat of the pattern of the past decade After an 18% decline in 1984, earnings stabilised the following year and then entered a four-year period of rapid growth The comparison would suggest shareholders should expect nothing more than a pegged dividend this year, with better things to come thereafter

If the group is at, or close to, the trough of its fortunes in the business cycle, it seems to



have come through the recesssion in reasonably good shape, despite effects of a heavy capex programme on the balance sheet when cash flow is under pressure

Among new projects is the soda ash plant at Sua Pan, Botswana, in which AECI is the major SA shareholder MD Mike Sander says it is progressing satisfactorily and commissioning is in progress

The group's total expenditure last year of R255m (up from R211m in 1989) was accompanied by a R168m increase in borrowings which, with contingent liabilities and guarantees, have risen to almost 78% of the total permitted by the articles of association Though the full impact does not yet seem to have been felt in the income statement (average cost of borrowings based on the year-end debt total was under 17%), interest/leasing cover dropped to 3,8 times, not a level that is worrying, but one that's worth watching

Profitability ratios declined across the board, with return on equity at 17,5% (1989 23,2%) Again, this is not an unreasonable performance if one is looking at the bottom of a trough, but it is the lowest the ratio has been since 1985

PROFIT MIX

	Turnover 1989	Turnover 1990	Trading profit 1989	Trading profit 1990
Chlor-Alkali/ plastics	1 281	1 418	250	189
Explosives, chemicals agricultural products	1 718	1 722	156	154
Polymer derivatives	1 040	1 016	147	117
Other trading	718	875	51	39

Sluggish trading conditions affected almost every sector Most divisions failed to maintain turnover in real terms, adding to the squeeze on margins caused by intensified competition, including, in some instances, increased competition from imports

Somewhat surprisingly, considering it is strongly affected by both the mining and agricultural sectors, the division that held up best was Explosives, Chemical & Agricultural Products, largely thanks to timeous implementation of cost reduction programmes The explosives market remains competitive and is also affected by the gold industry's problems However, executive director Chris von Solms says gold mines account for only about 30% of demand About 50% of sales go to the coal and platinum sectors, which have remained relatively firm Also, exports may be expanded

Continuation of cost reduction and efficiency programmes will be one of the main factors dictating this year's results Though management is not looking to any material improvement in trading conditions, it believes conditions can be offset at least partly by adapting the group to its markets

The market seems to share this view, judging by the share price which has recovered from a low of 1 025c in November to 1 500c

continue ✓

STUART SUTHERLAND. New

Engen's going places

183 (BUD)(T) S/Times 14/4/91

ENGEN is to raise R1,1-billion to pay for the expansion of Durban refinery Genref.

A R670-million capital expenditure programme will accommodate the refinery needs of Trek, one of the three petrols sold by Engen.

It also plans expansion of the refinery at a cost of R1,5-billion for the production of fuels low in pollutants lead and sulphur.

Expansion will give Engen the capacity to increase exports to sub-Saharan Africa and elsewhere.

Planning is under way for participation by Engen in exploration for and production of crude oil and the manufacture of petrochemicals, and the Mossgas project.

Members registered on Friday have the rights to 40 ordinary shares of R25 for every 100 held. The current share price of R31,75 is comfortably above the pitch price. Trading in the nil-paid letters starts tomorrow.

Mega gets SAB contract

182

Star 23/4/91

By Jabulani Sikhakhane

Mega Plastics, a division of Sentrachem, has been awarded a seven-year contract worth some R7 million per year for the manufacture of plastic crates by the South African Breweries (SAB).

The contract is part of the SAB's gradual substitution over the next three years of the cardboard containers currently used for the transportation of the 750ml beer bottles.

Megapak managing director, Chris van Niekerk said in a statement that in order to meet the SAB's requirements of more than 500 000 crates per month, Megapak has embarked on a R28 million expansion programme

The first crates will roll off the plant towards the end of August.

Meanwhile, NCP which is a member of the Sentrachem group yesterday succesfully commissioned the R43 million expansion of the maleic anhydride plant near Durban

Death drips: toll goes up to 35

S Times 28/4/91

☐ From Page 1

nearly a month, unable to speak, walk or eat.

"A doctor said I had septicaemia. Amazingly, my daughter was fine when she was born in November. I thought I had recovered from my ordeal, but the day after Christmas I suddenly became violently ill.

"I went back into hospital and had to have my spleen removed. The doctors said it was covered in the same ulcers that had just started healing on the rest of my body."

Mr Soller said unreported deaths believed to be linked to the Sabax drips included those of

- Roland Castle, 33, of Grassy Park, Cape Town, who died on July 11 last year in Somerset Hospital after being transferred from Groote Schuur with a suspected ulcer;
- Alexandria Faria, aged 13 months, who died on July 13 in Cape Town's Red Cross Hospital after being transferred from Panorama Hospital where she had been admitted with a high fever;
- Durban grandmother Jean Moore's 33-year-old daughter, who died in Addington Hospital on January 24 from septicaemia;
- Mrs J Clayton, 67, of De Deur, who died in Milpark Clinic on May 23 after being admitted for tests for a heart murmur;
- The 67-year-old father of Mrs E Louw of Meredale who died on September 11 in Garden City Clinic after being admitted for hepatitis B;
- The 28-year-old brother of Mrs J Kuhne of Constantia Park, Pretoria, who died in Rosebank Clinic on September 2 after being admitted with mild pneumonia;
- A baby born to Mr and Mrs J Blakely, of Los Angeles, California, who died in Sandton Clinic on September 21;
- A twin born to Mr and Mrs K Fairweather of Northcliff who died in Morningside Clinic;
- Twins born to Mr and Mrs S Kaba of Tembisa who died in Tembisa Hospital in September.

Yesterday, Don Bodley, chief executive of Sabax's parent company, Adcock Ingram, confirmed that both the Transvaal and Western Cape laboratories where the drip admixture known as K Cocktail was manufactured had been closed since last September.

Mr Bodley said yesterday that Sabax had never been told of any adverse reactions to drips in Cape Town or Durban, and declined to comment on the adult deaths, saying the matter was sub judice as he understood an inquest had been instituted.

Mr Von Lieres said he had not yet issued any instructions for inquests.

"I have received a letter from the attorney acting for a number of families, giving me until May 7 to make up my mind about instituting proceedings.

"But I will not be pressured. We have police, medical and pathological experts investigating."

LUCKY TO BE ALIVE ... Laura Stevenson and daughter Alexandra. Picture: COBUS BODENSTEIN

Death drips: now the toll goes up to 35

(183) (98)

By JOCELYN MAKER

S Times 28/4/91

AT LEAST 35 people — 28 babies and seven adults — are now believed to have died from allegedly contaminated intravenous drips supplied by the Johannesburg pharmaceutical company Sabax last year.

This is the first time adults have been linked to the wave of child deaths which occurred over a nine-month period starting in January last year. The deaths occurred in hospitals as far apart as Cape Town and Durban.

Witwatersrand attorney-general Klaus von Lieres confirmed this week that he was investigating 27 deaths. But a Johannesburg lawyer representing families of alleged victims said there were 35 known deaths at about 13 hospitals throughout South Africa.

Peter Soller said he was also representing the families of two babies who recovered from the klebsiella virus, allegedly contracted after Sabax drips were used, and a Roodepoort woman who survived a severe case of septicaemia.

Erupted

Laura Stevenson, 21, said she had been admitted to Park Lane Clinic with mild pneumonia while she was four months pregnant last July.

"I was immediately put on a Sabax drip and told I would be in hospital for two days," she said.

"But my condition deteriorated almost immediately and I was kept on drips for seven days.

"Then a healing wound on my foot erupted and started suppurating and I became desperately ill. My husband took me to the Flora Clinic and my whole body broke out in oozing ulcers."

Mrs Stevenson hovered between life and death for

☐ To Page 2

Govt pledge on medicine cost report

BIDay 29/4/91

TANIA LEVY

GOVERNMENT was making every effort to release the report on the high cost of medicine, produced by the late Economic Co-ordination Minister Wim de Villiers, National Health and Population Development Minister Rina Venter said at the weekend.

Addressing the Pharmaceutical Manufacturers' Association in Pretoria, Venter said she had told her department to investigate possible ways to contain medicine costs in the interim.

The cost of medicine has been identified as one of the most significant factors contributing to the rising cost of health care

She said medicine costs could be lowered by making better use of available manpower.

Other areas which had to be looked at included generic substitution of medicines under set conditions, and forming private health teams

Govt pledge on medicine cost report

BI Day 29/4/1

TANIA LEVY

GOVERNMENT was making every effort to release the report on the high cost of medicine, produced by the late Economic Co-ordination Minister Wim de Villiers, National Health and Population Development Minister Rina Venter said at the weekend.

Addressing the Pharmaceutical Manufacturers' Association in Pretoria, Venter said she had told her department to investigate possible ways to contain medicine costs in the interim.

The cost of medicine has been identified as one of the most significant factors contributing to the rising cost of health care.

She said medicine costs could be lowered by making better use of available manpower.

Other areas which had to be looked at included generic substitution of medicines under set conditions, and forming private health teams.

Mossgas has been excellent exercise for the industry

$W

B Day 3/4/91.

THE local petrochemical industry received a boost with the Mossgas project — and consulting engineering firm Broadhurst, Oliver & Parker, which recently merged with De Leuw Cather, is at the forefront of the developments

Former senior partner of BOP and now a director of DLC Rob Parker says "We were virtually the first consultant appointed for the on-shore project in January 1988, which is still underway

"It is a huge project for us — the fee income alone is over R3m

"Despite all the criticism it has received, Mossgas has been an excellent exercise for SA as a whole

"It has created a tremendous amount of employment at a time when something of this nature was needed to stave off complete economic collapse

"At the same time, the project has motivated skills training and has resulted in technical transfer from overseas"

But the firm's involvement in the industry is not limited to Mossgas

"The unrest of the past few years made the introduction of fire control systems at petrochemical plants a priority.

"For instance, in Durban Total SA invested R5,5m in a fire protection system at one of its plants and in Alrode, Total and Sasol have invested about R2,5m each in similar systems"

This process, he says, is close to completion and future plants will have fire control systems installed at the construction stage

Another aspect of activity within the oil industry promises to keep DLC busy for some time

183

Allowed

"In terms of amendments to the Transport Act, oil companies are allowed to transport their products greater distances by road than was previously allowed

"Because of this, the oil companies are consolidating their depot operations — which in some cases calls for extensions to existing depots

"At the same time, the oil companies have become aggressive in their marketing programmes, with the result that numerous new service stations are being built

"The oil industry is highly specialised and there are few firms in SA able to offer the full range of civil engineering, mechanical engineering and project management expertise that we can," says Parker

Adcock Ingram's healthy half-year

B Day 30/4/91 183

LIZ ROUSE

PHARMACEUTICAL group Adcock Ingram experienced a buoyant half-year, with shareholders reaping the benefit of a 30% rise in the interim dividend to 28c (21,5c).

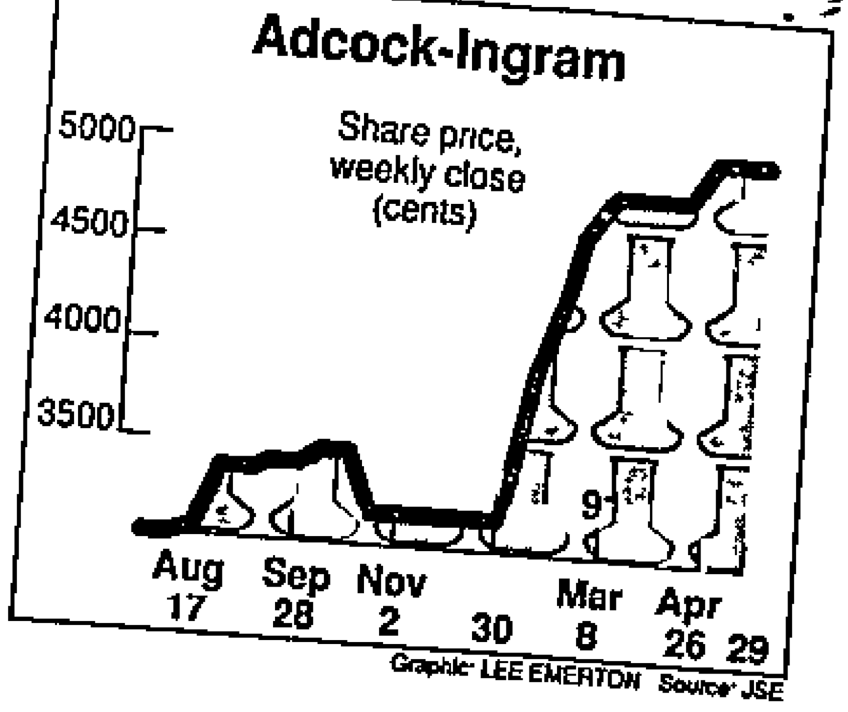
Group turnover increased 31% to R371,2m in the six months to March from the previous comparable half-year's R283,8m, while operating income rose 28% to R52,1m (R40,8m) and attributable income increased 32% to R27,3m (R20,7m), equal to 100c (77c) a share

All strategic business units performed well New prescription products — Losec (ulcer treatment) and Rhinocort (for chronic nasal congestion), introduced last year, continued to enjoy strong demand, while sales of established products maintained satisfactory growth levels, despite negative growth rates in some therapeutic markets

Group CE Don Bodley says Adcock is experiencing the benefits of improved market focus and better utilisation of group resources as a result of the recent restructuring of the group into six clearly defined strategic business units

Bodley forecasts continued good growth during the remainder of the year, albeit at a slightly lower level than in the first half of the year

He says optimisation of cash flow through disciplined cost control and asset management remains a priority throughout the group This is reflected in an improved return on equity of 30% (28,2%) and higher return on net assets of 27,1% (22,8%) Cash flow rose to R42m (36,1m)



Graphic: LEE EMERTON Source: JSE

Adcock's capex commitments for the half year totalled R18m Major projects include an upgrade of the tablet facility at Adcock Ingram Pharmaceuticals scheduled for completion early in 1992

The new dispensary in this facility has been completed at a cost of R2,4m This unit is the most technologically advanced of its kind in southern Africa and meets stringent international standards, says Bodley

Sustained investment in high-tech facilities enables the group to maintain a leading edge in the cost-effective manufacture of quality products

The group remains committed to local research and maintains contact with overseas principals

The tightly held shares were bid at a new year's high of R51 yesterday.

Engen NPLs should pay off (183) broker

. B/Day 30/4/91. -

LIZ ROUSE

ENGEN nil paid letters may be accumulated up to 500c, as a holding in the fuel giant should pay off well should its billion-rand addition to refinery capacity have a substantial impact on earnings in 1993

The recommendation to pick up NPLs — currently trading at between 430c and 450c with the new shares scheduled to start trading on May 8 — is made by Davis Borkum Hare analyst Jacques Pickard.

Even after dilution of the existing capital base — the number of shares will increase by more than 44-million shares or R1,1bn to more than 154-million — Pickard expects the group will show continued good growth in earnings and dividends

Engen derives the bulk of its profits from the refining of crude oil to white oil products It is expected that world refinery capacity will remain stretched for the next few years and refinery margins will remain robust

Twins Pharmaceuticals takes knock

(183)

B Day 30/4/91

SEAN VAN ZYL

A RESTRUCTURED Twins Pharmaceuticals has posted a 14% drop in attributable earnings for the year ending March to R32,2m, after taking a R6,2m knock from restructuring costs and discontinuation of skin-lighteners

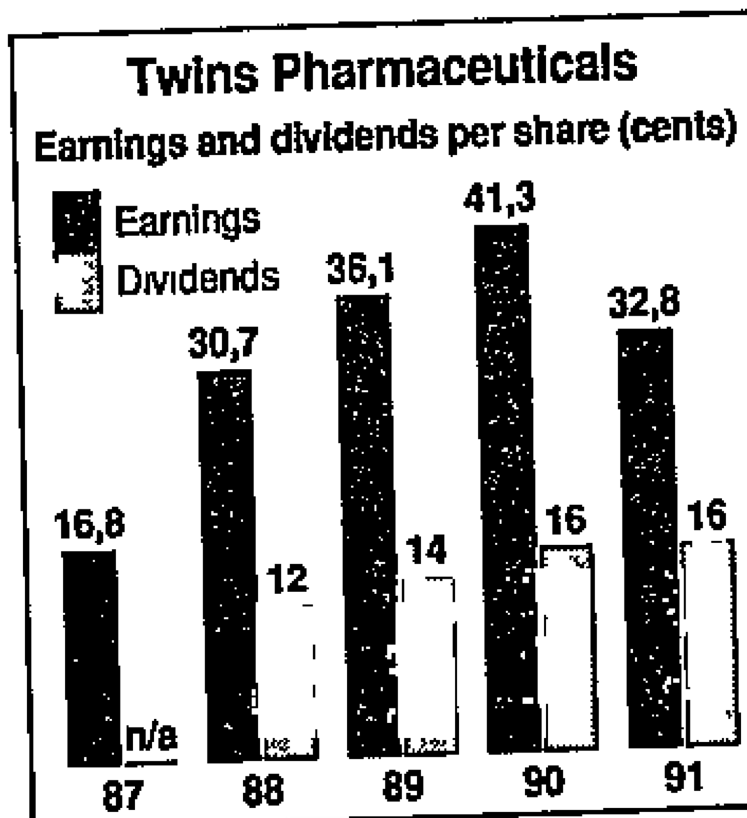
Earnings after extraordinary items dropped to 32,8c (41,3c) a share A dividend of 16c a share (16c) was declared

After-tax earnings growth was 2,1% to R38,4m for the year to end March, which was further affected by a R2,9m loss resulting from government's ban on cosmetic skin lighteners

Twins' financial director Bob Garnett said the apparent standstill in turnover and fall in earnings were not comparable with the previous financial period in that a fair portion of sales were moved out of the company during restructuring

The company has sold off and merged the various operations in Safmed, which it acquired at the beginning of the 1991 financial year

If the effect of discontinuing skin-lightener production was excluded, Garnett said, Twins' operations actually increased sales by 16,9% in the year under review. The income statement reflects a marginal adjustment in sales to R493,4m from R491,8m



Graphic: FIONA KRISCH Source TWINS

Garnett noted that the growth in operating income of R81,7m (R82,9m) was also held back by the restructuring programme with the operating margin lower at 16,5% from 16,8% The directors also stated that difficult trading conditions and "a generally depressed economy" had marginally reduced operating income

Twins' small increase in taxed profit to R38,4m from R37,6m the previous year was hit by a R6,2m writeoff of extraordinary costs

The writeoff reduced Twins' earnings a share of 39,2c (41,3c) by over 16% to 32,8c after the extraordinary item The company increased the number of shares in issue by 7-million to 98-million, which further diluted earnings.

The directors noted that the pharmaceutical division, flagship of the company, was able to boost its sales and productivity While the consumer operations were exposed to "industrial dispute" problems last year, productivity had now returned to normal

The Visioncare operations also achieved favourable sales growth

The directors expressed confidence that the greater "focusing" of operations achieved in the 1991 financial year would produce a real growth in earnings by the 1992 year-end

Deregulation of fuel industry 'unlikely'

ZILLA EFRAT 183

GOVERNMENT is believed to have been advised not to go ahead with the full deregulation of SA's fuel industry.

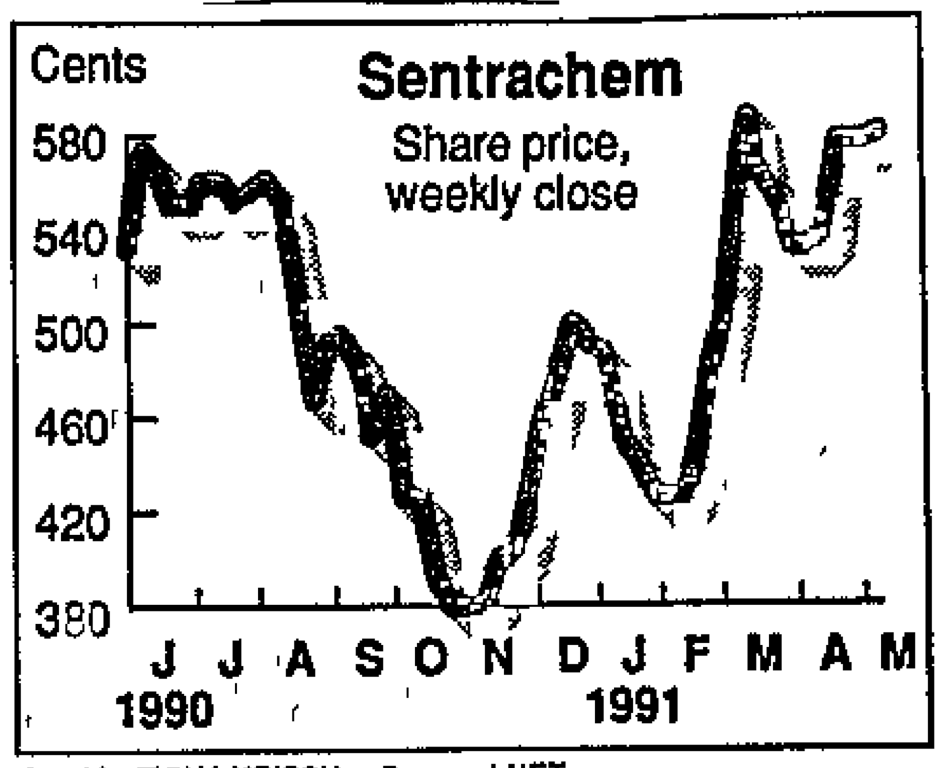
The authorities declined to comment yesterday, but Mineral and Energy Affairs Minister George Bartlett is expected to make an announcement in his departmental budget speech in Parliament on Friday.

A source said it was found deregulation would not work in a small country like SA, but added that some streamlining could be expected in the fuel industry. B Day 30/4/91

Department of Mineral and Energy Affairs director-general Piet Hugo said certain recommendations had been made to Cabinet by the National Energy Council (NEC).

Cabinet had made a decision on these on Wednesday which would be confirmed by its minutes today. Hugo and an NEC spokesman declined to comment on the decisions.

It has been reported that deregulation could bring about some price competition at the refinery and filling station level. It could also create more freedom for imports and exports of refined and unrefined products and lead to some retrenchments in the industry.



Graphic: FIONA KRISCH Source: I NET

BIDay 3/5/91

Sentrachem hit by poor conditions

183

ZILLA EFRAT

CHEMICAL group Sentrachem's attributable earnings fell 25% in the six months to February in the wake of poor trading conditions — especially in the mining and motor sectors — aggravated by the dry summer and the Gulf crisis

On attributable earnings of R27,9m (R37,4m) or 24,2c (32,4c) a share, the interim dividend more than halved to 6c (12,5c) a share, covered a prudent 4 (2,6) times.

MD John Job said the first half of the year proved more difficult than anticipated with all Sentrachem's divisions being hit by trying circumstances.

He said Sentrachem's agricultural chemical operations were badly affected by the late start of the rainy season The Gulf crisis also boosted raw material prices and squeezed margins in the Safripol and Specialties divisions

Protracted strikes at motor industry customers also had a severe effect on the Megahitec operation, while the plastic piping and mining chemicals operations were dented by the slump in the mining industry

Turnover grew 10% to R1,1bn, mainly because of the R100m added through the establishment of the joint agricultural-chemical venture Sanachem.

With inflationary pressures increasing fixed costs without the accompanying rise in business, operating income fell 3,3% to R102,4m. Income attributable to outside shareholders in subsidiaries rose to R4,2m (R700 000) because of a change in shareholding of Mega Plastics and Sanachem.

Job said Sentrachem recently completed its capital expansion programme with the successful commissioning of Safripol's high-density polyethylene plant expansion

☐ To Page 2

Sentrachem

BIDay 3/5/91

at Sasolburg and NCP's new maleic anhydride plant at Isipingo

While these investments would only start producing returns in the second half, the effects were felt in the interim period

Finance charges rose 16,7% to R48,1m and net borrowings jumped to R566m (R385m) Gearing was at 73% (53%), but the ratio remained unchanged at 1,4 1

Job said prospects for the second half of the year were not encouraging because there were no signs of a significant improvement in the economy and trading conditions were likely to remain difficult

183

☐ From Page 1

Supplies to the motor industry had returned to more satisfactory levels and Mega Plastics recently finalised a major contract for the supply of beer crates to SA Breweries There were also indications raw material prices were falling again

Job said "Operationally, the group is in very good shape, and we are now giving concentrated attention to the strengthening of our balance sheet."

He was confident the decline in earnings would be arrested and that profits for the second half would be the same as those for the first six months of the year.

Despite higher turnover . . .

Sentrachem earnings drop by 25%

CAPE TIMES 3/5/91

JOHANNESBURG — Poor trading conditions, aggravated by the dry summer, the Gulf crisis, the downturn in the mining industry and protracted labour unrest, slowed Sentrachem down in the six months ended February 1991

Interim results, announced yesterday show attributable earnings down by 25% to R28m against the six months to end-February 1990, and earnings per share of 24,2c (32,4c)

Turnover was up 10% to R1,1bn, largely due to the establishment of the joint agricultural-chemical venture Sanachem, but net income before taxation was 16% lower at R54,3m, reflecting the tough trading environment.

At the attributable earnings level the reduction was 25% because income attributable to outside shareholders in subsidiaries increased from R700 000 in 1990 to R4,2m in 1991 This increase related to the change in shareholding of Mega and Sanachem

An interim dividend of 6c a share was declared (12,5c), but on an annual basis this will revert to the policy of three times cover

The level of net borrowings rose from R385m to R566m, primarily because of the recently completed capital expenditure programme, and the gearing was 0,73 against 0,67 at the year-end and 0,53 at the end of February 1990

Finance charges increased by 17% to R48,1m

Announcing these results, recently appointed MD John Job said the first half of the year had proved even more difficult than anticipated, and that all the group's divisions had been affected by trying circumstances

"Our agricultural chemical operations were badly hit by the late start of the rainy season, which only began at the very end of this reporting period," said Job

Other negative factors were the Gulf crisis and the protracted strikes at customers in the motor industry

Job said the prospects for the second half of the year were not encouraging There were no signs of a significant improvement in the economy, and trading conditions were likely to remain difficult

"Operationally, the group is in very good shape, and we are now giving concentrated attention to the strengthening of our balance sheet Against this background, I am confident that we shall be able to arrest the decline in our earnings at its current level, and that profits for the second half will be of the same order as those for the first six months of the year" — Sapa

Sentrachem pays heavy price for niche strategy

183

Star 3/5/91.

Diagonal Street

ANN CROTTY

Sentrachem's results for the six months to February highlight the short-term costs associated with the strategy adopted by management in the late Eighties aimed at moving away from commodity chemicals to more specialised value-added products

Interim earnings are down 25,4 percent to 24,2c (32,4c) a share and the interim dividend has been halved to 6c (12,5c) a share

It was intended that the strategy would allow Sentrachem to dominate niche markets and thereby produce stronger and more sustained returns for shareholders

That was the longer-term objective But first the group had to incur enormous capital expenditure

Moth-balling the poly-isoprene plant at Karbochem in Newcastle cost R115 million

Also in financial '90 the group got involved in capex of R250 million — designed to increase its exposure to niche markets

The effect of this was to boost gearing to 73 percent at February '91, compared with 53 percent at end-February '90

Finance charges were up 17 percent — an important factor in turning the 3,3 percent drop in operating income into a 25,4 percent drop in earnings

Turnover in the review period rose 10,4 percent to R1,1 billion (R1 billion)

The increase was largely due to the establishment with Farm-Ag of the joint-chemical venture Sanachem

But tough trading conditions hit operating performance — there was a 3,3 percent decline to R102,4 million (R105,9 million), reflecting a drop in margins from 10,25 percent to 8,97 percent.

Finance charges were up to R48,1 million (R41,2 million), resulting in a 15,6 percent cut in net income to R30,2 million (R35,8 million)

There was a sharp increase in income attributable to outside shareholders and a reduction in income from associates

The combined effect was a 25 percent drop in attributable earnings — down to R27,9 million (R37,4 million)

There seems little sign of improvement for at least the next 12 months

But longer-term, as capex tapers off and the investment undertaken in recent years comes on stream (assuming a stronger economic environment), earnings performance should pick up considerably

Second-half earnings are expected to be the same as those of the first to make full-year earnings of 48,4c a share

This would represent a 37,6 percent decline on financial '90's annualised earnings of 77,65c a share

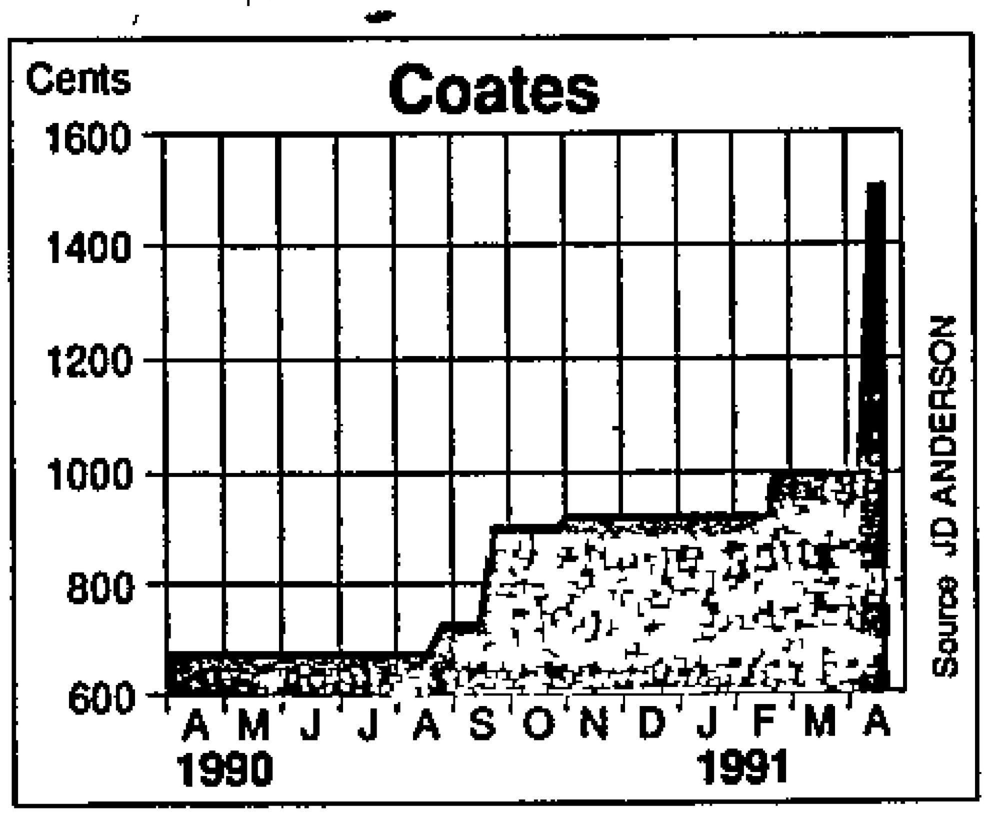
COATES BROTHERS

SHARE RERATED

Activities: *Manufacturers of printing inks, synthetic resins and industrial surface coatings.*
Control: *Coates Brothers Plc 68,4%.*
Chairman: *W F de la Harpe Beck, MD: E F Williams* (183)
Capital structure: *3,4m ords. Market capitalisation. R51m.* FM 3|5|91
Share market: *Price: 1 500c. Yields: 4,0% on dividend; 15,5% on earnings; p.e ratio, 6,4, cover, 3,8. 12-month high, 1 500c, low, 675c. Trading volume last quarter, 1 200 shares.*

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	0,44	3,2	4,2	4,1
LT debt (Rm)	1,3	1,0	0,7	0,5
Debt equity ratio	n/a	0,2	0,2	0,08
Shareholders' interest	0,4	0,4	0,5	0,6
Int & leasing cover	84	58	12,5	n/a
Return on cap (%)	18,4	20,5	24	22
Turnover (Rm)	73,5	94	122	145
Pre-int profit (Rm)	7,3	10,1	12,1	15,5
Pre-int margin (%)	9,9	10,7	9,9	10,7
Earnings (c)	109,2	147,9	171	233
Dividends (c)	34	42	49	61
Net worth (c)	502	608	708	1 173

From time to time the market seems to behave irrationally The share price of Coates over the past year is an example. At the end of July it was quoted at 640c



Last week it stood at 1 500c Can the present price be justified — or was the share too cheap a year ago?

The market has been appraised only recently of the value of the company's property. Freehold land and buildings that stood in the 1989 books at R2,2m were revalued in June After depreciation, the properties are now worth R11,5m. The difference, posted to a non-distributable reserve, is reflected in a net asset value that has risen to 1 173c a share from 708c a year ago — when the share price (even before revaluation) was at a discount to net worth. On this basis alone,

Continue →

FM 3|5|91 (183)

it may have been argued that the share was then underpriced

Aside from the worth of the company, Coates' earnings record has been such that the share merited a better market rating than was the case before the recent rapid rise, when the p.e was 4 Since 1986, turnover grew at a compound annual rate of 24%, operating income at an annual 34% and EPS at an annual 36%

According to chairman Bill Beck, EPS growth in the year to end-December can be attributed to an improved market share "and rigid control over costs and working capital " Substantial efficiencies were again achieved Turnover rose by 19%, operating income by 27,5% and EPS by 36%

For 1991, Beck is predicting "real growth in earnings and dividends, though not at the same level as in 1990 " On that basis it is not surprising that the share now has a better rating.

Two factors may explain why the price was so low a year ago First, market sentiment was then at a low ebb Coates has often been seen as a valuable takeover prospect because it is a sole supplier of certain inks, but last April there were no particular expectations of any deals However, MD Fred Williams denies there is any prospect of a deal now

Second, the share is tightly held The volume of Coates shares traded in recent years is too small to attract institutions It is, however, possible that some of the smaller institutions have been buying the stock

There is good reason to believe the company will sustain meaningful real growth for the next year at least. The share now looks fairly priced *Gerald Hirshon*

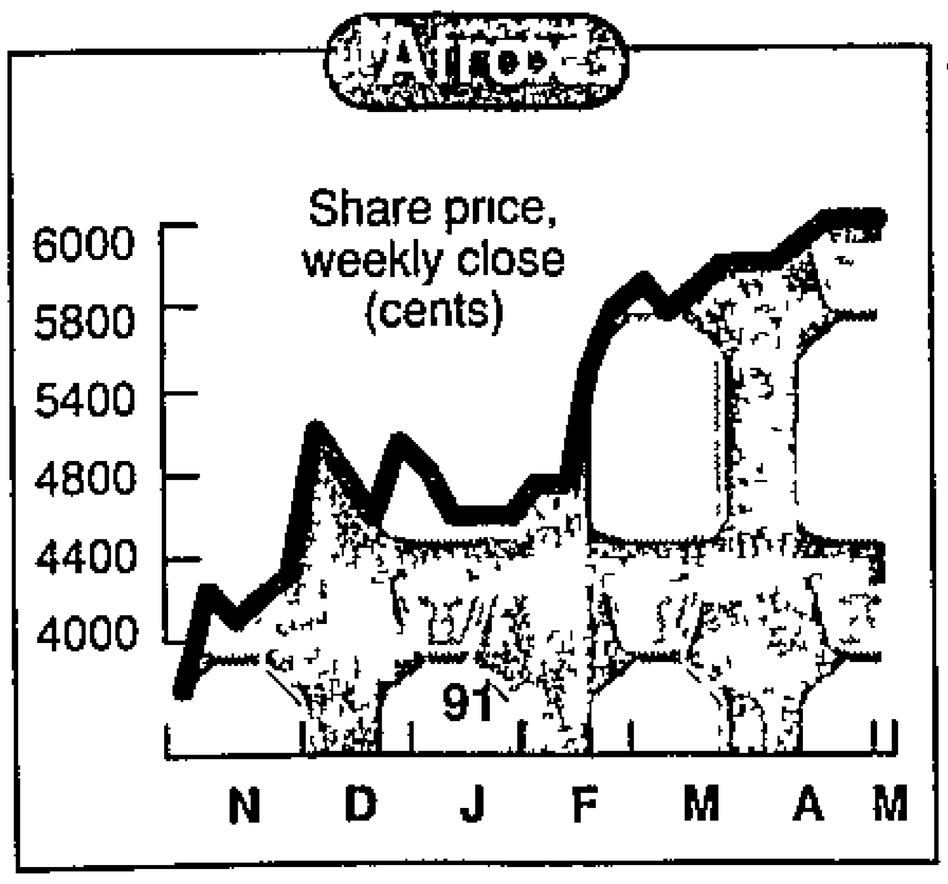
Afrox beats economic blues

SEAN VAN ZYL

ENGINEERING-listed African Oxygen (Afrox) has beaten the economic blues with attributable profits up 27% to R39,2m for the six months to end March

The blue chip industrial group has disclosed earnings, inflation adjusted, of 131c (103c) a share, of which a dividend of 63c (50c) a share was declared

Despite the severe recession which "battered" the earnings of the engineering sector, chairman Peter Joubert said Afrox enjoyed an improved performance because of its business spread of operations within the group (183)



Graphic LEE EMERTON Source JSE

Afrox has interests in gases, welding and private hospitals and health care Joubert said the gas manufacturing and marketing business was likely to continue to exceed the earnings growth of its other interests

While Afrox's turnover rose by 18% to R514,5m (R437,7m), the bottom-line operating profit climbed by 19% to R112,5m (R94,4m)

Despite long-term borrowings falling to R15m from R19,2m, interest charges rose by 21% to R19,1m (R15,8m) due to capital expenditure

He said the gearing ratio "is slightly better", with net borrowings as a percentage of capital standing at 23% compared to the previous period's 27,4%

A tax bill of 47,3% at R44,1m (R38,1m)

☐ To Page 2

6/5/91 8 10 au

Afrox 610 au 6/5/91

(183)

☐ From Page 1

resulted in taxed income coming down to R49,2m (R40,4m) In addition, depreciation for the period of R9m (R9m) resulted in inflation-adjusted attributable earnings of R39,2m (R30,8m)

While Joubert said this inflation adjustment reflected more fairly on the group's operating performance, earnings — discounting the depreciation — would have clocked in at 161c a share as opposed to the 131c actually disclosed

"For many years we have maintained a policy of current-cost accounting to offset the effects of inflation," he said

Commenting on the operating divisions, Joubert said the gases and health care interests performed well, although the welding division "slowed down" because of reduced activity in the engineering sector

He added that Afrox's results were in line with expectations and that the group would probably achieve at least a 20% real growth in earnings this year

PEANUTS By Charles Schulz

Hoechst invests R2,5m in the SBDC

B Day 8/5/91

THEO RAWANA

183

CHEMICAL giant Hoechst yesterday announced it had bought a R2,5m share in the Small Business Development Corporation, the largest single capital investment by an international company in the SBDC so far.

Hoechst SA MD Reinhard Traub said the company viewed the investment in the SBDC as a continuation of its involvement with small business development since 1987.

Hoechst, a subsidiary of the German multinational Hoechst AG, sought and received permission from the mother company to make the investment, SBDC PRO Dawie Crouws said

In terms of the investment contract with Hoechst, the SBDC also bought Hoechst's previous head office site and buildings in Industria for R6,772m

The contract also entailed the conversion — estimated at R1,5m — of buildings on the site to provide premises, services and training for small business entrepreneurs, said Crouws

Completion of the complex — to be known as Tower Hive — by the end of the year would provide 70 additional lettable units, totalling 9 500m² of floor space

This would bring the SBDC's total floor space for such small business facilities nationwide to 836 000m² (equal to 170 football fields) with 5 170 units, Crouws added

Conversions at the Tower Hive had already started and some units were already occupied The aim was to accommodate small business entrepreneurs in fields such as metal work, woodwork, electronics, service and chemical industries, upholstery, clothing, appliance repairs, light manufacturing, printing and signwriting

Accepting the R2,5m cheque, SBDC MD Ben Vosloo said he was optimistic the investment would mark an upsurge in foreign investment in southern Africa

"The SA economy would benefit greatly if other SA subsidiaries of big international companies could follow this example They are on the scene and can best advise their mother companies on the most suitable opportunities for investment that will encourage economic growth in the region," said Vosloo

BUSINESS

SBDC gets R2,5 million investment

Star 10/5/91

Finance Staff

The Small Business Development Corporation (SBDC) has received its largest single investment from an international company to date

Hoechst SA, a wholly owned subsidiary of the multinational chemical company Hoechst AG in Germany, has bought SBDC shares worth R2,5 million.

Hoechst's involvement follows hard on the heels of a recent R70 000 investment by German company, Bosch

The investment is linked to a SBDC industrial hive project, aimed at stimulating self-employment and job creation opportunities

In terms of its contract with Hoechst, the SBDC buys Hoechst's previous head office site and buildings in Industria, Johannesburg

The office block on the property now houses the SBDC's central region staff and services

The training centre will be used to run the SBDC's small business training programmes on the West Rand and will also be made available to outside organisations

Five old warehouses and an old pharmaceutical plant will be converted into industrial hives

The whole complex, which the SBDC bought from Hoechst at market value, will in future be known as Tower Hive

Hoechst MD, Reinhard Traub, said "We see this investment as a continuation of our involvement with small business development in South Africa"

AFROX FM 10/5/91

LIFTING HIGHER (183)

Afrox has once again showed its resilience during recession At a time when most industrial companies are showing earnings declines, Afrox lifted earnings by 27% in the six months to end-March

Operating margins improved, and trading profit rose by 19%, with turnover up 18% Afrox's core business, the gases division, is the sole supplier of many gases in SA and chairman Peter Joubert admits it gives the group some flexibility on selling prices

But Joubert says it is more significant that Afrox has consistently been able to reduce costs and improve its control of stock and debtors Afrox includes additional depreciation for the current cost of assets on top of the normal after-tax profit The amount of additional depreciation remained static at R9m in both the 1990 and the latest interim periods

Welding slips

Earnings from the health-care division, which includes 10 private hospitals, were in line with the group's overall trend The welding division, however, did not do as well as it did last year, though it was still profitable The fortunes of the welding division are directly linked to the engineering sector, whereas gases have a much wider customer base

This division will suffer from the ending of government-backed projects such as Mossgas Mossgas was a significant customer of the division last year, though there was also a spread of private sector customers

Gearing has been reduced to 23% from 27% There are no significant capital expenditure projects this year, though Afrox maintains an annual capital expenditure budget of R100m to maintain the quality of its fixed assets

At R60, the share is looking expensive — it is trading on an earnings multiple of 22,3 based on the inflation-adjusted accounts, and a multiple of 17 if the standard measure of earnings is taken Afrox has consistently maintained dividend cover of just over two

Joubert says his prediction of a 20% earnings growth in the full year to end-September is conservative Earnings have grown by a compound 25% a year since 1985 Afrox enjoys a consistent, predictable cash flow from long-term contracts, rentals on cylinders and charges on facilities that cushions

Continue

FM 10/5/91 (183)

any sudden downturn in demand for its products It does not have dramatic swings in earnings — either up or down — but nor has it produced disappointing results

Stephen Cranston

SENTRACHEM FM 10/5/91

ANOTHER CUT

183

The market was not expecting good results from Sentrachem but the 25% earnings decline, and the halving of the dividend, came as a shock By Monday's ~~close,~~ 55c — or nearly 10% — had been wiped off the share price that ruled before release of the figures

Given the group's large fixed cost structure, the trading figures were hit hard by effectively static sales Turnover increased by 10,4%, but this is because of the inclusion of the recently formed herbicide and pesticide group Sanachem, which had sales of R100m With these excluded, there was negligible growth in the value of turnover

Sentrachem's Job *not bullish on prospects*

There was, on the other hand, a 47% increase in interest-bearing debt and the gearing increased to 0,73, compared with 0,67 in August and 0,53 in February Financial director Robin Morris says management considers the comfort zone for gearing to be below 0,60 To help reduce debt, the dividend was cut from 12,5c to 6c Cover was increased from 2,6 to four, but Morris says the cover for the full year will be three times

Last year the group's financial year-end was changed from March to August Comparative figures for the latest interim are based on pro forma accounts

The increase in petrochemical feedstock prices in the lead-up to the Gulf War was too short-lived to benefit Sentrachem The group was unable to pass many of the increases on to customers, so margins were squeezed

A major capital expenditure programme, costing R153m, has been completed. Funds were spent on projects which include an expansion of Safripol's world-scale high-density polyethylene plant, and the comple-

continue

FM 10/5/91 183

tion of NCP's chlor-alkali facility "We took the decision to spend aggressively on capex, when circumstances were improving," says MD John Job, "It's bad luck these major projects are coming on stream at the height of the recession, but in the long term our decision will be vindicated."

Sentrachem has enjoyed the benefit of a major tax holiday from its losses in the mid-Eighties Deferred tax remains the major component of the tax charge There was an assessed tax loss at the end of the 1990 financial year of R94m, which Morris expects will be absorbed by the end of the year to August 1992 The group is liable for current tax only on its interests in joint venture companies such as Synthetic Latex and AquaChlor, which account for less than 10% of total tax

The lacklustre operating performance reflects the problems of the agricultural, mining and motor sectors in particular Mega Plastics, which sells plastic mouldings, pipes and tubings to the mining and motor industries, was badly hit, as was the agricultural chemical company Agrihold and rubber division Karbochem After the year-end, Mega signed a deal with SA Breweries for plastic crates worth R210m over three-and-a-half years, with substantial business promised thereafter. This production will come on stream only in 1992.

Two bright spots

Two group companies had a good year — plastics producer Safripol from strong sales to the packaging industry and National Chemical Products, which benefited from its sales to the liquor, baking and brewing industries

Morris says tight management of working capital will be maintained Sentrachem's divisions are required to maintain net working capital at 20% of turnover, and all are doing so

Job is not bullish about the prospects for this year. Sentrachem has a small export base, which accounts for about 7% of turnover, so earnings are unlikely to recover before SA's next economic upturn Job predicts, though, that earnings in the second half will at least match those of the first half.

Even so, shareholders had to wait some years before dividends were resumed following the debacle of the mid-Eighties The latest dividend cut has again dampened confidence, so the share could weaken further

Stephen Cranston

SENTRACHEM FIZZLES

Six months to Feb 28	1990*	1991
Turnover (Rbn)	1,03	1,14
Operating income (Rm)	106	102
Attributable (Rm)	37 4	27,9
Earnings (c)	32,4	24,2
Dividends (c)	12,5	6,0

* Pro-forma

Medicine for cotton deal with USSR

S/Times 12/5/91 (Buss Times) 183

By DAVID CARTE

AN INTERNATIONAL pharmaceutical group with South African links has arranged a barter deal with the Soviet Union.

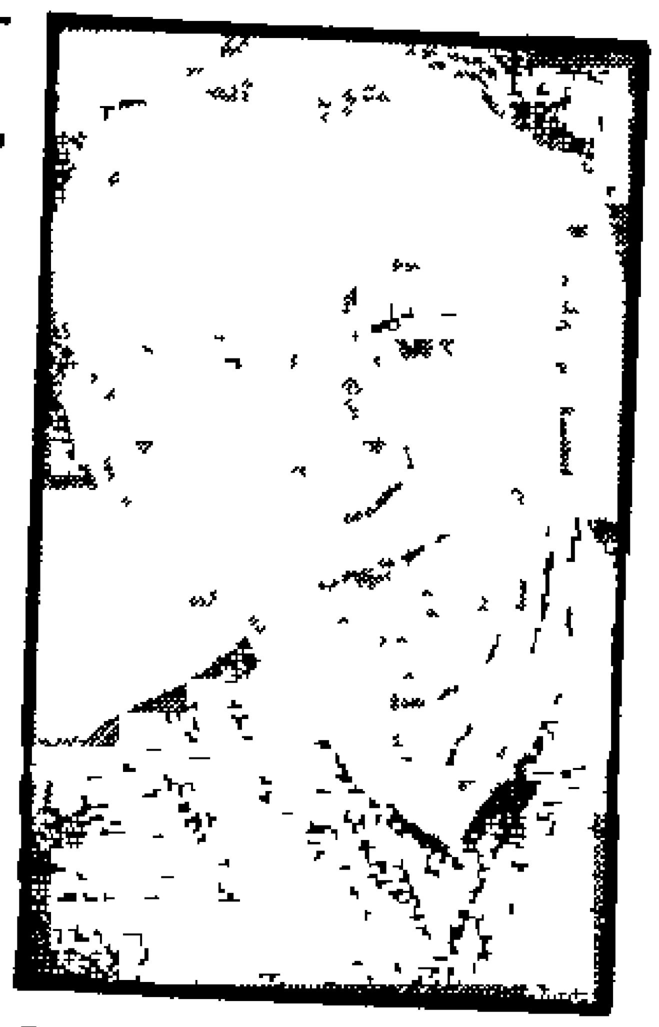
It will supply drugs for cotton

This was confirmed by the founder of Amerpharm, David Tabatznik, this week

Amerpharm is the Netherlands-registered holding company for the Tabatznik family's generic drugs operations in the UK, West Germany, Israel, Australia, New Zealand and Canada The company is run by Mr Tabatznik's son Tony, mainly from London

Interviewed in Sandton, Mr Tabatznik said "I visited the Soviet Union recently The economy is a mess and hospital conditions were appalling At one hospital with 1 500 beds there were no drugs"

Mr Tabatznik says the cotton will be sold in international markets



DAVID TABATZNIK Russian hospital without drugs

Last week the Sunday Times reported that the Canadian division of Amerpharm, Genpharm, had startled the international pharmaceutical industry by challenging the patent of Glaxo Holdings covering Zantac, the biggest-selling patented drug in the world

Its annual turnover is $2,5-billion

If it wins its case in the US courts, Genpharm will be allowed to make a generic equivalent of Zantac exclusively for six months After that, all drug companies will be able to manufacture the generic

Business Week International says victory will be worth hundreds of millions of dollars to the Tabatznik family businesses, which are small with sales of $100-million

Allies

But Amerpharm has strong allies in its court battle UK financier Jacob Rothschild bought 20% of the company for $20-million recently Several multinational companies have expressed a desire to join the fight against Glaxo, one of the world's biggest pharmaceutical groups

Mr Tabatznik says Genpharm has duplicated Zantac and the product is being tested by the US Food and Drug Administration

Two patents protect Zantac The original one expires in 1995 A second, a derivative of the first, expires only in 2002

Remarkable

Genpharm contends that the second product is not sufficiently different from the first to be separately protected

Mr Tabatznik says "Litigation is expected to take four years That is why we have started now, even though the first patent expires only in 1995 We want to have won the case and have the product ready for market the day the 1995 patent lapses"

Apart from his international pharmaceutical interests, Mr Tabatznik, one of SA's lowest-profiled but most remarkable businessmen, has built up the Lifecare group comprising 40 private hospitals with 1 600 beds

Fuel giants to spend billions

B/Day 14/5/91.

ZILLA EFRAT

THE SA fuel industry is set to invest billions of rands in refinery capacity in the wake of forecast growth in demand and planned deregulation of refining activities

Engen has announced a R1,5bn expansion of its Durban-based Genref refinery and Caltex will spend R240m upgrading and expanding its Milnerton refinery

A Shell spokesman confirmed that the company would expand its refinery over the next three years

Total and BP are also looking at capacity expansion

Industry experts say demand for fuel is forecast to grow at a real rate of 4% a year However, while investment in SA refinery capacity is driven by local market requirements, the prospects of exports, and therefore increased throughput, could make this investment more attractive

Once the oil embargo is lifted, SA is set to become a large fuel exporter to certain southern African countries Strong demand from the east coast of Africa and Indian Ocean islands is expected

But with SA refineries running close to capacity, new investment is required to meet the demand after the mid-1990s

While the multinationals based in SA had continued to upgrade their refineries, they had stopped investing in increased capacity when Sasol 2 and Sasol 3 came on stream in the early 1980s, observers say

Some oil companies were also reluctant to be seen making large investments in SA

Investment in new synthetic fuel projects appears highly unlikely at current oil prices and as strategic needs fade, experts say

An important factor opening the way for new investment in refining capacity is government's recent announcement that refining activities will be deregulated, making them market-orientated

BDay, 16/5/91

Sentrachem's big surprise

183

MATTHEW CURTIN

ANALYSTS expressed surprise this week at a report that SA chemical giant Sentrachem was planning to produce 70 000 tons of ferrochrome a year by the end of 1992

The report, in the London-based Metal Bulletin, quoted "informed sources" at Sentrachem as saying that the company was converting its mothballed calcium carbide furnace to ferrochrome production at a cost of about R28m

Sentrachem MD John Rob would not comment on the report yesterday.

Frankel Max Pollak Vinderine analyst Kevin Kartun said yesterday the news was "astounding".

He said ferrochrome production in SA was already fiercely competitive while the slump in world demand for stainless steel had severely depressed prices

Analyst Mike Howarth said Sentrachem was more likely to be interested in the chemical rather than the mineral side of ferrochrome production

Engen bidding for North Sea foothold

B|Day 17|5|91 183

ZILLA EFRAT

ENGEN, which today announces that 99,5% of shareholders have taken up its rights offer to raise R1,1bn, is negotiating to gain a 30% participation in parent Gencor's North Sea interests for about R150m

Engen directors could not be reached for comment yesterday, but reliable sources said Engen was expected to enter a transaction with Gencor to participate in Gencor's 8% interest in the Alba oilfield and its underlying Kilda gasfield

Gencor last year announced that it would take part in a project costing more than £1bn to exploit the Alba field, east of Aberdeen off the coast of Scotland

The venture involves several large oil companies from around the world with US group Chevron as the managing partner

Gencor also has an 8% interest, along with the same partners, in the significant North Sea gas/condensate Kilda field.

Sources said the Alba oilfield had received the necessary approvals for the erection of a production platform and should be in production by 1993, initially at 40 000 barrels a day This should later increase to 80 000 barrels a day

However, the development of the Kilda field would take place only in the second half of the decade

The sources expected Engen's participation to cost £25m, to be paid through financial rands at about R150m

They said Engen's payments could be applied to fund the pro rata share of the Gencor/Engen consortium of the capital expenditure required to bring the oilfield into production After this, the project was expected to be self-financing

The Alba investment, which would be made over the next two years, was expected to contribute to Engen's earnings only in its 1994 financial year

● See Page 9

Engen rights offer a success

Bloom 17/5/91. (183)

ZILLA EFRAT

ENGEN's rights offer to raise R1,1bn has been successful with shareholders choosing to take up 99,5% of the shares on offer at R25 a share. And this could pave the way for another rights offer.

Engen's capital commitments of R930m and net borrowings of R170m, as at end February 1991, are expected to absorb most of the funds raised through the offer.

While Engen is highly cash generative, it might have to make another rights issue in the future. Ed Hern, Rudolph analysts Johann Blersch and Peter Brown say this would happen if the energy giant decides to proceed with the second phase of the Durban-based Genref refinery expansion programme and to take up its rights in Mossgas.

The R670m first phase of Genref expansion will be completed by August 1992 Phase 2 could cost a further R1,5bn and be completed by 1995

In addition, Mossgas will be recapitalised in 1993. Should Engen find it attractive to maintain its 30% interest, it will be required to invest about R1,2bn

Blersch and Brown suggest that Engen should be accorded a 10% premium over the average rating of industrials in view of its above-average growth prospects

Factors that will contribute to profit growth include increased demand for fuel, the expansion of refining capacity and the positive outlook on refining margins

They expect SA's demand for fuel from crude oil to grow at nearly three times the GDP growth rate And Engen is expanding its refinery capacity to handle Trek's in-house refining, to increase its refined product yields and to meet increased demand

The analysts say that the outlook for refining margins is excellent because expected low oil prices will lead to sustained strong demand for refined product.

On the group's as yet undeveloped upstream diversification, Blersch and Brown say it is Engen's objective to own crude oil production facilities producing between 30% and 40% of its refining capacity

To this end, Engen has acquired Gencor's participation agreements with Soekor related to drilling in the Bredasdorp Basin and it is looking at West Africa.

MANRO FM 17/5/91 (183)

BEATING FORECAST

Activities: *Manufactures speciality chemicals*
Control: *Manro Holdings 67,3%, Hickson International Plc holds ultimate control*
Chairman: *K Schofield, MD M I Allnatt*
Capital structure: *41m ords Market capitalisation R20m*
Share market: *Price 50c Yields 7,5% on dividend, 23,2% on earnings, p e ratio, 4,3, cover, 3,1 12-month high, 55c, low, 45c Trading volume last quarter, 64 000 shares*

Year to Dec	'89*	'90
ST debt (Rm)	5 0	5,1
LT debt (Rm)	5 3	1,1
Debt equity ratio	0,48	0,24
Shareholders interest	0,46	0,45
Int & leasing cover	—	4,3
Return on capital (%)	16,1	16,4
Turnover (Rm)	87,2	86,3
Pre-int profit (Rm)	7,5	9,5
Pre-int margin (%)	8,6	11,1
Earnings (c)	7,9	11,6
Dividends (c)	—	3,7
Net worth (c)	52,0	63,9

* Pro forma

The first results as a listed company beat the forecasts in October's transmuted listing statement — at least at the bottom line

FM 17/5/91 (183)

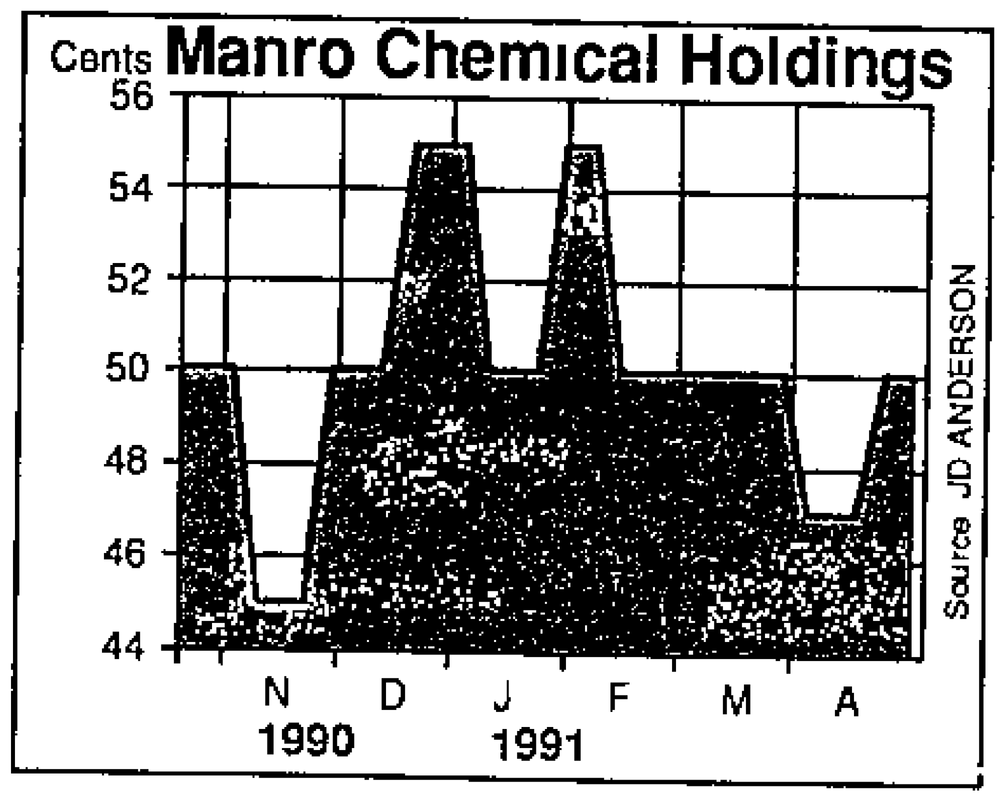
Though turnover, at R86m, fell 6% short, operating income was 4% ahead of forecast, attributable earnings 19% ahead and the dividend of 3,75c exceeded a predicted 3,3c

New MD Morris Allnatt says Manro beat the overall decline in the chemical sector by concentrating on speciality products

In mid-1990 AECI closed its copper sulphate facility to leave Manro as predominant supplier It took advantage and raised copper sulphate production in Roodepoort by 50% Manro has built up major export markets, and exports more than 90% of copper oxychloride production, which is used as a fungicide by wine and fruit farmers

Locally, sales to the depressed gold mining and textile industries fell Some new capacity, however, came on stream A 5 t reactor for organic chemicals was commissioned in Wynberg Pinetown Industrial Laboratories was bought from Smithchem, extending the range of specialised products, particularly for the paint industry Manro will spend a further R6m on capital expenditure in the next two years to enhance its competitive position

Allnatt says the debt equity ratio has come down from "not so good" levels two years ago to its present 0,24 He says the capex programme will not materially affect this The interest bill dropped slightly and interest and leasing cover are adequate



Growth in earnings has gone against the sectoral trend The share has traded within a narrow band between 45c-55c, but the p e of 4,3 is well below the sector average of 9,3, while the yield of 7,5% is well above the average 4,5% In view of the export potential and links with a multinational, this could be a good buy But parent Hickson and the directors have a tight hold on the equity, and the price has suffered from poor tradeability

Stephen Cranston

Star 17/5/91

Engen succeeds

The R1,1 billion rights offer by energy giant Engen has been fully subscribed

(183)

Shareholders have ~~taken~~ up 43,78 million shares, or 99,5 percent of the 44,016 million new shares on offer at R25 a share.

Sean Jagoe, general manager at Rand Merchant Bank, merchant bank to the issue, said yesterday there was no doubt the issue, one of the largest in recent history, was an unqualified success — Sapa.

Hopes for lead-free fuel by 1995

Business Day Reporter

ENGEN subsidiary Mobil says its new R600m Genref refinery in Durban will be the first to produce lead-free petrol in SA.

Responding to a survey of oil companies by Earthlife Africa, the company said it was looking at three to five years before the refinery could begin production of the fuel

BDay 20/5/91

The move would also allow Trek service stations access to the new fuel, as they are wholly owned by Engen.

183

The results of the survey culminated in a recent meeting between Consumers against Pollution (CAP), Earthlife representatives and Health Minister Rina Venter.

A CAP report says the issue of lead-free petrol was discussed in detail, and the environmental delegation received "a sympathetic hearing from the Minister"

The delegation hoped for the introduction of lead-free petrol by 1995

Quoting from survey responses, CAP said Total was in favour of phasing out leaded petrol, while Caltex and Sasol indicated that they would require motivation from government

Both Total and Sasol said they could already produce small quantities of lead-free petrol but would require three years to produce enough to meet demand

Caltex, on the other hand, would require five years to produce sufficient quantities of lead-free petrol

None of the companies interviewed was prepared to provide lead-free petrol off its own bat, and most suggested that government support was necessary to organise and co-ordinate the introduction of lead-free petrol in SA.

Total and Sasol stated that the increased cost of refining would make it 6c to 7c/l more expensive to produce

Total and Sasol preferred a system by which differential taxation promoted the sale of lead-free petrol, and said they were not prepared to absorb the extra costs themselves.

SA Druggists fights to contain theft of stock

(183)

BDay 21/5/91

SEAN VAN ZYL

SANKORP-held South African Druggists was plagued by theft of stock in the year to end-March and earnings fell 12% to R35,9m

This is equivalent to 25,3c (28,8c) a share from which an unchanged total dividend of 10c a share has been declared The final dividend, declared yesterday, is 5,25c a share. The dividend cover has fallen slightly to 2,5 times from 2,8 times as a result of the lower profit

Druggists has a number of subsidiaries in the manufacturing, marketing and distribution of medical and chemical products. Until recently it was heavily exposed to the state for tender business — which was severely cut back last year

Turnover broke through the R1bn mark for the first time at R1,06bn (R948m), reflecting a 12% growth in sales But operating profit of R80,2m (R87,2m) was battered largely by high shrinkage of stock at the wholesale division, chairman Johan van der Walt said in an interview yesterday

While the group had experienced difficult trading conditions, Van der Walt said the poorer operating margin at 7,5% (9,2%) resulted mainly from the shrinkage losses which have been written off

Higher interest payments of R15,5m (12,6m) also consumed almost 20% of operating income and further weakened the pre-tax profit margin to 6%. The higher finance costs were incurred mainly through growth in stock — resulting in short-term interest-bearing debt climbing by 46,5% to R54,9m (R37,5m)

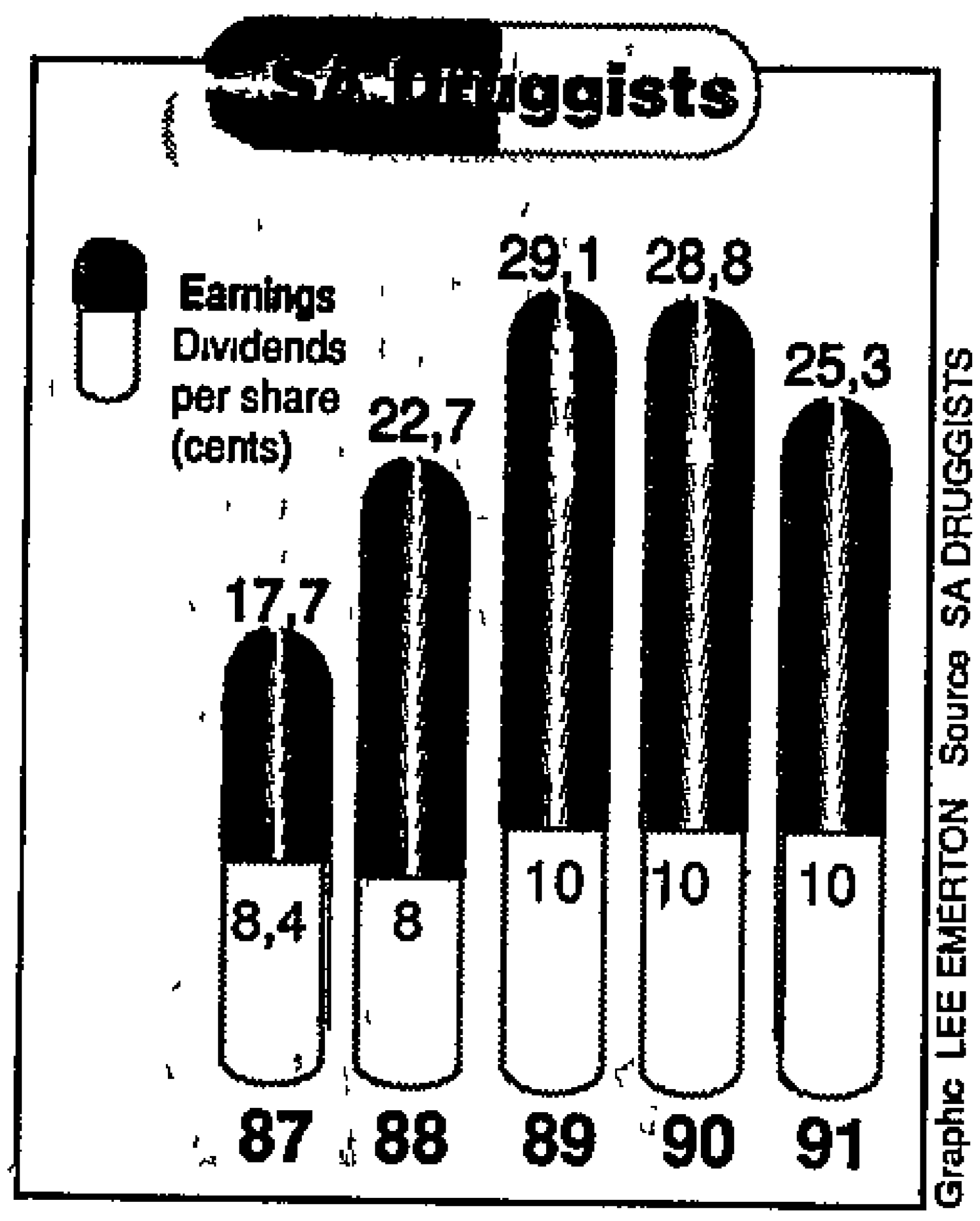
The group was constructing a new R45m injectables plant in Port Elizabeth which was expected to supply a large portion of parenteral pharmaceuticals to SA, said Van der Walt

He said the plant was expected to come on line next year, but that it would provide a meaningful contribution to sales in only about three years.

The manufacturing division under Lennon Pharmaceuticals also reduced its reliance on state tender business, currently at 30% of sales, and expanded into the private sector "The outlook for this year appears promising, with growth in earnings expected from all operating divisions," Van der Walt said

As a result, the group plans to pursue a more aggressive marketing campaign into the private sector this year, which Van der Walt said was still fairly buoyant in spite of the recession

Syndicated crime in the pharmaceutical industry remained a major problem and new security systems had been installed



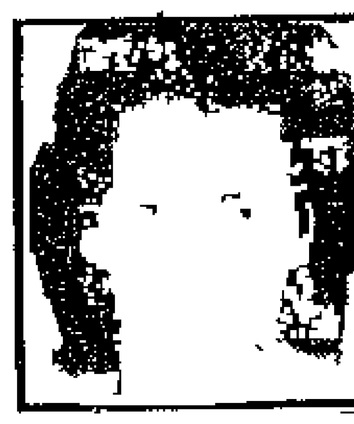
SA Druggists still battling to grow

Star 21/5/91

Diagonal Street

183

ANN CROTTY



Shareholders who were holding out for the second half improvement that management was expecting at the time the interim figures were released will be disappointed by SA Druggists' full year earnings fall of 12 percent

Following a seven percent drop at the half way stage, management has reported earnings for the 12 months to end—March of 25,3c (28,8c) a share A final dividend of 5,25c has been declared for an unchanged total of 10c a share

The problems identified in the second half of financial '90 were apparently more daunting than management had thought In that year's annual report it was stated that, despite the problems, management was targeting meaningful growth

At the first half of financial '91 it was noted that management was continuing to implement strategies that would ensure a return to growth in profits

The new executive chairman Johan van der Walt is more cautious He does expect a number of factors to come together to ensure that earnings growth is resumed in financial '92, but cautions that this assumes there are no unforeseen circumstances, no dramatic changes in the industry In addition it assumes that management is successful in bringing shrinkage under control

The major problems that have dogged the group's recent performance have been shrinkage, problems with a major branch of the agency distribution division, and a switch in emphasis away from the low margin state tender business to the private market

Shrinkage is estimated to have reduced profit by as much as R10 million. Management has changed its inventory control systems and is generally tightening up its management control systems

A turnaround is expected from the LPA agency distribution division as the service levels have recovered and SAD has taken on a few new principals This will lift the volume throughput to more profitable levels

Having taken the decision not to be as aggressive in its chase for the state tender business as it had been in earlier years, management was unable to make up the lost volumes from private sector demand in the review year

According to Mr Van Der Walt the group has increased its emphasis on marketing and this will help it to make the desired inroads into the private sector

On the positive side, the group's market appears to be holding up relatively well in the face of the economic downturn If management can successfully sort out its internal problems it should be better able to take advantage of the strength of its market even in the face of increased competitive forces

Major features of the financial '91 figures are — turnover up 12 percent to just over R1 billion (R948 million), operating profit down 8 percent to R80 million (R87,2 million), net interest payments up 23 percent to R15,5 million (R12,6 million), pre-tax income down 13 percent to R64,7 million (R74,6 million)

The balance sheet shows gearing at a comfortable 27,5 percent (27,6 percent)

Drips supplier hits out at media reports

183

Sowetan 23/5/91

SABAX, the company which supplies drips to hospitals and clinics, has lashed out at media reports linking it to deaths caused by contaminated equipment.

The company's executive director, Mr Ian Strachan, said Sabax believed it was its responsibility to avoid unnecessary public alarm by clarifying misconceptions which might have been created by the reports

The company has distributed letters to people in medically related professions in an attempt to clear its name

Strachan said at the time of the alleged deaths, his company was not made aware by any clinic, hospital, medical practitioner or pharmacist of any alleged adverse drug reactions relating to patients.

He said newspapers were creating confusion in their use of the term "drips".

The term referred to intravenous fluids of which there were two types There were those admixtures prepared under sterile conditions, but were not sterile at the end of the process

The mixing of ingredients took place in a sterile environment in accordance with internationally tested and accepted procedures

The second type of intravenous fluid was sterilised in sealed form at the end of the manufacturing process

These constituted the vast bulk of intravenous fluids produced by the company and had been administered to critically ill patients in hospitals and clinics throughout the country for the past 42 years

Strachan said no reports of bacteria contamination of these sterilised products in intact form had been received at any time

He said to date all investigations had only indicated two batches of admixtures which were found to be defective

The admixture dispensary pharmacies in Johannesburg and Cape Town where the admixtures were prepared, were closed at the end of last year and had remained so

Royal lifts earnings by a solid 18,4%

(R&D) (183)

GILLIAN HAYNE

ROYAL Corporation, the food and chemical group which has been hot on the acquisition trail over the last six months, has turned in a solid performance with operating income up 30,2% to R23m for the year to end February 1991.

An 18,7% increase in attributable income to R14,9m was also achieved without the benefit of the latest acquisitions which only became effective on March 1, 1991. B/Day 24/5/91

Royal bought US-owned chemical company Ferro Industrial Products in January for R38m and SA Preserving Company (Sapco) from Del Monte Foods International in December 1990 for R113m In March 1991 the group was substantially restructured with the separate listings of Royal Foods and Roychem

Earnings a share rose 18,4% to 21,9c, which translated into a 7c a share dividend declared on February 12

If one were to examine the group's results including Ferro and Sapco on a pro-forma basis, earnings a share would rocket 87,6% to 34,7c on an attributable income of R23,6m — despite a 67,5% increase in interest obligations

The share price has jumped from around 150c in October 1990 to a current level of 330c.

The 12-month interim report for Royal is the same as for Royal Group Holdings (Royhold) which has a controlling stake in Royal

Pharmacists lose out again on the generic drugs issue

Another victory for vested interests

W/Mail 24/5-29/5/91

183

CRITICAL CONSUMER

Pat Sidley

PARLIAMENT has missed out on a golden opportunity to cut drug costs for consumers — and the major beneficiary will be the drug companies manufacturing brand name drugs.

While the Medicines and Related Substances Control Act is being amended, pharmacists had hoped parliament would agree to allow them to substitute cheaper alternatives to brand name drugs prescribed by doctors.

This is a hardy annual — it has been discussed endlessly, most recently by the SABC's Isobel Jones — and the issue was before a parliamentary select committee, which dumped the idea again.

The new amendment, pharmacists hope, will in any event allow more flexibility in their dispensing practices and perhaps eventually in their ability to initiate (as opposed to having a doctor initiate) the prescribing of some drugs so the public does not have the extra expense of going to a doctor.

And further down the line, pharmacists expect there will be more flexibility in the medical and nursing professions which will hopefully mean more primary (and curative) health care brought to more people who at present have no access to it.

But for the time being, vested interests won out again and pharmacists are unable to substitute cheaper drugs on prescriptions.

The argument is as follows: large pharmaceutical companies [illegible] research and development [illegible]

When the patent ends, it's open season for other manufacturers to copy the drug, give it a different name (although it will carry the same "generic" name reflecting the same formula) and put it on the market for considerably less.

So, for instance, a drug with the generic name of Amoxycillin Trihydra (a penicillin-type drug) sold under its original developer's name Amoxil, would cost R17,67 for 15 250mg capsules. The same drug made and marketed just under its generic name would cost R10,30 for the same quantity.

There are many wider differences which would obviously help the consumers. The argument against generic substitution accuses the manufacturers of generics of not producing the same quality which may affect absorption and other factors.

However, most consumer organisations favour generic substi- [illegible] information is now available to show that short- [illegible]

[illegible] cretion to substitute or at the very least to discuss its merits with their patients.

The law in this country stipulates that the pharmacist has to dispense drugs exactly according to prescription. But there is nothing to stop a doctor from writing the generic name on the script or something like "Amoxil or generic substitute".

According to the UK Consumer Association's *Drug and Therapeutics Bulletin*, in 1987 more than a third of prescriptions used the generic name — allowing the pharmacist and the patient discretion to choose what drug to dispense. Figures in the United States show similar trends and pharmacists in both those countries are able to substitute cheaper drugs when dispensing.

Unfortunately doctors, like everybody else, are susceptible to psychological factors. Research has shown that a drug marketed under a short snappy name is likely to be remembered, and the doctor may not recall another name when writing out the script.

That is why consumers should press the issue themselves. Vested interests have ensured that once again if consumers do not put their own pressure on, nobody is going to help.

Medicines Control Council chairman Peter Folb has repeatedly assured this Critical Consumer that the controls on all drugs produced here are adequate and that generic drugs have adequate controls to ensure good quality and efficacy. There are instances all over the world where differences between products justify some concern, but again consumers can help this process along by reporting side effects and asking their doctors to ensure that [illegible] goes to the relevant authorities.

[illegible] mandatory drug [illegible]

Natal distillers keep Reds in good spirits

B Day 27/5/91 (182)

JONATHON REES

SANCTIONS-busting Soviet diplomats based in Mozambique have developed a taste for SA vodka, among many other local delicacies they stock up on each month

A Durban importer-exporter who has done business with the Maputo embassy said at the weekend the Soviets spent up to R300 000 a month on as many as 40 consumable items, including beer, whisky, cigarettes, fresh beef and salami

The imports are used to feed the scores of Soviet military and technical advisers, doctors, teachers and other nationals living in Mozambique

Cape wines, KWV brandy, Hankey Bannister whisky and Lion and Castle lager appear on the Soviets' shopping list They buy up to 50 cases of spirits and 700 cases of beer at a time

Count Pushkin and Smirnoff are their favourite vodkas — both distilled in or near Durban, according the businessman

Cheese, ham, flour, rice, polony and raisins are all ordered in bulk from SA, and transported by road through Swaziland to impoverished Mozambique, where they are offloaded at a Soviet receiving depot in Maputo for distribution as far away as Pemba, about 3 000km north of the capital

The importer-exporter, who asked not to be named, said he was also asked to supply brass screws, nuts and bolts and paint for repairs to Soviet fishing trawlers operating off the Mozambique coast

There are believed to be 22 trawlers granted exclusive rights to deep-sea prawns off the Mozambique coast, in exchange for continued Soviet military assistance to the Frelimo government

Handle AECI with care

Star 27/5/91

Diagonal Street

183

LYNNE PEACH

AECI's disappointing results in 1990 reflect the ailing economy and, in the absence of any improvement, the outlook for the current year remains unexciting

In the annual report, chairman Gavin Relly attributes the past year's decline in earnings to weak demand in most major industries supplied and to a general reduction in margins

Mr Relly says the group is well advanced in aligning operations to match the varying circumstances prevailing in its markets and predicts that earnings in 1991 will at least be maintained

AECI is a leading supplier of chemicals and related products

The group is a major player in commercial explosives and accessories, plastic conversion and paints

In the year to December, turnover rose six percent from R4,8 billion to R5 billion, while operating profit tumbled 17 percent from R604 million to R499 million

Financing costs rose 19 percent from R109 million to R130 million because of higher interest rates and a significant increase in borrowings to finance capital expansion

As a result, pre-tax profit declined 25 percent from R495 million to R369 million

A reduction in the effective tax rate from 42,4 percent to 39,6 percent limited the decrease in taxed profit to 22 percent from R285 million to R223 million

After taking into account investment income and income attributable to preference and outside shareholders, attributable profit showed a decrease of 24 percent from R314 million to R238 million

Earnings per share shrank from 203c to 154c, while the dividend for the year was maintained at 87c a share

Mr Relly confirms the group's intent gradually to increase dividend cover in view of the continued high rate of inflation, the need to provide for capital expansion and the uncertainties involved in raising finance abroad.

The balance sheet disclosed a 27 percent hike in interest-bearing debt from R623 million to R791 million

As a result, gearing rose from 42 percent to 57 percent

Net asset value showed marginal appreciation of less than two percent from 847c a share to 861c

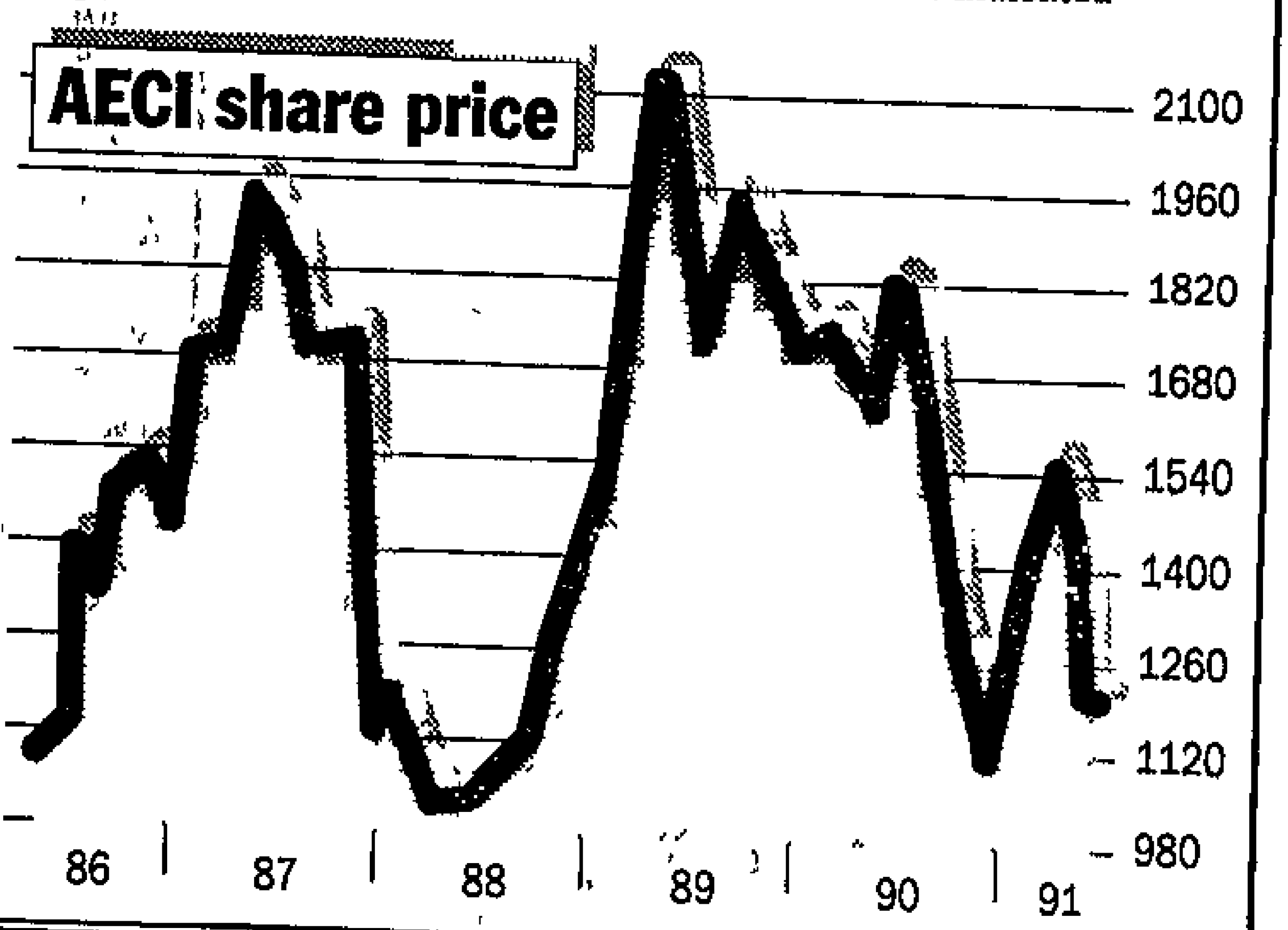
AECI, priced at R12, is trading on a P/E ratio of 7,8 and provides a dividend yield of 7,3 percent

Although the group has attractive long-term potential, current circumstances suggest that buying be shelved until the group enters a recovery phase.

COMMENT AECI's price has gone downhill since peaking at R21 in the first half of 1989

In the last six months, the price bounced off a low of R11 to R15,25 before weakening to its current level of R12

The price will have to start edging towards R14 before a trend reversal is indicated



Major drive sees SAB become world's 10th largest beer exporter

B/Day 30/5/91 (182)

MARCIA KLEIN

SA Breweries (SAB) has become the world's 10th largest exporter of beer since it began its major export drive just over two years ago

SAB, which started its exports in 1989, exported to 47 countries, marketing manager exports Nick Spiropoulos said in an interview yesterday

SAB, the seventh largest brewery in the world in terms of production, exported 870 000 cases two years ago and 4-million last year (a growth of more than 400%)

Spiropoulos said SAB would probably achieve its goal in export sales this year, although he would not diclose the amount

It was currently sending the product to the Soviet Union and other Eastern European countries including Czechoslovakia, Poland and Bulgaria

Spiropoulos said SAB "had a tiger by the tail" It had recently added 12 countries to the 35 it had established as export markets, and was expecting some more this year

SAB, which previously exported to some countries in Africa, was now exporting to other African countries, as well as Europe, South America, the Far East and Middle East

It exported mainly Castle, Ohlssons, Lion and Hansa in cans Special cans were printed for some countries, including Israel, Hong Kong and Spanish-speaking South American countries SA beer was freely available on board Argentinian, Uruguayan and Paraguayan airlines

Spiropoulos said people were keen on the SA products because of their quality and low price due to the exchange rate In South America SAB prices were the equivalent of $0,10 to $0,20 a can more expensive than local beers, while imports from the US were $0,60 to $0,70 more expensive

This was largely due to the rand/dollar exchange rate and also due to SA government subsidies

SAB's prices were also substantially below those of other foreign beers, he said.

In the yuppie clubs and pubs it was fashionable to be seen drinking imported beer In Punta del Este most supermarkets stocked SA beer Also, cans were popular as only bottled beer was brewed in Argentina Spiropoulos said the timing was also right following recent political developments in SA

The Uruguayan agent for SAB products, who was the captain of the national rugby side, had increased his imports from one container a year ago to 10 containers this year

Spiropoulos expected future growth to come from Africa and South America, as saturation was being reached in Europe

FM 31|5|91 FOX

FEDERALE GROUP (183)

SLIMMER BUT FITTER

There has been considerable improvement in the results of Federale Volksbeleggings Though Federale itself was delisted last year it has 70% of listed Fedfood and 68% of **SA Druggists**, and unlisted services and motor components arms

The decision to take Federale off the boards and clean it up quietly appears to have been vindicated Attributable earnings for the year to end-March rose by 30% to R124m, even though turnover of the slimmed-down group fell more than 15% to R3,2bn

Federale MD Peet van der Walt says a relisting of Federale itself is not being considered, but either the leisure services arm (which includes Avis, Interpark, Fedics, Interleisure and Teljoy), or Firestone, with or without the other motor component interests, may be listed

Fedfood is still the largest contributor Until recently it was one of the more pedestrian companies in the food sector However, after EPS growth of just 3,7% in 1990, latest growth is a much more creditable 12%, despite more difficult trading conditions This is almost on par with Tiger Oats, and is well ahead, for instance, of ICS

MD Jan du Toit says a slight improvement in operating margins was thanks to cost-cutting rather than raising prices The strategy is to improve the quality of assets by increasing its portfolio of high-margin products Fedfood is fortunate that it has no poultry interests, other than animal feeds

In line with the clean-up strategy, Fedfood disposed of loss-making biscuit company Fedbisco and the risky Namibian fishing interests Capital profit on these deals was R25m, though much was swallowed by rationalisation costs Overall gearing was up from 29,2% to a still comfortable 36,7%

The company is certainly no longer the sum of top performer Simba and a hodgepodge of underperforming assets The share was around R8 last year, offering a p e of between four and five for most of the year It is now R12,50, with a p e of 6,6 Analysts say it deserves rerating, to between eight and 10, though this may need a strong 1992

Sister company SA Druggists may suffer the opposite fate Turnover passed R1bn but EPS fell by 12% from 28,8c to 25,3c This puts the company on a p e of almost eight, expensive for a company reporting its second earnings drop in a row — stark contrast to SA's other large domestic pharmaceutical company, Adcock Ingram

SA Druggists' new executive chairman, Johan van der Walt, says R10m was wiped off the bottom line by theft in the wholesaling division A new security system, commissioned this month, has already helped

The company has maintained sound gearing at 27,5%, with tight control on capital employed and debt Both rose by less than 11% *Stephen Cranston*

FM 31\5\91 FOX

FEDERALE GROUP (183)

SLIMMER BUT FITTER

There has been considerable improvement in the results of Federale Volksbeleggings. Though Federale itself was delisted last year it has 70% of listed Fedfood and 68% of **SA Druggists**, and unlisted services and motor components arms.

The decision to take Federale off the boards and clean it up quietly appears to have been vindicated. Attributable earnings for the year to end-March rose by 30% to R124m, even though turnover of the slimmed-down group fell more than 15% to R3,2bn

Federale MD Peet van der Walt says a relisting of Federale itself is not being considered; but either the leisure services arm (which includes Avis, Interpark, Fedics, Interleisure and Teljoy), or Firestone, with or without the other motor component interests, may be listed.

Fedfood is still the largest contributor Until recently it was one of the more pedestrian companies in the food sector. However, after EPS growth of just 3,7% in 1990, latest growth is a much more creditable 12%, despite more difficult trading conditions. This is almost on par with Tiger Oats, and is well ahead, for instance, of ICS.

MD Jan du Toit says a slight improvement in operating margins was thanks to cost-cutting rather than raising prices. The strategy is to improve the quality of assets by increasing its portfolio of high-margin products Fedfood is fortunate that it has no poultry interests, other than animal feeds.

In line with the clean-up strategy, Fedfood disposed of loss-making biscuit company Fedbisco and the risky Namibian fishing interests. Capital profit on these deals was R25m, though much was swallowed by rationalisation costs. Overall gearing was up from 29,2% to a still comfortable 36,7%.

The company is certainly no longer the sum of top performer Simba and a hodgepodge of underperforming assets. The share was around R8 last year, offering a p:e of between four and five for most of the year. It is now R12,50, with a p:e of 6,6. Analysts say it deserves rerating, to between eight and 10, though this may need a strong 1992.

Sister company SA Druggists may suffer the opposite fate. Turnover passed R1bn but EPS fell by 12% from 28,8c to 25,3c. This puts the company on a p:e of almost eight, expensive for a company reporting its second earnings drop in a row — stark contrast to SA's other large domestic pharmaceutical company, Adcock Ingram.

SA Druggists' new executive chairman, Johan van der Walt, says R10m was wiped off the bottom line by theft in the wholesaling division. A new security system, commissioned this month, has already helped

The company has maintained sound gearing at 27,5%, with tight control on capital employed and debt. Both rose by less than 11%.

Stephen Cranston

Industries queue for capex aid

B/Day 3/6/91.

(183)

ZILLA EFRAT

SPENDING on SA capital projects looks set to a get a huge injection from government's proposed "kick-start" package to give impetus to multibillion-rand projects

Many large projects under consideration by SA's industrial giants might meet the criteria of the proposed package, which is expected in the next two months

The scheme was first mentioned by Trade and Industry Minister Org Marais last week. There is no indication yet of the amount of government assistance involved; but incentives under consideration include partial funding and tax concessions. Proposals require that the projects be viable, new, export orientated, involve local beneficiation and have a long life The package is aimed at projects in the chemicals, engineering and mineral benficiation sectors.

One project that might benefit is the chemical plant or naphtha cracker under consideration by Engen, AECI and Sentrachem to produce chemical feedstocks and downstream chemicals. This could involve capex of R4,5bn.

Another is the proposed Columbus stainless steel joint venture between Samancor and Highveld Steel & Vanadium, which could cost between R2,8bn and R4bn

Directors of this joint venture have said government's initial response to their submissions on reducing the project's start-up costs was favourable

Sasol plans 20 new projects with a capital value of R3bn and chemical giant AECI has large capex plans under consideration. In addition, oil companies are set to spend billions of rands expanding their refining capacity, this could have spinoffs in chemical production Other companies that could benefit are Iscor and Dorbyl.

Only viable projects that required some kind of "kick-off" assistance would be able to benefit from the proposed scheme, Marais said last week

Assistance would not be permanent, andsmaller projects that met the criteria could also benefit.

Marais said the scheme, which he hoped would be finalised within eight weeks, was based on research into the different ways industial incentives had been granted in other countries There had been contact between government and parties interested in the scheme.

Huge scheme to mine Natal sands

BDay 7/6/91 (183)

MATTHEW CURTIN

RHOMBUS Exploration (Rhoex) and Shell SA have agreed in principle to go ahead with a R320m joint venture to mine and refine mineral sands in northern Natal

Mineral sands are principally used in the production of titanium pigment which is used in the paint, paper and plastics industries

Shell and Rhoex will have 60% and 40% stakes in the project respectively, with the mining exploration company able to reduce its participation to about 9% if it does not contribute further funds

Rhoex MD Rob Still said at a news conference yesterday that production would start in the mid-1990s.

Rhoex had successfully added value to its mineral reserves, he said, but there was further work to do before the project was given the green light, a decision likely in 1992

If the project was successful it would bring invaluable skills into SA and make a "significant contribution" to foreign exchange earnings through the export of the beneficiated products

Still said the titanium feedstock market was relatively stable with pigment producers expanding capacity by 28% in an industry whose annual turnover was already R30bn While there was short-term oversupply in the market, the project partners were confident they would be able to exploit the changing structure of the market and titanium shortages in a few years time

Titanium pigment was the major value-added market, worth 10 times more than simple mineral production The Natal sand project would be able to upgrade its operations in the longer term to exploit the more lucrative market

Frankel Kruger Max Pollak analyst Kevin Kartun said yesterday the project had been well researched by Shell and Rhoex Taking into account the inevitable difficulties of converting the project from the pilot to the fully operational stage, its prospects were good

However, Shell's support for the project of this size, undoubtedly with the backing of the Shell International, suggested the venture's prospects were good

Still said Rhoex's role would consist of continuing geological work and monitoring the financial progress of the project Shell was responsible for the marketing the beneficiation process along with Lurgi SA Lurgi is a joint venture company between E L Bateman and Lurgi AG of Frankfurt.

Shell has already paid Rhoex R4,7m in

☐ To Page 2

Natal

BDay 7/6/91 (183)

☐ From Page 1

exploration costs and R13m worth of feasibility work is underway

The mineral sand reserves, held by both parties, contain 7,9-million tons of ilmenite, 500 000 tons of rutile, and 1,1-million tons of zircon, expected to last for 20 years Current exploration is expected to confirm the existence of additional reserves These figures are about 30% higher than the proven ore reserves published in Rhoex's 1990 annual report

The project, about 15km from SA's main operational mineral sands project conducted by Richards Bay Minerals, involves the mining of inland mineral sands under agricultural and plantation land

Shell minerals division MD Gordon Jarmain could not be contacted for comment last night

COMPANIES

Twins confident of netting real growth

B| Day 7/6/91

LIZ ROUSE

TWINS Pharmaceutical group CE Phil Nortier is confident real earnings growth can be achieved by the new management in 1992

He is reluctant to make an exact forecast because of difficult trading conditions Financial planning will be conservative due to the continuing economic downturn, says Nortier in his annual review

Increased emphasis is being placed on working capital requirements, attempting to achieve a balance between service levels to customers and the holding cost of stock

There will also be an emphasis on high quality branded products which show the required rate of return Twins' rationalisation programme should start showing results Problem areas have been identified and remedial action taken, says Nortier

Twins' founders Abe and Solly Krok have handed over the reins to Nortier and his new team after narrowing the focus of the business operations to consolidate existing business

Certain products have been discontinued, certain operations curtailed, some branches closed and some businesses sold

Krok says in his review that the objective of reducing Twins' gearing has been met to a large extent Borrowing costs have declined from R20,6m to R16,1m

Twins' earnings dropped to 32,8c a share after a loss of R6,2m attributable to restructuring costs and discontinuance of skin lighteners But the dividend was held at 16c

183

The pharmaceutical division remains the mainstay of the group The consumer division was affected by the prohibition of skin lighteners, but is repositioning for an upturn in demand

Tongaat expected to mothball oilcake plant

183

Finance Staff Star 12/6/91

DURBAN — Tongaat Oil Products looks set to mothball its plant at Jacobs near Durban, threatening the jobs of hundreds of employees

Although the company would not disclose staff numbers, one employee estimated that up to 380 people are currently employed at the refinery

The holding company, Tongaat-Hulett, stressed that a final decision is still to be taken but many employees believe that the operation is to be closed down in September

Tongaat-Hulett was not prepared to provide any detail on the workings or history of the plant In a statement Tongaat Foods executive director, Simon Dougherty, said the possibility of alternative uses for the Durban plant were being investigated

He said that the crushing mill was poorly located, owing to its distance from the sunflower seed growing areas Also the market for oilcake was primarily in the Transvaal

Prices to rise if soda ash gets protection

183

S/Times (Bus Times) 9/6/91.

By CURT VON KEYSERLINCK

SODA-ASH prices will probably rise if the Board of Trade and Industry (BTI) grants import protection to the R920-million Sua Pan plant.

Officially opened by Botswana President Quett Masire this week, the project is owned by Soda Ash Botswana (SAB), in which the Botswana Government holds 48% AECI has 26,5% and Anglo American and De Beers have 25,5%

All SA's soda ash is imported — about 55% from the US About 35% of it is used to make sheet glass and bottles, 30% in metallurgical applications and the rest for detergents and general chemicals

Dumping

SAB chairman Dries Nieuwoudt, also an AECI director, says the company has applied for a 10% duty on imported soda ash together with protection against dumping' He expects a ruling soon

If the application is successful SA users will have to pay more for imported soda ash because the plant will not be able to supply their full requirements for some time SA demand is about 350 000 tons a year, but the plant will initially produce only about 300 000 tons a year

The BTI's decision is awaited with interest because the authorities have identified the high cost of industrial inputs as a major cause of uncompetitiveness of SA industry

"Our aim is to raise production to 350 000 tons a year so there will be no need for imports," says Mr Nieuwoudt

"The import tariffs we applied for are relatively low Soda-ash imports by EEC countries carry a 10,3% duty"

But the venture is virtually assured of success even if it does not get protection The Botswana Government has granted the company a tax holiday in the first few years of its life Thereafter tax of up to 70% will apply if profits can stand it

Former Anglo American chairman Gavin Relly said at the opening that the venture would not have been viable had it fallen under Botswana's normal tax laws

Shortly after the project was announced in 1988, the American National Soda Ash Corporation (Ansac) said it would cut its prices of material sent to SA to keep its markets Ansac is a cartel of several producers

The threat initially caused some anxiety, but SAB does not take it seriously now Ansac was recently forbidden to export to the EEC as a single entity under anti-trust regulations Its members must now compete against one another in this market

Mr Nieuwoudt says Sua Pan will also produce about 600 000 tons of salt a year One of its major customers is likely to be AECI's chlor-alkali division which produces PVC plastic At present it buys up to half of its requirements from a supplier in Walvis Bay, but the contract will run out in a few years' time Other, smaller salt producers in SA are also likely to lose sales to Sua Pan

The plant will have a staff complement of 550, of which 70 will be expatriates The number of expatriates is likely to drop because SAB has a programe to promote Botswana citizens to higher levels in the organisation

Coal

The Botswana Government has spent R220-million on a 175-kilometre railway line and a 175-kilometre power line as well as 605 houses and related infrastructure for the new Sowa Town to serve the plant

Its main purchases will be 170 000 tons of coal a year from Botswana's Morupule mine At full capacity Sua Pan will almost double the tonnage carried by Botswana Railways with the coal it buys and the soda ash and salt it sells

Mr Nieuwoudt says Sua Pan is ideally situated to serve markets not only in SA, but in Southern and Central Africa

He says construction was completed on schedule and within budget

Mr Nieuwoudt expects Sua Pan to begin making a contribution to AECI's earnings in 1993

RHOEX/SHELL FM 14/6/91

NEW PROSPECTS (183)

Exploration group Rhombus Exploration (Rhoex) has seen its share price soar since it reached a 12-month low of 30c on April 26 Early this week it traded at 80c, though it has since slipped back to 65c At least part of the reason became clear at the weekend, when the group revealed details of its mineral sands prospect in northern Natal

Shell SA has exercised its option to participate with Rhoex in a joint venture to exploit mineral sand reserves held by both parties in the area The parties have so far spent a total of about R8m on exploration and feasibility work, with "encouraging" results Shell has paid Rhoex R4,7m in respect of exploration costs incurred, consulting work undertaken and as a contribution towards feasibility expenditure

Shell and Rhoex are participating in the joint venture in a ratio of 60 40 respectively They are now going ahead with the next phase of the feasibility studies — to finalise such aspects as detailed engineering, tender invitations, negotiations with government and potential customers — at a cost of about R13m

It is expected that a decision on whether to go ahead with the project will be taken in about mid-1992 The capital cost is estimated at R320m, excluding escalation owing to inflation This figure sounds low when compared with the cost of Richards Bay Minerals (RBM), which is known as a complex and highly capital-intensive operation RBM was established in the late Seventies at a cost of well over R300m, and it is now spending some R1,1bn on expansion of capacity

Two factors explain the lower capex estimate for the Shell/Rhoex project Firstly, it is being planned as a considerably smaller operation, and secondly, it will be able to make use of existing infrastructure, including good roads, a river and electricity supply Even so, considering the complexity of existing mineral sands producers, the cost estimate could prove more conservative than has been realised

Other risks relate to the market for the

Continue →

FOX FM 14/6/91 (183)

products, as well as the technical processes involved A number of mineral sands producers are expanding, and other potential projects are being considered The partnership is assuming that an oversupply will continue until the mid-Nineties, with prices likely to soften as a result It is hoped that the market will be recovering when the project comes on stream in about 1994, but obviously much would depend on growth achieved by industrial economies over the next few years

Several local and international companies have been involved, including Lurgi SA, a joint venture between Edward L Bateman and Lurgi AG, Frankfurt Lurgi, which has worked on the upgrading of the ilmenite to synthetic rutile, has had experience with this process in Australia

Rhoex director Hennie Veldsman says the ore bodies are inland from Richards Bay, between 15 km-30 km from the harbour The deposits are not on coastal dunes, and a dry mining process using bucket wheel excavators would be used Environmental studies have been carried out by two independent consultants, with no major difficulties raised A beneficiation plant would be established in an existing industrial area

But the key factor in a decision to go ahead will be the economics of the investment, and the partners have given themselves another year to take a view on that Rhoex apparently is not considering a rights issue at this stage If a decision is taken to develop the project, the group will have to consider ways of raising additional capital, though it could decide to dilute its stake to as low as 9%

Merton Black, analyst at Ivor Jones Roy, says he believes the project has a good chance of succeeding He also believes Rhoex's share has a current cash value of roughly 73c, excluding any future value of the Natal mineral sands project On that basis, the share may not be overpriced, but purchases at higher levels — based on the potential of the mineral sands — would be speculative

Andrew McNulty

Plate Glass cuts debt, halves interest costs

183

S/Times (Bus. Times) 16/6/91.

By JULIE WALKER

THE HIGHLIGHT of Plate Glass & Shatterprufe's results for the year to 1991 was the R202-million reduction in borrowings which sliced gearing from 78% to 40%.

This led to a halving of the interest bill to only R28-million, and a down-the-line improvement in earnings of 15% to R67-million

Earnings a share reached 408,9c and the dividend was held at 222c

Turnover fell by more than a quarter to R2,3-billion, mainly because of disposals The group, which has pioneered entry into foreign markets, adopted a programme in the past year with three broad objectives

It sought to redefine its international activities in automotive glass replacement, to focus on Glass SA and PG Bison in South Africa, and to reintegrate the glass and wood divisions under the sole chairmanship of Ronnie Lubner

His brother Bertie, formerly joint chairman, is to reduce his executive duties after 40 years of involvement and retains the chair of pyramid holding company Placor

Ronnie Lubner says the group is satisfied with the results given the tough trading conditions The SA operations held up and contributed 54% to the bottom line on 64% of the group's business

Perfectly

It was a different story abroad Plate Glass's investments range from the thoroughly mature and dominant automotive glass replacement operations in Britain to the bare bones of offices in America

The contribution from the foreign operations tends to improve with age

In June last year the group bought the automotive glass replacement networks of Saint-Gobain in Germany and France and at the same time sold its UK building-glass business to that group

The Australian timber and board distribution networks and the UK-based timber trader Interwil were also sold Since the March yearend, the Australian building glass business has been sold and Pilkington Australia's autoglass replacement and consumer glass business bought

Completing the rationalisation will be the sale of SA's Interwil hardwood interests and other European timber trading activities

Mr Lubner says the Saint-Gobain deal was perfectly timed from the Plate Glass point of view

Plate Glass dominates in autoglass replacement in Britain because it has established relationships with fleet managers and insurance companies and perfected an efficient and reliable administration system to keep costs down

About R20-million will be spent on upgrading the electronic marketing system this year alone

Mr Lubner says the group is well established in the Benelux countries and not too badly in France, but Germany is almost a virgin market

"Germans automatically go to the dealer through which they bought their vehicles if they need glass replaced in the belief that original equipment will be fitted It will take time to gain acceptance for such a chain as ours"

Plate Glass is active in parts of Italy and Portugal America is also relatively new and so far disappointing territory The Australian arm had a dreadful year

Plate Glass has 630 outlets outside SA, all in the same line of business but at differing stages of development The branches give access to more than 400-million vehicles As acceptance is gained and market shares grow, the bottom line will benefit

Mr Lubner says there is a link between distance driven and glass broken As the world comes out of the economic downswing and more travelling is done, demand for glass will rise

RONNIE LUBNER More driving means more broken glass

Probe into industry control

Political Staff

THE ANC has investigated the nationalisation of the pharmaceuticals industry and is considering the iron and steel and building materials industries for possible state control

ANC economics spokesman Mr Khetso Gordon brought the controversial issue back into debate at an ANC media briefing for parliamentary journalists at the weekend when he announced that the organisation had identified the pharmaceutical and iron and steel industries for possible state control

The ANC, he said, had already conducted a feasibility study into creating a state-controlled pharmaceutical utility

It is believed that the ANC is also considering nationalising other industries which provide, or are involved in the provision of, basic services such as health, housing and electricity

The route the ANC is most likely to favour for the pharmaceutical industry is the formation of a new body within the state Health Department to sell basic generic drugs required for primary health care — 160 of which have been identified by the World Health Organisation

Natref to undergo R400m upgrading

(183)

B|Day 18/6/91

ZILLA EFRAT

SYNFUELS giant Sasol has announced a R400m upgrading programme for the Natref oil refinery in Sasolburg to increase its production capacity and enable it to process a much cheaper and heavier crude oil slate.

Making the announcement in Johannesburg yesterday, Sasol MD Paul Kruger said the upgrading would substantially increase Natref's refining margin and the profit contribution of crude oil refining by more than 25%

Natref, in which Sasol has a 64% stake and French-owned oil company Total the balance, would finance the upgrading itself through equity and loans

According to Sasol, Natref is SA's most modern crude refinery and the new investment aimed at ensuring it remained one of the world's most efficient refineries.

The upgrading project would allow Natref to supply more products to other local oil companies under existing agreements

It would also enable Natref to produce up to 90% white products like petrol, diesel and jet fuel from each barrel of crude This compared to the 65% to 70% produced by conventional oil refineries

In addition, Natref would be able to produce more than 50% lead-free petrol, if required, when the project was completed in the second half of 1993

The refinery flow-scheme also allowed for process adjustments which could increase lead-free capability to over 80%

Allowance would be made for the future production of low sulphur diesel

State-of-the-art technology would be used and extreme care would be taken to conform to environmental regulations

Kruger said "Apart from the immediate increase in the refining margin, the flexibility to process heavier, cheaper crudes will be a valuable asset when our choice of available crudes increase"

The price differential between light, low sulphur crude and heavier, high sulphur crudes had increased substantially

The announcement comes in the wake of other major expansions at SA refineries Engen expects to spend R1,5bn expanding its Durban-based Genref refinery and Caltex's Milnerton refinery is due for a R240m upgrading and expansion programme Shell and BP are examining refinery expansion programmes

Soekor's long search 'has come to nothing'

(183) LINDA ENSOR Bday 18/6/91

CAPE TOWN — Soekor's oil exploration activities will be "dramatically curtailed", says a report in the latest issue of Cape Business News

No official comment on the report was forthcoming yesterday as Soekor's chief executives were away on what is believed to be a visit to Mozambique.

But it is understood that while a few of Soekor's oil rigs will be closed, the corporation is getting involved in other, compensatory activities and that no retrenchments will be necessary

The report says Soekor's oil finds have not been sufficiently large to be viable and that the dream of discovering oil off the SA coast has come to nothing

Cape Business News says that only one of Soekor's three oil rigs, the Omega, will be retained

"Over the last six years Soekor has found almost nothing — at a cost of over R1bn and more than a hundred exploratory wells," says the report

It says that the Nymphea rig is being fitted with a top drill in the hopes that it can be put out to charter, but that both North Sea and Australian operators have turned down the offer The Actinia rig has been converted into a "flotel" housing workers on the Mossgas platform

"Once this task is completed towards the end of the year, the Actinia too will disappear from SA waters," Cape Business News says

"The replacement of one or more of the rigs currently under contract is one of many alternatives we are investigating to investigate certain deeper water areas," Cape Business News quotes a Soekor spokesman as saying

ABI chairman recalls 'two lucrative steps' 183

B/Day 18/6/91

MARCIA KLEIN

THE private placing in 1987 of about 11-million Amalgamated Beverage Industries (ABI) shares and the company's subsequent listing on the JSE were two of ABI's most notable recent achievements, chairman Pete Lloyd said in the company's annual report

These two steps had been lucrative "and promise to bear more fruit in the future" He said ABI shareholders who had held their shares since 1987 had been rewarded with a 13,5-fold (15-fold at yesterday's close) increase in value A substantial amount of ABI shares are held by staff and smaller dealers

After easing off from its yearly high of 1 600c achieved this month, the ABI share closed yesterday at 1 505c, more than double its yearly low of 750c at this time last year

Lloyd said the ABI share had "earned a firm footing among the blue chips on the JSE and enjoys one of the highest ratings"

ABI achieved an earnings growth of 25% to 53,7c a share in the year to end-March on a sales volume growth of 5% and a turnover rise of 19% to R884m

He said the soft drink industry was dynamic and opportunities for volume growth still existed

MD Alex Reid said indications were encouraging for the new 1,5*l* PET returnable plastic bottle introduced in a test market — the second country after Germany to introduce it

This bottle would boost sales "in a fashion similar to the 1*l* glass bottle introduced in 1970". The 1*l* glass bottle dominated the market

He said the development of the informal sector of ABI's markets remained a focal point of the marketing thrust during financial 1991

Natref upgrade could boost earnings 25%

Star 18/6/91

By Derek Tommey (183)

Natref, the oil refinery at Sasolburg which is owned by Sasol (64 percent) and Total (36 percent) is to spend R400 million upgrading its plant

Announcing this last night, Sasol's managing director, Mr Paul Kruger said the upgrading will allow Natref to process a much cheaper and heavier crude oil

The resultant cost savings on the purchase of the crude oil together with the greater efficiency expected in the refining process should increase Natref's crude oil refining profits by more than 25 percent

Flexibility

Sasol had decided on this project to supply more product to the other local oil companies under existing agreements and also use the opportunity to increase the refining margin

"Apart from the immediate increase in the refining margin, the flexibility to process heavier, cheaper crudes will be a valuable asset when our choice of crudes increases"

Paul Kruger looking at other prospects

The price differential between light, low sulphur crudes and heavier high sulphur crudes had increased substantially in the past few years

Sasol expected this price differential to increase even further during coming years owing to the more rigid product specifications and the relatively lower international reserves for light sweet crudes

Mr Kruger said the decision to go ahead with the upgrading was not linked to the Government's plan to give substantial tax concessions to new projects aimed at stimulating exports

But Sasol was looking at other prospects where it had a competitive advantage and in the near future could announce projects whose viability would begreatly increased by the new scheme

Technology

The upgrading at Natref should be finished at the end of 1993 No contracts for the plant have been awarded yet, but a large part of the R400 million will be spent in South Africa

This will be good news for the local steel and engineering industry and also construction industry which is suffering fairly severely from the recession

Mr Kruger said that Natref is the most modern crude oil refinery in South Africa and its white product (petrol, paraffin, jet fuel and diesel) yield from crude oil ranks among the highest in the world

The upgrading will give Natref the ability to produce up to 90 percent white products from a barrel of crude oil This compares with the 65 percent to 70 percent attained by a conventional crude oil refinery

Once the upgrading programme is completed Natref will be able to produce more than 50 percent lead-free petrol if required However, Mr Kruger did not see any immediate need for lead-free petrol in South Africa

He said that Los Angeles, where pollution from car exhausts is a major problem, had more cars than the whole of South Africa At this stage he believed the country's priority should be to reduce the financial load on the motorist than to make him pay more for lead-free petrol

The upgrading will also enable Natref to produce low sulphur diesel if needed

Mr Kruger said that state of the art environmentally friendly technology will be used and extreme care will be taken to conform to environmental regulations

Poor outlook for AECI

Bday 18/6/91.

ZILLA EFRAT

ANALYSTS expect AECI's interim earnings, which should be announced towards the end of July, to be down on last year after the chemical giant experienced no improvement in market conditions (183)

They say AECI will have ~~been af~~fected by dampened demand because of the downturn, lower international prices and poor conditions in the agricultural and mining sectors in the six months to June

Deteriorated

But AECI has also been looking hard at its cost base and aligning its operations to match different circumstances in its diverse markets

While forecasts vary, most analysts believe that interim attributable earnings could fall by more than 10% and that earnings for the full year will be lower than last year

Last year, AECI's earnings were down 13% at the halfway stage and 24% for the year after market conditions deteriorated further

However, analysts believe AECI will bounce back strongly in the 1992 and 1993 financial years when economic conditions pick up

They view the group, which sells into most sectors of the economy, as being soundly managed but feel it has been affected by cyclical international and local conditions

Some are concerned about AECI's high stock levels which could dent margins and boost the interest bill But an analyst says AECI has a satisfactory cash flow and gearing and could benefit from a lower tax rate this year

One analyst expects subsidiary Chlor Alkali and Plastics to produce lower earnings and turnover in the current year

While local prices of this subsidiary's major products, PVC and Polyethylene, have generally been insulated from a collapse on the international front, declines in volumes and prices have been recorded

It is also experiencing sluggish demand from the mining sector

Cutbacks in the mining sector are also expected to affect the explosives business However, the fertiliser operations could show a meaningful improvement

The analyst says domestic demand for SA Nylon Spinners' products have improved, but cheap imports remain an impediment

Volumes and margins are expected to be maintained through increased exports and lower input prices

Subsidiary

The plastic conversion operations face weak demand and have been affected by strikes at customers

AECI's paint sector is expected to benefit from rationalisation and a real growth in attributable earnings is forecast by some for listed speciality chemical subsidiary Chemical Services, which improved its earnings by 20% in 1990

The share closed at 1 405c a share on the JSE on Friday, almost midway between its yearly peak of 1 800c this time last year and low of 1 025c in November

Gas strike off Mossel Bay

CT 20/6/91

183

Own Correspondent

JOHANNESBURG — State exploration company Soekor has struck "very encouraging" gas wells off the Mossel Bay coast.

The field is estimnated to contain reserves of 500 billion cubic feet of gas

Making the announcement yesterday, chairman Mr Danie Vorster said Soekor's future activities would be directed towards developing a commercially viable production project in the area

He added that Soekor would, in the next few months, start drilling well-defined areas off the West Coast where larger strikes than those to date were expected

He said the gas find 110km south-east of Mossel Bay and about 42km south-east of the Mossgas platform had yielded flow rates of 31,4 million cubic feet of gas and 144 barrels of condensate per day — believed to be one of the highest yields yet discovered by Soekor

"As is always the case in such discoveries further drilling and evaluation is required to determine the extent of the reserves and economic viability Soekor is currently also testing very encouraging oil and wet gas shows about 100km south of Mossel Bay"

Disclosing for the first time the total reserves struck by Soekor in the Bredasdorp Basin off the southern coast since 1986, Mr Vorster said that, excluding the FA and FM fields earmarked for the Mossgas project, reserves were estimated at 200 million barrels of oil as well as 700 billion cubic feet of gas spread over several fields

With the addition of the estimated 500bn cubic feet recently struck, total gas reserves amount to 1,2 trillion cubic feet — equal to about 10 months' gas output from the North Sea fields

"Engineering studies are in progress to determine the feasibility of producing some or all of these fields by means of a floating production facility," Mr Vorster said, adding that exploration activities in the Bredasdorp Basin would now slow down and emphasis would be given to commercial production

Because the fields were all small, a floating production system would be cheaper and quicker to get into operation

He said the services of only one semi-submersible rig would be required for further drilling and testing

Regarding the West Coast, certain well-defined large structures would be drilled and tested and were expected to contain larger quantities of oil than the smaller fields already discovered in the Bredasdorp Basin

Mr Vorster said Soekor planned to release two of its semi-submersible rigs, the Nymphea and the Actinia, because of the changed nature of its programme

The third, the Omega, would drill one West Coast well, but the others lay too deep and a drillship would have to be leased

The Actinia is being used temporarily as a Flotel for the hook-up and commissioning phase of the Mossgas platform

"In the light of changed circumstances on the international front, the leasing of custom-designed drilling platforms on the international market has become easier for SA, which makes it less essential for Soekor to have its own platforms"

Mr Vorster said the revised exploration programme and the delayed arrival of a deep-water drillship would impact on the planned level of expenditure by Soekor this financial year

"It is now expected to be lower than the actual expenditure last year, but depending on the success achieved on the West Coast, drilling activities could increase again to previous levels"

● Cape Business News said in a recent report that Soekor had found "almost nothing over the past six years — at a cost of over R1 billon and after more than a hundred exploratory wells"

The report said the Nymphea had been fitted with a top drill in the hope that it could be chartered, but North Sea and Australian operators had turned it down

Outdated laws 'keep health costs rising'

183

CT 20/6/91

Political Staff

THE cost of health care in South Africa has increased by more than 350%; more than 40% higher than the Consumer Price Index (CPI), in the past eight years because of outdated legislation and creeping monopolism in the medication industry, says Deloite Pim Golby health-care specialist Mr Greg Candy.

Research he had done into the pharmaceutical and medical industry had given strong credence to the ANC position that primary health care was far too expensive, Mr Candy said.

"In the pharmaceutical industry, for example, a handful of manufacturers and wholesalers, along with 6 000 dispensing doctors, have a vested interest in maintaining the high cost of medication

"Generic substitution, which would have the effect of reducing an over-regulated industry, is heavily restricted," he said.

The ANC said at the weekend that they were investigating generic substitution for ethical drugs with a view to the state's producing 160 drugs identified by the World Health Organisation as necessary for good primary health care.

Mr Candy said South Africans were spending 350% more on health care than in 1983, which was "considerably more than the CPI increase of 250% over the same period".

He said local health care was not cost-effective because restrictive laws protected monopolies.

Similarly, the fee-for-service system kept the cost of consultations "immune" to influences of the market system, like supply and demand.

He said the industry needed restructuring to allow consumers and providers of cost-effective health care to benefit, rather than private hospitals, doctors and research-based multinationals.

In this way drug retailers could have greater influence on manufacturers, especially if they consolidated their "purchasing muscle" and this in turn would benefit the larger wholesaler who could be the vehicle for consolidating retail purchasing power.

SA Druggists surge sets off Fedvolks speculation

B/Day 20/6/91 (183)

SEAN VAN ZYL

SOUTH African Druggists' share price climbed 18% to 230c on the back of strong buying this week, sparking market rumours that controlling shareholder Federale Volksbeleggings (Fedvolks) may be reducing its interest

While Fedvolks MD Peet van der Walt was not available for comment yesterday, a spokesman said that Sanlam's industrial holding entity had no intention of selling off its 68% stake in SA Druggists

"SA Druggists is one of the cornerstone investments held by Fedvolks, and we have no plans for the company at this stage"

Discounting the current speculation surrounding SA Druggists, the Fedvolks spokesman admitted trade in the share was restricted due to Fedvolks's present hold on the issued share capital He added that selling part of Fedvolks's holding had already been considered — to increase SA Druggists' share marketability — but that it was not a serious option at present

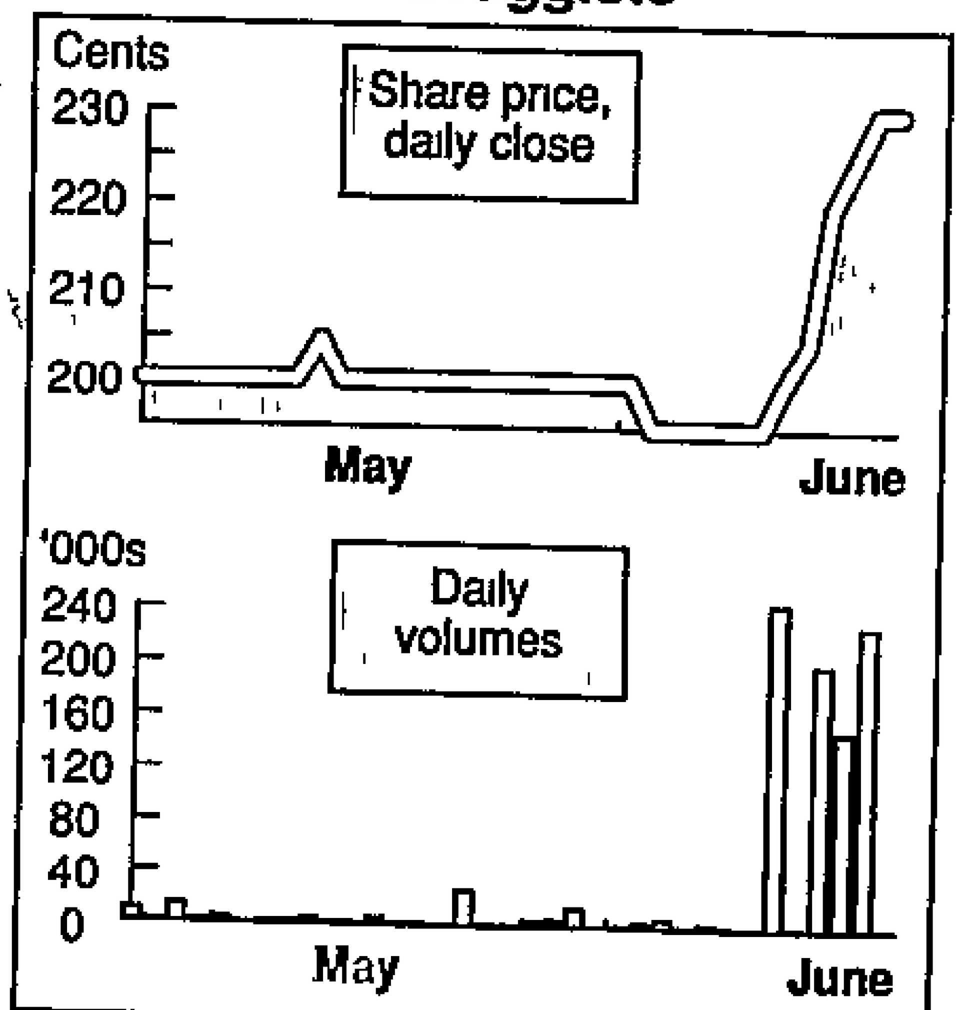
While the pharmaceutical and medical sector was prime for rationalisation, with Fedvolks keeping its eye open for potential acquisitions, the spokesman said no takeovers or mergers involving SA Druggists was on the cards

SA Druggists executive director Lou Morris said there were no developments under way which could have boosted the share price "We are very interested in finding out who the buyers are ourselves"

Market analysts said this week's unusually high trade likely resulted from portfolio reshuffling by financial institutions

Fedvolks's holdings include Fedfood, SA

SA Druggists



Graphic FIONA KRISCH Source I-NET

Druggists, Interleisure, Priceforbes, Avis, Teljoy, Interpark, Fedics and motor component companies

Fedvolks is restructuring its different divisions, as was evidenced by the recent management buyout from the group of Acoustical Fibreglass Insulation (AFI), the selling of Tek Appliances to Sankorp, Febisco to the Royal group and the Massey-Ferguson franchise to Boeresake

All Fedvolks firms reported "stable" earnings so far this year, said the company, except SA Druggists and Avis Rent-a-Car Van der Walt stated at Fedvolks's year end to March, which saw earnings come in 30% higher, that SA Druggists' and Avis's profits were lower than expected

FM 21/6/91

TWINS (183)

IN TRANSITION

Activities: *Manufactures, markets and distributes pharmaceuticals, animal health, visioncare and consumer products*
Control: *Premier Group 50,1%*
Chairman: *A Krok, CE P S Nortier*
Capital structure: *98,1m ords Market capitalisation R270m*
Share market: *Price 275c Yields 5,8% on dividend, 11,9% on earnings, p e ratio, 8,4, cover, 2,1 12-month high, 275c, low, 140c Trading volume last quarter, 558 000 shares*

Year to April 1	'89	'90	'91
ST debt (Rm)	54,5	79,0	60,5
LT debt (Rm)	17,4	16,0	15,9
Debt equity ratio	2,02	1,04	0,65
Shareholders' interest	0,24	0,32	0,43
Int & leasing cover	4,1	4,0	5,1
Return on cap (%)	31	28	33
Turnover (Rm)	426	492	493
Pre-int profit (Rm)	76	83	82
Pre-int margin (%)	17 8	16,9	16,6
Earnings (c)	36,1	41,3	32,8
Dividends (c)	14,0	16,0	16,0*
Net worth (c)	65	104	109

* After extraordinary item

The period of transition from a family run firm to a professionally managed operation is often characterised by uncertainty and change Twins is no exception, but there are grounds for believing that the adjustment period will be short, with profit growth restored in financial 1992

Premier has shareholding control of Twins The decision of the founders, brothers Abe and Solly Krok, to relinquish management control after 40 years at the helm, gave professional management the scope to refocus the group.

A number of businesses were sold, certain operations curtailed and product lines cut This, with the legislative ban on skin lighteners as well as industrial action, caused turnover and operating profit to languish in relation to those of the 1990 year Effects were most keenly felt in the latter half — turnover fell 5,1% and the operating margin slipped from 16,8% to 15,6%, causing operating profit to tumble 11,6% compared to the year-ago period But the rationalisation of the group makes comparisons awkward, management reports a 16,9% turnover rise from existing operations for the full year

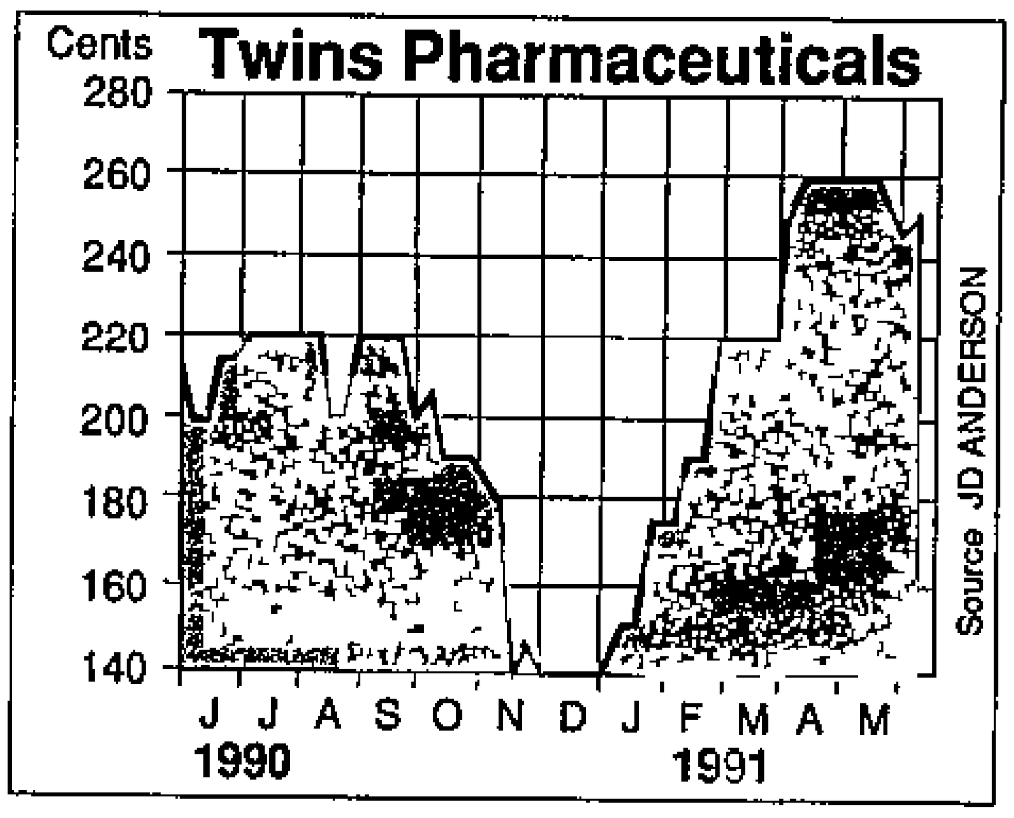
Divisional contributions to turnover have been revealed for the first time The consumer division (haircare, deodorants, skin care) provided 36% of turnover, pharmaceuticals 33% — as well as the major share of profit — visioncare (optical lenses, spectacle frames, instruments) 12% and animal health 19%

This year, the pharmaceutical division is again expected to see real sales growth and will remain the group's major profit contributor. The consumer division's performance is more closely aligned to general economic trends and, though its performance is expected to be stable, new skin complexion products will require additional promotional expenditure

Despite "fierce competition" in the vision-

Continue

FM 21/6/91 (183)



care field, financial director Bob Garnett says the performance of this division should remain steady Sales of animal health products are tied to the fate of agriculture, but Garnett expects the benefits of recent rationalisation measures to flow through this year

Along with the new management structure came an improvement in the group's financial position Interest-bearing debt fell by about R22m, the debt equity ratio looks healthier at 0,65 and interest and leasing cover has improved The resulting fall in interest costs enabled an improvement in pre-tax profit

Garnett reckons the possibility of reducing interest-bearing debt and interest costs further this year are "excellent " This, he says, will be a spin-off of improved profitability emanating from the trimmed-down organisational structure, its improved ability to respond to change and the greater focus and better motivation of the work force and management

Phil Nortier, who moved from his position as pharmaceuticals director to CE in October, after 16 years with the group, supports this in the annual report — he is confident real earnings growth can be achieved this year

Twins' share price (and market rating) remains dismal relative to that of its major competitor, Adcock Ingram The group's historical earnings yield of 11,5% and dividend yield of 4,5% compare to Adcock's 3,2% and 1,1% It seems potential investors are waiting for the interims to see if the new management is indeed steering the group in the right direction

Pam Baskind

MACPHAIL FM 21/6/91

LIQUIDITY RISING (183)

Earnings grew by 22% last year, but this was thanks to effective management of assets rather than the trading result Turnover again showed strong growth, with an increase of 38%, but the operating margin tightened considerably and pre-interest income was up by only 10,2%

CE Sid Weintroub is expecting continued pressure on margins during this year, which suggests the group will be looking increasingly to income from its liquid investments to help maintain the growth At year-end, the total borrowings of only R730 000 were matched by cash of R19,5m, which had increased by R6,8m during the year

A R5,3m reduction in working capital was the main reason for the larger cash balance Stock and debtors were well controlled, while creditors rose by R9,2m, or 46% Additional investment in fixed assets was minimal — the only significant item was an acquisition for R1,9m — and net interest income rose to R1,8m from the previous year's R1,3m

Chairman Terry Rolfe notes that during 1990, the group opened or acquired four additional distribution points to further its aim of establishing a nationwide distribution network, which is to include southern Africa rather than just SA

Weintroub, discussing prospects for 1991, says inflation and a weak economy will make for a challenging year However, he says the expanded depot network and the expected improvement in the metallurgical industry, coupled with a cost reduction programme, will all "contribute positively "

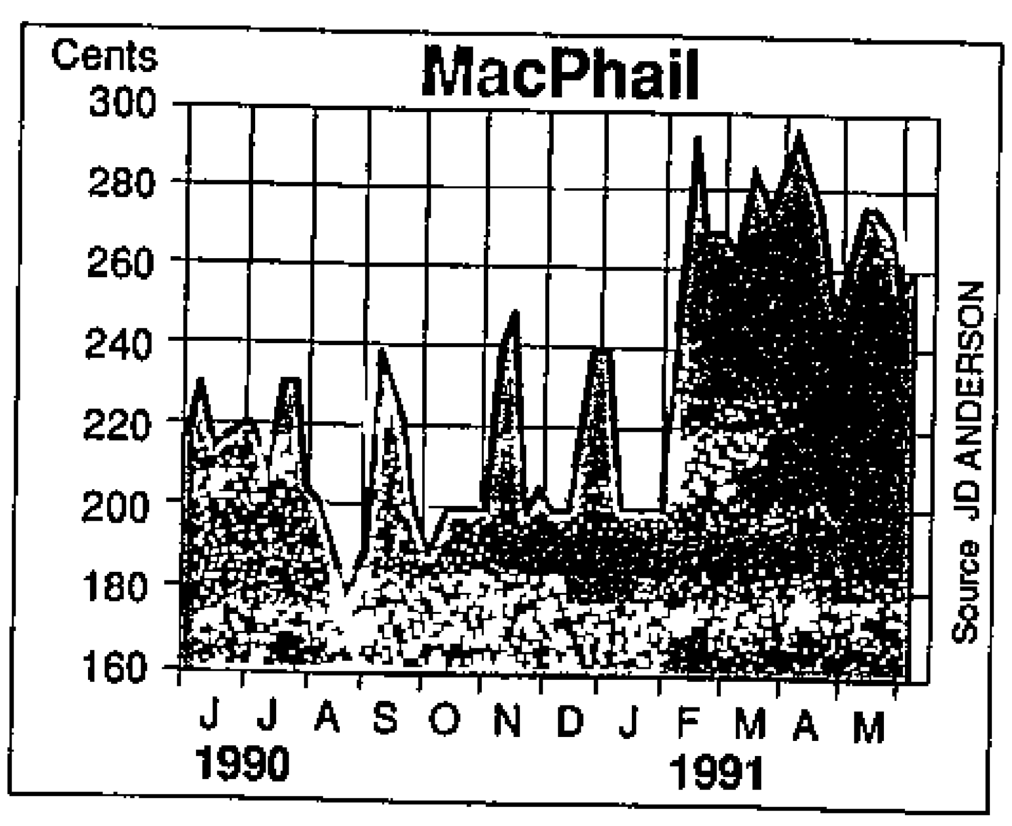
He reckons tighter margins due to intense competition resulting from the weaker economy will be offset by cost control and improved service On the assumption that operating conditions are stable, Weintroub is forecasting EPS will increase, though he does not indicate the rate of increase

The share price has risen spectacularly over the past three years, having increased from 20c in mid-1988 to the present 265c Turnover more than doubled over the period, but profitability remains high, with return on equity at 49%, though the return on total assets slipped last year from 24,1% to 20,6% — largely because of the weaker trading result

The thinner operating margin, which resulted partly from what Weintroub describes as an aggressive marketing and sales programme, is obviously cause for concern He says the group embarked on a strategy to accept lower margins in an effort to acquire a larger share of a declining market, he says this process has now run its course

However, the group appears to be well managed, with potential for long-term growth in earnings and dividend The share still offers an interesting investment at the present price

Andrew McNulty



Activities: *Distribution and marketing of solid fuel*
Control: *W&A Investment, ultimate holding company is FS Group*
Chairman: *T Rolfe, Deputy chairman and CE S Weintroub*
Capital structure: *14,2m ords Market capitalisation R38m*
Share market: *Price 265c Yields 7,2% on dividend, 19,1% on earnings, p e ratio, 5,3, cover, 2,7 12-month high, 295c, low, 175c Trading volume last quarter, 265 000 shares*

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	0 20	0 60	0,04	0 06
LT debt (Rm)	0,20	0 20	0 20	0 67
Debt equity ratio	n/a	n/a	n/a	n/a
Shareholders interest	0,40	0 35	0 33	0 30
Int & leasing cover	35 2	n/a	n/a	n/a
Return on cap (%)	16,2	19,5	24,1	20,6
Turnover (Rm)	68	100	153	212
Pre-int profit (Rm)	2,8	5 1	9 2	10,1
Pre-int margin (%)	4,0	5,1	6,0	4,8
Earnings (c)	15,6	26,5	41,5	50,5
Dividends (c)	7,0	11,0	16,5	19,0
Net worth (c)	62,4	66,5	83,8	102,8

BUSINESS

How R240m will be raised 183 Caltex

B/Day 25/6/91

LINDA ENSOR

CAPE TOWN — The R240m which Caltex Oil (SA) is to spend on upgrading and expanding its refining capacity is to be financed out of locally retained earnings and from the SA operation's own financial facilities, chairman Jock McKenzie has said in an interview.

Offshore loans would be negotiated depending on the prevailing interest rates, but he discounted rumours that financing the project had played any role in underpinning the financial rand recently

McKenzie said the precise package of retained earnings, loans and the use of supplier credit from Caltex's raw material suppliers had not been decided

The net effect of the planned development programme would be to improve petrol yields by 2% and diesel, jet fuel and paraffin by 1% In rand terms this represented additional earnings of about of R9m annually

B/Day 25/6/91

Expansion

The aim was to improve yields by producing more high-margin products such as petrol, jet fuel, diesel and paraffin and less low value fuel oil like that used in shipping Also, the losses of fuel in the refinery would be cut back

McKenzie said the expansion programme, due to be completed by the end of 1992, was necessary because the SA oil industry had for some time been running at full capacity and had had to import certain refined products

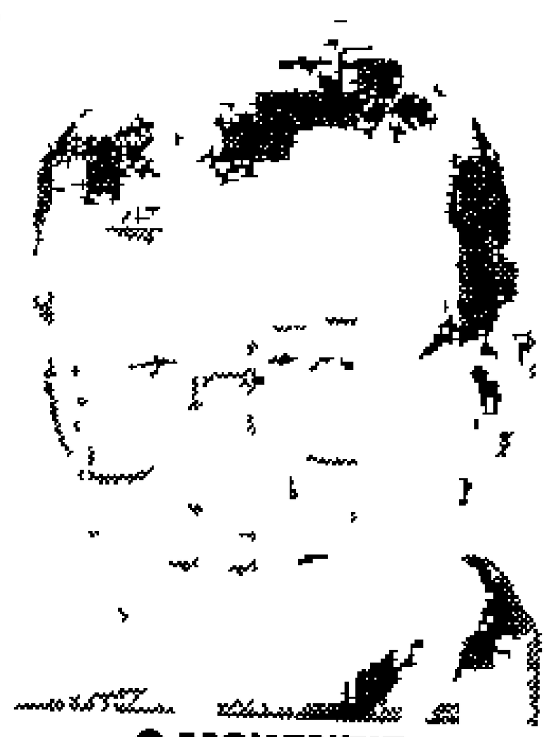
Other refiners have also announced expansions

Sasol is to spend R400m on upgrading the Natref refinery and Genref (Mobil) is also reported to be spending about R670m on upgrading and expanding capacity with possible expenditure of R1,2bn later

McKenzie said that R80m of the R240m had already been spent on installing controls in the refinery

Due for completion by next year was a R60m catalytic polymerisation plant for the manufacture of high octane petrol from the gas by-product of the refining process which in the past was either sold to Kynoch as liquid petroleum gas or used in the refinery's firing furnaces

About R100m of the expansion budget would be spent on restarting and modernising Caltex's second crude unit and catalytic cracker which was built in 1976 on the basis of projections of strong local demand, but developments lead it to be mothballed in the early 1980s



● MCKENZIE

Bringing the plant on stream will increase Caltex's capacity by 70%

However, a fairly high proportion of the additional capacity will remain unused for some time Given the fact that other refiners are planning additional capacity, and that in the regulated environment of the local market, market share tends to be fairly constant, it is likely that this extra capacity would be directed at markets elsewhere in Africa

"We are very well placed economically to access a lot of African countries and the Indian Ocean islands, but the problem once the political situation has been resolved will be the ability of these countries to pay," he said

McKenzie conceded that SA refiners would be competing in Africa with their Middle Eastern counterparts but added that they should be able to compete at current prices and still maintain reasonable margins

He was reasonably optimistic about the growth in local demand for petrol

OMNIA Fm 28/6/91 (183)

STATIC MARKET

Activities: *Manufactures and markets fertiliser, explosives, chemicals and seed*
Control: *Winkler family 26%, Anglo-Alpha 26%*
Chairman: *R K J Winkler, MD N J Crosse*
Capital structure: *38,8m ords Market capitalisation R140m*
Share market: *Price 360c Yields 8,3% on dividend, 20,3% on earnings, p e ratio, 4,9, cover, 2,4 12-month high, 360c, low, 230c*
Trading volume last quarter, 402 000 shares

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	34,6	46,2	46,2	40,6
LT debt (Rm)	37,1	42,1	37 1	27,8
Debt equity ratio	1,50	1,16	0 99	0,63
Shareholders interest	0 30	0,36	0 48	0,58
Int & leasing cover	2,06	2,36	2 58	2,31
Return on cap (%)	11,2	14,2	19,2	17,8
Turnover (Rm)	181	242	336	381
Pre-int profit (Rm)	20,1	29,8	48,1	49,2
Pre-int margin (%)	11,1	12,3	14,3	12,9
Earnings (c)	25,5	43,6	66,6	73,2
Dividends (c)	5,0	15,0	26,0	30,0
Net worth (c)	148	178	215	261

Only minimum information about Omnia's activities is revealed in its annual report

The document appears to be primarily a PR exercise aimed at the group's customers, the farmers, rather than at its shareholders — or are they one and the same? Still, having sifted through the "trials and tribulations" facing the "reeling" farming sector, it is encouraging to find that the group overcame these problems and its prospects for 1991 are encouraging

Omnia's fortunes remain tied to the fertiliser industry, despite its diversification into explosives, chemicals and seed MD Neville Crosse confirms the group has a 25% share of the domestic market and that about 90% of profits originate from this source

But the domestic market has shrunk — by 6% in 1990 alone and by 40% over the past decade — and competition is keen The stability in the market controlled by Omnia and its giant competitors, Kynoch and Sasol, was disrupted early in 1990 by the entry and rapid exit of Agriland Prices were cut and margins narrowed

Turnover rose by 13,2% in 1990 despite a delay in fertiliser sales — because of late rains in the maize producing areas — and the extension of the season into this financial year

p

Fm 28/6/91 (183)

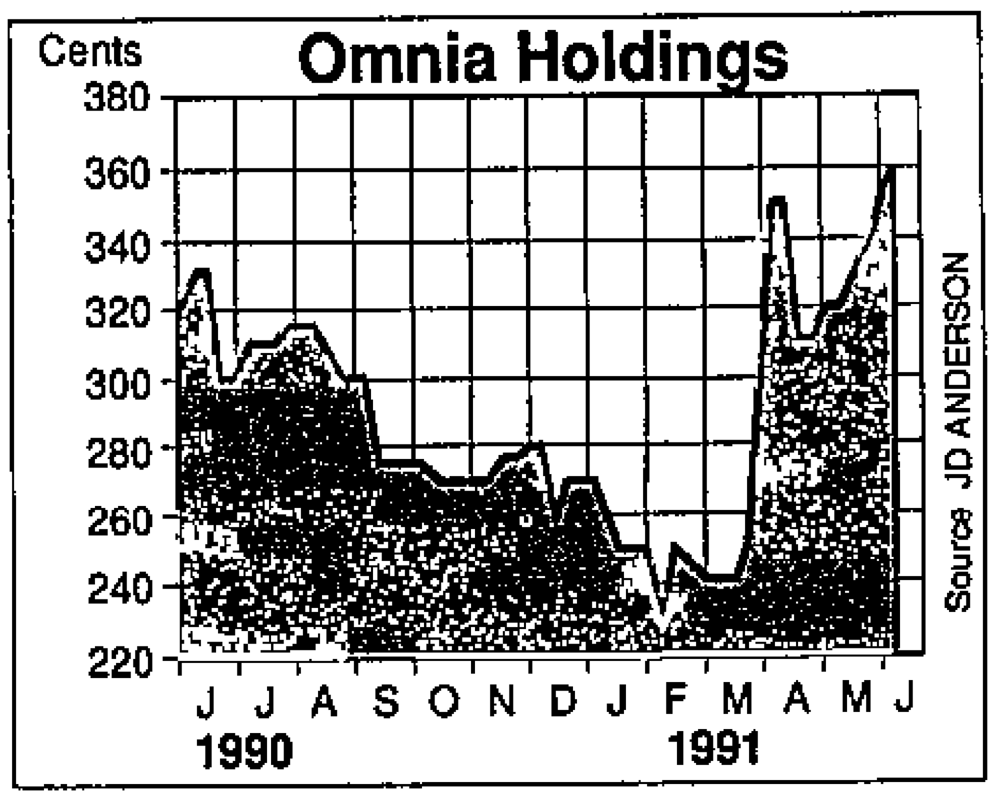
However, a fall in the operating margin from 14,3% to 12,9% and higher financing costs pushed pre-tax income below that of 1989 With no tax payable the group was able to show an increase in attributable earnings

There was also a R645 000 profit on the sale of a Cape wine farm, which was treated as an extraordinary item

The delay in sales meant the group had to hold stock and maintain a higher level of debtors for an extended period This caused the interest bill to climb from R18,6m to R21,3m By year-end, interest-bearing debt was well down on the previous year and there was a cash balance of more than R5m Crosse is confident Omnia will be close to its target debt equity ratio of 0,50 by the 1991 year-end

Export markets

This year's outlook looks promising even though the domestic fertiliser market remains static Crosse hopes access to profitable export markets, particularly in Africa, will improve and provide sales growth Efficiency and productivity gains at the production level are also expected to assist in boosting profit



Omnia's developing divisions, Bulk Mining Explosives (BME) and Omica Trading, which produced good sales and profit growth last year, are again expected to perform well BME sells explosives to opencast mining operators — iron ore, coal, platinum and uranium — and will spend R10m on new plant this year

Omica Trading is the group's export arm for all its products and facilitates grain transactions for an international commodity trader Sales into Africa in 1990 were about R40m and these are expected to accelerate as new opportunities arise

Crosse says Carnia Seed, which develops and markets seed adapted to SA conditions, has increased its turnover tenfold in the past three years

It is expected to break even for the first time this year And with Omnia's 13 000 ha farming operation also profitable, the group looks set to meet its stated financial objective of EPS growth of 6% in real terms this year

On that basis the share, yielding 8,3% on dividend, may have some further growth potential *Pam Baskind*

MANUF. — CHEMICALS & PRODUCTS

1991

JULY ~~AUG~~ — DEC.

ICI research strategy waits on Hanson axe

Star 11/7/91 (183)

How does a company, or an industry, get value for money from its spending on research and development?

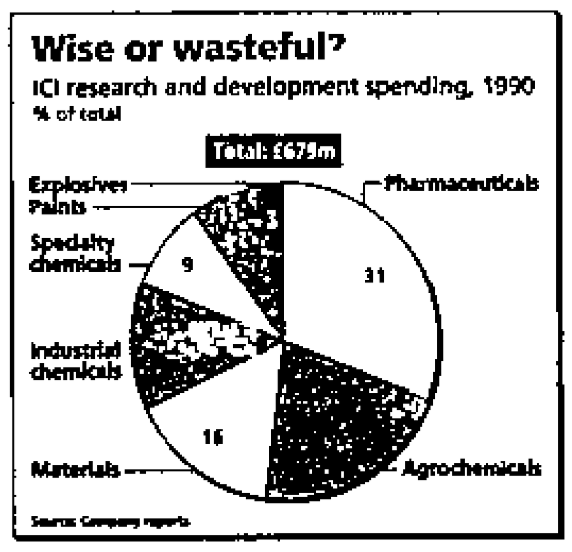
The question is unusually topical in Britain just now Bid or no bid, ICI is hurriedly drawing up its defence plan to fend off Hanson, which purchased a 2,8percent stake in the company, on May 14th The core of ICI's defence is that, as a research-intensive company, it could flounder in the hands of a predator that caters to the short-term interests of the stock-market and eschews research Look, says ICI we spent £679m ($1,2 billion) on R & D in 1990, on sales of £12,9 billion, Hanson coughed up a paltry £34m on sales of £7,2 billion But is ICI getting a decent return on its R & D investment?

Hanson thinks of R & D as just another business expenditure The size of a firm's R & D budget, it says, does not guarantee business success Scientists, like markting men, should be called upon to justify what they spend Such talk has appalled ICI and the rest of the chemicals industry

The world's top chemicals firms spend an average of around 5 percent of their turnover on R & D, which does not seen profligate when compared with the 7-8 percent average for electronics companies But averages are misleading Spending by individual chemical businesses varies widely Plastics and their feedstocks are capital- rather than research-intensive, they involve little R & D investment relative to their vast turnover Value-added drugs or farm chemicals, which have a far smaller turnover, receive much more In 1990 only 2percent of ICI's industrial-chemicals turnover was spent on R & D; for pharmaceuticals the proportion was 15percent

At one time chemists would invent simply by tinkering with molecules in the hope of a breakthrough The approach used to work well, producing nylon, polyethylene and other useful synthetic materials But by the 1960s the productivity of such haphazard research was beginning to flag

These days chemical companies reckon they run a tighter research ship Slimmer research outfits tailor inventions to customer needs, research programms are driven by the market. In 1981 ICI



disbanded its corporate research laboratory, decentralising responsiblity for R& D to the bosses of each of its business units The research plans of each business are then put to ICI's board

Chemicals companies still fret, however, that by being too commercially minded they may stifle the new ideas on which their future success depends As a result, companies are willing to accept waste in research — and that is why, they say, shareholders' short-term interests can sometimes conflict with long-term research aims Some of this spending, however, is hard to justify

ICI has long been admired for its skills in process engineering According to Peter Doyle, ICI's research director and a board member, one of the most recent successes in the area is in the making of ammonia, a fertiliser feedstock ICI's research boffins discovered a way to reduce by one-third the size of their ammonia-making facilities, a move that greatly increased efficiency A big R& D success, says ICI — in 1989 it built two plants based on the new technology

Yet all this investment looks odd Since the mid-1980s ICI's fertiliser business has been struggling Earlier this year the company announced the business's closure, the two ammonia plants are up for sale Few licences for the technology have been sold The cash poured into R&D looks wasted

In 1985 ICI paid $750 m for the chemical interests of Beatrice, mostly to get hold of its advanced-materials business Shortly afterwards, cuts in defence spending forced the aerospace industry to retrench Competition for the few aerospace contracts was fierce because many of ICI's rivals had also joined the advanced-materials bandwagon In 1990 ICI's advanced-materials sales reached around $500 m, but the firm is losing pots of money Meanwhile 16percent of ICI's R&D budget continues to be poured into its materials business Yet under the $300 m reorganisation plan ICI announced last February, advanced materials could be sold

The trouble is partly that ICI, along with other chemicals firms, lacks an effective system to encourage researchers and marketing people to talk to each other Hanson smugly says that one of the first things it did when it bought Ever Ready, a battery maker, was to sell the main research centre and put the remaining scientists nearer the marketeers In ICI, research and marketing men meet mostly in corridors

Otherl areas of research could also benefit from Hanson's touch Pharmaceuticals absorbs by far the biggest chunk — 31percent — of ICI'S R & D budget (see chart) But over two-thirds of that is spent not on innovation but on routine clinical testing ICI, along with the rest of the drugs industry, is now trying to find ways to cut its clinical costs

A sizeable part of ICI's remaining R & D budget goes towards supporting hundreds of biotechnologists who, the company says, provide all the scientific skills needed to innovate yet much of this know-how is available in the biotechnology boutiques that offer their services to the pharmaceutical industry One way to make corporate R & D departments more efficient would be to mke hem compete for company research contracts with such outside specalists So far, ICI and other chemical companies have been reluctant to do this

Mr Doyle admits that, despite ten to 15 years of endeavour, ICI pharmaceuticals has not come up with the novel products it needs ICI's diabetic drug Statil, for instance, had to be dropped at the 11th hour because clinical trials showed it to be better than a placebo Such disasters are commonplace in the industry But ICI now reckons that, like America's Dow an France's Rhône-Poulenc, it might have to find a partner to ensure continued success

Nobody yet knows Lord Hanson's precise plans for ICI. But it would be foolish to disqualify him simply because of his lack of research experience Smith Kine Beecham, one of Britain's biggest drugs companies, is headed by an ex-executive of General Foods, Bob Bauman

— The Economist

Irradiated foodstuffs safe, says department

(183)

Star 1/7/91

Irradiated food is nutritionally sound and safe for human consumption, says the Department of National Health and Population Development

A joint statement issued by the department, the SA Association for Food Science and Technology and the Association for Dietetics of SA said they considered food irradiated "up to an average absorbed dose of 10 kg" safe

This stance had been adopted in line with the policies of the World Health Organisation

The statement attempted to dispel reports that contaminated or questionable produce was being irradiated in order to make it acceptable

"Contaminated food cannot be disguised by irradiation The Department of National Health and Population Development does not permit foodstuffs, which are not suitable for human consumption prior to irradiation, to be irradiated," the statement said — Sapa

Nuclear-treaty somersault fuels power plan

WMail 5/7-11/7/91

183

Behind Pretoria's willingness to curb its nuclear-weapons industry is an aggressive plan to market nuclear fuel for civilian purposes.

By EDDIE KOCH

SOUTH Africa's new-found willingness to sign the Non-Proliferation of Nuclear Weapons Treaty (NPT) will help curb Pretoria's nuclear-weapons industry, but signals an aggressive government plan to market locally made nuclear fuel for civilian power stations on international markets.

President FW de Klerk's about-turn on the NPT last week — when he said South Africa was willing to sign it after years of resisting international pressure to do so — was designed to boost the country's ability to sell fuel rods for civilian nuclear-power stations, says Earthlife Africa nuclear expert Mike Kantey

"The treaty prohibits trade in nuclear weapons and allows non-civilian nuclear installations to be monitored by officials of the NPT," says Kantey. "But it does not affect the civilian programme, and South Africa's signing will certainly help it to sell nuclear fuel on world markets."

De Klerk's announcement follows an official Atomic Energy Corporation (AEC) report late last year that it was seriously investigating the possibility of exporting nuclear fuel from its processing plant at Valindaba, where fuel rods for use at the Koeberg nuclear-power station near Cape Town are manufactured.

AEC chief executive Waldo Stumpf said then that although there was a downturn in international sales of enriched uranium, prospects for export were expected to increase from the second half of 1990, when nuclear-power generation was expected to increase around the world.

The AEC's news followed a report from the state-run corporation stating that it was capable of meeting all demand from Koeberg for fuel rods

Until last year South Africa had relied on imported uranium fuel to power Koeberg's twin reactors — and the change-over reflected AEC's intention to enter the international nuclear market as an aggressive seller rather than purchaser.

"AEC invested more than R500-million to build its fuel-fabrication plant at Valindaba (near Pretoria) and the capital cost of the plant must have increased dramatically in the past decade," says Kantey.

"Ways have to be found for this to be paid back. There is a glut of uranium on world markets and a downturn in international sales of uranium since Chernobyl and the end of the Cold War So AEC is in a pickle. It needs a marketing campaign — and that is what the signing of the NPT is about "

Energy specialist Marc Gandar told *The Weekly Mail* that AEC's stepped-up production of nuclear fuel indicates the government has committed itself to a full-blown nuclear programme for civilian purposes, and the environmental hazards that go with it.

Eskom, which owns the Koeberg power station, last year announced it was planning to build a new nuclear-power station every five years, starting in 1995, as a means of supplying electricity to southern Africa.

Since then there have been talks with a number of neighbouring states about building large hydro-electric dams to supply the regional power grid and it is unclear if the nuclear scheme will go ahead

But Kantey and Gandar point out that little attention is being paid to alternative forms of generating energy that have less-damaging environmental impacts.

Kantey notes that Pretoria allocates just one rand for the development of renewable energy for every R1 000 it spends on nuclear research.

Earthlife and the Natal-based Society Against Nuclear Energy (Sane) believe solar energy and wind-generated turbines can provide renewable and environment-friendly alternatives to the coal-fired power stations that have turned parts of the eastern Transvaal into some of the most polluted zones on earth.

Foreign Minister Pik Botha denied the government's somersault on the NPT was motivated by a desire to accelerate the lifting of sanctions He reiterated De Klerk's claim that the cabinet had decided to sign the NPT because the world order and the military situation in southern Africa had improved.

De Klerk and Botha said Pretoria agreed with the Organisation of African Unity's principle that the continent become a nuclear-free zone. Negotiations had already taken place with several Frontline states to create a nuclear-free zone in southern Africa, Botha added.

When Pretoria signs the NPT, it will have to open all aspects of its nuclear programme to inspection by members of the United Nations' international Atomic Energy Agency — including its uranium-enrichment facilities and fuel-fabrication plants at Valindaba and Pelindaba

Kantey says the treaty will inhibit the ability to use enriched uranium developed at Valindaba or plutonium generated at Koeberg — both the vital elements of nuclear bombs — for military purposes.

"The treaty will impose an audit that will make it difficult to divert these fuels But it's a very leaky treaty and will by no means guarantee nuclear weapons won't be made here

"Recent experience in Iraq after the Gulf War has highlighted how easy it is to hide nuclear facilities for military use from monitoring officials."

Costs may halt rise in medical index

BDay 11/7/91 (183)

WILLIAM GILFILLAN

ANALYSTS have warned that the cost crisis facing the medical industry could halt the climb of the JSE's pharmaceutical and medical index, which has risen 71% to 1 070 points since the beginning of February.

The rise in the index has outstripped that of the industrial index, which has risen 33% over the same period

Analysts say its sharp rise reflects the accumulation of blue chip and recession-proof stocks by institutions

But they now fear that problems facing medical aid societies will eventually hurt pharmaceutical manufacturers

The pharmaceutical index is heavily weighted towards drug manufacturers Adcock Ingram, a Tiger Oats subsidiary, comprises 75% of the index and Fedvolk's SA Druggists makes up 14% The remaining 11% is made up by the private hospital group Clinic Holdings

Representative Association of Medical Schemes (RAMS) executive Rob Speedie said the increasing squeeze on medical aid funds had been caused by claims rising faster than contributions

Analysts believe this will force manufacturers to concentrate on the lower margin products such as generic drugs

Until recently pharmaceutical groups have tended to produce higher margin patented and branded generic drugs rather than the cheaper generics

Adcock's MD Don Bodley said there was a place for generic products in the low income market However, new patented products were "often superior and more innovative" which resulted in improved cost effectiveness, Bodley said

Adcock Ingram Pharmaceuticals, a division of Adcock, manufactured patented and branded medicines, and generics. It contributed 17% to total group turnover

Analysts believe demand for branded drugs could drop because an increase of the primary health care infrastructure will be closely alligned with a switch from branded to generic drugs

Study

SA Druggists executive chairman Johan van der Walt said "In trying to achieve an affordable health care system we will have to move more to generic substitution in order to make the rand stretch further"

Van der Walt said any drop in margins would be made up by increased volumes

The ANC said at its conference last week it had conducted a feasibility study into creating a state controlled pharmaceutical utility This would sell basic generic drugs, 160 of which have been identified by the World Health Organisation.

BP returns to Nigeria with $250m

LAGOS — British Petroleum would invest $250m in oil exploration in Nigeria, a company official said at the weekend This move ends a 12-year ban linked to sanctions-busting with SA 183

BP exploration CE John Browne said survey work and data analysis had started on two blocks the company had been awarded He gave no details BDay 15/7/91

Browne spoke at a news conference with Nigerian Petroleum Minister Jibril Aminu, who said "BP will return as a fresh company and its new operations will not in any way be linked to its past operations"

In 1979, the government nationalised BP's interests in Nigeria, Africa's biggest oil-producer, after the company's participation in an oil-swap deal that led indirectly to the shipment of Nigerian petroleum to SA.

Latest statistics, for 1985, show that Nigeria was the fifth-largest producer in 13-nation Opec, providing about 3% of world production. — Sapa-AP.

Chemserve shows its resilience

B/Day 16/7/91 (183)

BRENT VON MELVILLE

THE resilience of the speciality chemical market to recessionary conditions in the SA chemical industry is well illustrated in the interim results of Chemical Services (Chemserve)

In a half-year marked by rationalisation Chemserve upped its net trading income by 21% to R25,7m (R21,2m) off a 17% rise in turnover to R240m (R205m)

A dividend of 53c (45,5c) was declared off earnings of 172c (147c) a share, bringing the average annual compound growth in earnings over the past six years to 26%

During the year the AECI-controlled group merged part of its CS Steinhall subsidiary with a division of Henkel SA into a 50 50 joint venture now trading as Trohall Limited

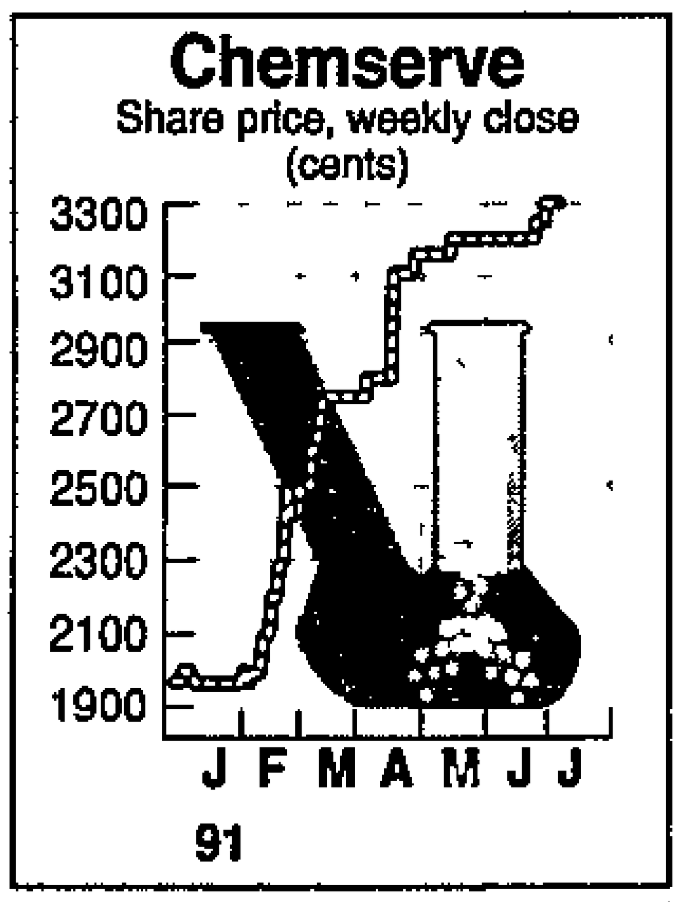
It also acquired the remaining 6% minority interest in Industrial Oleochemical Products

The combined effect of the transactions was to reduce Chemserve's net asset value (NAV) by 70c a share NAV now stands at 1 443c (1 366c) a share, which compares with a ruling market price of R33

Chemserve MD Peter Francois said in an interview yesterday the group would likely improve this earnings performance in the second six months He said historically the second half of the year represented about 55%-57% of yearly income

He said the group's traditional markets, which include the food and toiletry industry, as well as the beverages industry, generally showed improved demand in summer Chemserve last year contributed about 11% to AECI's trading income

At present Chemserve is dealing with a debt to equity ratio of 57%, largely still reflecting the group's acquisition last year of Akulu-Marchon and SA Paper Chemicals for R24m With total interest bearing debt at R51m (compared to R41,5m for the comparable period last year and R45m at 1990 year-end) financing costs jumped 37% to R5,2m (R3,8m)



Graphic: LEE EMERTON Source INET

Financial director Lex van Vught said the group intended to pull the level of gearing to below 50% by the end of the year which it would fund internally, although the introduction of VAT could effect cash-flow to the extent of pushing up gearing by about 2%

Spinoffs

Van Vught said while there were no definite plans for the remainder of the year, the group would continue looking for suitable acquisitions and joint ventures

Francois added that while Chemserve would not benefit directly from the easing of world sanctions on SA, there would be spinoffs in that it would enable easier access to foreign technologies — such as those from Scandinavia, Japan and the US

Chemserve surprises analysts with real growth in earnings

Star 16/7/91.

(183)

By Jabulani Sikhakhane

Specialty chemical group Chemserve has turned in a creditable performance showing real growth in both earnings and dividends for the six months to June

Analysts were looking at earnings growth of seven to eight percent and at least maintained dividends.

But Chemserve's 17 percent growth in earnings and 16 percent advance in dividends has taken most of them by surprise

Managing director Peter Francois attributes this perfomance to rationalisation benefits and improved margins, which helped off-set a four percent fall in sales volumes of manufactured goods and a two percent drop in trade-goods sales

Raw materials

As Chemserve imports its raw materials, the group also felt the effects of a surging dollar against the rand

Benefits flowed from the merger of Chemserve's guar gums products operations, CS Steinhall, with a division of Henkel SA and the launch of chemical distribution company Crest Chemicals

	6 mth to 30/6/90	6 mth to 30/6/91	% Change
Turnover (Rm)	204 3	240 0	17
Operating profit (Rm)	21 19	25 6	21
Operating margin %	10 3	10 7	
EPS (c)	147	172	+ 17
Dividend (c)	45 5	53	+ 16
Share price	2325	3250	+39 7
PE ratio	6 1	8 9	+ 46

Mr Francois adds that all other Chemserve divisions managed to increase margins

In the interim period, turnover rose 17 percent to R240,1 million

With operating margins improving from 10,3 to 10,7 percent, net trading income rose 21 percent to R25,7 million

But higher working capital requirements saw finance costs rising 37 percent from R3,8 million to R5,2 million

This restricted growth in pretax income to 18 percent at R20,5 million

At 57 percent, the debt-equity ratio is below last year's 65 percent, but Mr Francois still considers the figure to be fairly high.

He adds that last year's R24 million acquisition of majority shareholdings in Akulu-Marchon and SA Paper Chemicals was still being financed

The ratio should fall below 50 percent by year-end because cash flow from trading traditionally improves during the second half of the year

The effective tax rate was slightly lower at 46,5 percent from 47,7 percent, resulting in a tax charge of R9,51 million (R8,3 million)

Confidence

Despite expectations that commodity chemicals will take a knock this year, directors are confident that if the current level of business activity is maintained, earnings and dividends should maintain their interim increases for the full year

This would suggest earnings in the order of 429,3c (366,9c) and a dividend payment of 139c (120c) for the full year

Benefits from Soda Ash Bostswana, for which Chemserve will act as an agent, should start flowing through towards the end of this year

Mr Francois says the major benefit will be reduced working capital requirements as Chemserve will work on a commission basis

B Day 16/7/91

Consol unveils new bottle

PAUL ASH

AFTER two years of research costing R1m, Consol Plastics has begun production of its new 1,5l returnable plastic beverage bottle

183

The new PET (Polyethylene terephthalate) bottle is of similar external size to SA's well-known 1l glass bottle and can be displayed, transported and stored in the same amount of space needed for those bottles, Consol Plastics said in a statement yesterday

Consol Plastics also manufactures the 2l PET bottle which, unlike the new bottle, is not returnable

The new bottle is designed for 20 trips after which it will be recycled, possibly as primary packaging, Consol Plastics MD Dave Spindler said

The old one-litre bottles would not disappear "The choice of packaging is a decision of the producer," a Consol Plastics spokesman said The new bottle had technical advantages, however, over glass bottles, he added There was little chance of chipped threads or sealing surfaces which meant contamination Leakage would be kept to a minimum.

Premier's pharmacy unit widens its focus

BlDay 17/7/91

(183)

WILLIAM GILFILLAN

PDC Holdings, the Premier Group subsidiary which sold pharmaceuticals wholesale to retail pharmacies, will now sell its products to the entire health care industry following its disastrous results for the year to end-March 1991

PDC's income before tax fell 74% to R4,3m from the previous year's R16,6m, with turnover up 2% to R522,3m from R511,7m

PDC chairman Gordon Utian said in the annual report that the change was a logical step as retail pharmacists, which were usually heavily geared, were coming under increasing pressure through the prevailing interest rate

Furthermore, chain stores might soon be permitted to dispense medicines following increasing evidence of deregulation and privatisation in the industry.

Utian said PDC came under pressure from manufacturers supplying goods to doctors, private clinics and other pharmaceutical-buying groups at prices lower than those supplied to wholesalers

This was worsened by the present tender system, whereby provincial hospitals and other institutions were able to buy products at prices cheaper than those available to wholesalers

These and the issuing of free samples to doctors had led to an investigation by the Competitions Board into the practices of pharmaceutical manufacturers, a move welcomed by Utian

Anglo expects tax break on Columbus

BDay 17/7/91 (183)

ANGLO American expects government to make a favourable announcement by the month-end on tax incentives aimed at getting off the ground its R3bn Columbus stainless steel joint venture with Gencor.

That could signal the final go-ahead for the project which has been in the pipeline for almost two-and-a-half years.

Anglo chairman Julian Ogilvie Thompson said in the corporation's annual review that he had hoped to refer in his statement to a decision to proceed with the project.

However, while government was "fully supportive" of the project in principle, it would be too risky to proceed in the current inflationary environment and under current tax rates.

Anglo's Highveld Steel and Vanadium and Gencor's Samancor have been negotiating with government for several months over ways to alleviate the huge start-up cost of the project. Without tax concessions or export incentives, Highveld and Samancor were dependent on overseas involvement to finance the scheme, but an agreement with Taiwanese partner Yieng Loong

MATTHEW CURTIN

fell through in September last year

Trade and Industry Minister Org Marais said on May 26 government hoped to produce proposals within two months for measures to assist project development in the chemicals, engineering and mineral beneficiation sectors, including possible partial funding and tax concessions.

Marais said government would address the need for a longer term incentive package, in line with other countries

The Columbus project is one of several large capital projects which would benefit from the new moves from government Engen, AECI and Sentrachem are considering a R4,5bn chemical plant or naptha cracker to produce chemical feedstocks and downstream chemicals.

Alusaf announced three weeks ago that its plans to build a R3bn aluminium smelter were dependent on incentives

Ogilvie Thompson said the Columbus project exemplified one of the desired in-

☐ To Page 2

Anglo

BDay 17/7/91 (183)

☐ From Page 1

vestment strategies for SA SA was already a world competitor in carbon steel production, thanks in part to its access to the materials and relatively cheap power

There was no reason why SA could not become a major player worldwide Columbus would add value by about 50 times in terms of the chrome content of the stainless steel produced, and would earn about R2bn a year in foreign exchange

Critics of the project have said that the margins are not so healthy While SA has a plentiful supply of cheap chrome, it would have to import the low-grade nickel and scrap steel also needed Stainless steel exports might compromise SA ferrochrome producers' contracts with overseas stainless steel producers, rivals to Columbus

● See Page 6

Medicine makers call for police check-up

(183)

The Pharmaceutical Manufacturers Association of South Africa has called in the police to investigate medicine theft in the industry and the distribution system

The announcement yesterday by PMASA executive director John Toerien came after statements earlier this week in the annual report of PDC Trading, a Premier Group subsidiary.

"It is ironic that in the pharmaceutical industry, which is supposed to be ethical, the level of crime is at its highest and the levels of shrinkages have become endemic," PDC Holdings chairman Gordon Utian said in the report.

He claimed that a grey market had developed as a result of pricing and policies of manufacturers and that they favoured short-line wholesalers, dispensing doctors, trading doctors, private clinics and other pharmaceutical buying groups by supplying goods at lower prices than they supplied to traditional full-service wholesalers — which includes PDC Trading

Mr Utian also claimed that doctors traded in sample products.

The PMASA — which represents almost all the country's pharmaceutical manufacturers — had for some time been concerned about "product shrinkage", Mr Toerien said

He described the tender market situation as very sensitive — Sapa

Star 19/5/91

Power cuts will hit non-payers

B/Day 19/7/91

THEO RAWANA

THE Atteridgeville Town Council will selectively cut power to non-paying residents in a bid to avert a total cut-off, the Pretoria City Council said yesterday

Pretoria has threatened to cut power to Atteridgeville — a move which would affect all 170 000 residents — because most residents have not paid new monthly tariffs which range from R75 to R190 Atteridgeville owes Pretoria R5,8m

The Pretoria management committee said in a statement yesterday payment was disappointing and only 15% of residents were paying the new tariffs

Pretoria rejected a last-minute attempt by the Atteridgeville-Saulsville Residents Organisation to convene a meeting because it had "no new information".

Police called to probe rising medicine thefts

B/Day 19/7/91 (183)

THEFT of medicines in the pharmaceutical industry and in the medicine distribution system should be investigated by the police, the Pharmaceutical Manufacturers' Association of SA has said

Yesterday's announcement by PMASA executive director John Toerien followed statements earlier this week in the annual report of Premier Group subsidiary PDC Trading, in which PDC Holdings chairman Gordon Utian said crime in the pharmaceutical industry was at its highest level

He alleged a grey market had developed as a result of pricing and manufacturers' policies He said manufacturers favoured short-line wholesalers, dispensing doctors, trading doctors, private clinics and other pharmaceutical buying groups by supplying goods at lower prices than they supply to traditional full service wholesalers

The PMASA — which represents almost all of the country's pharmaceutical manufacturers — had for some time been concerned about shrinkage Toerien said

"It is for this reason that the PMASA has been in contact with the Department of Law and Order to ensure that special attention be given to what could be termed theft of medicines

"We interpret burgeoning grey market as contained in the PDC statement to mean the difference between a dispensing doctor and a trading doctor

"We interpret a trading doctor as somebody who buys medicine and sells it (at a) profit

"This naturally is illegal and cases of this nature should be reported to the SA Medical and Dental Council

Toerien described the tender market situation as very sensitive Among the reasons why manufacturers could quote competitive prices to the State Tender Board were that huge quantities and limited delivery points were involved — Sapa

Row flares over dispensing chain stores

WILLIAM GILFILLAN

CHAIN stores would be able to dispense medicines "when the SA Pharmacy Council is persuaded to change its rules which prevent the stores from employing pharmacists", Competition Board chairman Pierre Brookes said yesterday

Brookes said the council would be persuaded "either on the basis of their own conviction or as a result of pressure from government or the general public"

The controversy surrounding the dispensing of medicines by chain stores was brought to the fore again by Gordon Utian, chairman of pharmaceutical distributor PDC Holdings

In the PDC annual report, Utian said that as chain stores might possibly be permitted to dispense medicines soon, PDC was expanding its customer base from retail pharmacies to the "entire health industry"

In terms of the SA Pharmacy Council's ethical rules, pharmacists may not be in the employ of anyone other than a fellow pharmacist

This is a stumbling block for chain stores as they would have to employ pharmacists to dispense medicines

Pharmaceutical Society executive director Boet van der Merwe justified this "Owners who are not pharmacists do not feel bound by the ethical rules of the council, because they do not fall under it"

Pharmacy Council registrar Daan Naude said he did not foresee the present situation changing "in the light of the current views of the council and current legislation"

The Pharmacies Act prohibits chain stores from opening pharmacies

Checkers MD Serge Marinengo said it would be some months before anything came to fruition

Spar group CE Peter Hughes said chain stores in America Germany and Austria had been dispensing medicines for some time

He did not think the Spar group would be much effected by any changes with possibly only one or two of the very big stores dispensing medicines

Analysts said that while Pick n Pay, Checkers and OK stores would benefit through any changes it was the Clicks group that would benefit most They believed Clicks which had around 100 stores country wide had been making representations calling for change for some time

B/Day 19/7/91 362

Hüels AG creates a subsidiary in SA

B/Day 19/7/91 (183)

LIZ ROUSE

GERMAN chemicals manufacturer Hüels AG, a company of the major German chemical and energy group VEBA, has founded an independent subsidiary, Hüels Southern Africa, and has acquired Supacryl, New Germany, Natal

The move into SA was the start of a wider involvement by the German group, Hüels Southern Africa MD Rolf Berendes said yesterday

In 1990, Hüels Ag, with its seat in Marl, and its subsidiaries, achieved group sales of more than DM10bn (about $6,7bn)

Besides its 12 production centres in Germany, the Hüels Group has production centres in Sweden, the Netherlands, Italy, the US and the Far East Its range of products includes inorganics, organics, surfactants, standard and engineering plastics, rubber, surface coating raw materials, ultrapure silicon wafers, and organosilanes

Until now the operations of Hüels and its subsidiaries in SA were limited to marketing through a variety of local trade organisations Total sales by the Hüels Group during the past year were about DM40m

With a view to increasing Hüels's presence in southern Africa and combining marketing activities, operations have been centralised as the new Hüels Southern Africa (HSA), located in Randburg

The company is partly owned by Chemimpo SA, also based in Randburg

Supacryl's production operations are in acrylic dispersions, solution polymers, special plasticisers and other speciality chemicals In addition, polymethyl methacrylate (PMMA) moulding compounds, adhesives and process chemicals are marketed by Supacryl

Interactions

Supacryl's sales for 1990 totalled more than R30m

Its products supplement Hüels's operations in the area of surface coating, plastics and process chemicals

Positive interactions are also expected with Hüels subsidiary Roehm GmbH in the area of acrylic acid derivatives, in particular acrylate dispersions

Southgo's Benoni firm plans R17m rights issue

MATTHEW CURTIN

BENONI Gold, one of the mining companies owned by Southgo, the gold mining arm of Consolidated Mining Corporation (CMC), is about to launch a R16 8m rights issue to repay borrowings

Commenting on Southgo s results for the June quarter in which its three operating gold companies each turned in improved profits, chairman Antony Lee said proceeds of the issue would more than cover Benoni's debt

On June 14, Southgo sold its 23% interest in Knights for R16m which the directors said would substantially reduce the outside borrowings of Southgo and Benoni

Benoni posted a three-fold increase in after-tax profits in the quarter at R2m (R745 000), West Witwatersrand after-tax profits climbed to R1,8m (R484 000) while Nigel turned a R1,1m loss in the March quarter into a R223 000 profit

B/Day 19/7/91

Lee said Southgo's policy of tightening up operations at every level, its determination to "stay cash positive after capex", and to enter expansionary projects only when it was certain of the returns had paid dividends

Southgo had also successfully contained costs, boosted gold production and benefited from the improved rand-gold price

Benoni's sound performance in the quarter was due to a better gold price received (R32 589/kg against R30 657/kg) and its ability to reach full milling capacity for most of the quarter In the March quarter gearbox problems reduced milling capacity by 50% for two months at one of the mills

At West Wits extra crushing facilities were commissioned during the quarter and the amount of material treated rose to 448 000 tons (406 000 tons) Another secondary mill would be commissioned by mid-August

CHEMICAL SERVICES FM 19/7/91

BACK ON TRACK (183)

Chemical Services (Chemserve) has proved that its resumption of real growth last year can be sustained It had an impressive track record in the mid-Eighties — from 1983 to 1988, EPS grew at a compound annual rate of 36%

The pattern was broken in 1989, when EPS grew by just 1%, but that year now looks like a one-off In the year to December 1990 EPS grew by 20%, and the upturn was confirmed in the June interim results

FM 19/7/91 (183)

Trading income increased by 21% and, despite a 37% jump in finance charges, EPS advanced by 17% MD Peter Francois says there is room for further improvement — there were some losses from Chemserve Steinhall in the first quarter

On April 1 the operation was merged with a competitive division of Henkel SA, to form a 50 50 joint venture known as Trohall Chemserve is now deriving full benefits of the rationalisation of its distribution division with its counterpart at the explosives and chemicals division of AECI, into Crest Chemicals

Financial director Lex van Vught says gearing is too high at the present 57%, and if an attractive acquisition presents itself the group might have to issue equity All eight of the acquisitions since 1986 have been bought from Chemserve's own cash resources Chemserve's activities are increasingly funded by suppliers — interest-free liabilities increased by 20,5%, but borrowings rose by just 12,3%

GOOD CHEMISTRY

Six months to	June '90	Dec '90	June '91
Turnover (Rm)	205	241	240
Pre-tax profit (Rm)	17,4	27,8	20,5
Attributable (Rm)	9,1	13,7	10,7
Earnings (c)	147	220	172
Dividends (c)	45,5	74,5	53

Chemserve is handsomely outperforming the larger chemical companies such as parent company AECI and Sentrachem, which are both posting declines in earnings Francois says speciality chemicals are much less capital intensive — its plant is worth a bare R35m, so it does not need to maintain large volumes simply to service capital requirements He adds that other chemical companies are adapting to lower tariff protection, whereas Chemserve's products have never had tariff protection

Francois feels that the share, which trades at R32,50, would be worth closer to R40 if it had more tradeability Chemserve stands on a historical p e of 8,9, well below Sentrachem's 15,5 and only just ahead of AECI's 8,6 When scrip becomes available there should be no shortage of buyers *Stephen Cranston*

Poor facilities make chemical companies fail

(183)

City Press 21/7/91

MORE black industrial chemists fail than succeed, says one who has 27 years' experience

Bogie Mabogoane, who has worked in Germany, Sweden and locally, said black chemical manufacturers had mushroomed in the past 10 years

Most of them gained their knowledge where they worked and then started small factories when they were retrenched.

He said most compounders did not have enough money or space They were forced to buy their materials from wholesalers and had to pay more for deliveries

He said all this increased costs and the manufacturers were compelled to produce poor-quality products which were eventually rejected by the customers.

"Hardly any manufacturers have laboratories to check on quality of raw materials and the finished product, and smaller compounders cannot even use the expensive services of professionals in the field," he said.

Mabogoane and two friends, Lucas Sebobe and Leon Phiri, have started a company called Educational Catalysts and Job Creation at the New Era Industrial township in Springs, which aims to help small chemical compounders

He said they would use their well-equipped laboratory to test and weigh all materials and this would help the small businessman to buy any amount of materials.

Plastics lead export pack

(183)

St Times 21/7/91 (Bus Times)

By DIRK TIEMANN

PLASTIC raw material exports are leading the pack with a 44% increase in the first six months this year compared with the same time in 1990

Vehicle components are close behind with a 34% increase in the same time

Sasol Polymers export manager George Brownlow says SA's plastic volumes may be small by international standards, but they are eating into foreign margins

Incentive

Plastic exports totalled R227,8-million from January to June 1991 Sasol's polypropylene plant came on stream a year ago and is running at capacity of 120 000 tons a year Almost 10% is for export.

Vehicle exports were worth R605,6-million for the six months to June 1991

National Association of Automotive Component and Allied Manufacturers (Naacam) executive director Denzyl Vermooten expects the figure to top R1-billion by the yearend In 1985 it wasR180-million Most of the components go to Europe

Complete vehicles are also being exported, says Mr Vermooten Samcor and Nissan are active in this field

An incentive for the motor industry is the 50c rebate in the rand exporters receive to set off against a 35% customs duty on the wholesale selling price Under the phase six programme, exports and local content are the same

In spite of these promising sector performances, total exports are still relatively depressed The trade surplus for the six months was down to R7,6-billion from R8-billion last year

International commodity prices are depressed, no relief is in sight from a higher gold price and maize exports have not materialised

The figures from Customs and Excise include Botswana, Lesotho, Swaziland and Namibia

Exports rose by only 6,3% in the six months ended June compared with last year Imports rose by 11%

Nedcor chief economist Ted Osborn calculates that if one takes the rand depreciation into account, imports rose by 4,6% and exports by 2%

'Patriotic conference' to take place

THAMI MAZWAI

LEADERS of the ANC, PAC, Azapo and leading business and trade union organisations will meet in Cape Town next month for a "patriotic conference" flowing from the ANC and PAC's Harare summit in April

Negotiations, sanctions and violence are expected to be among the issues discussed at the meeting on August 23 to 25

It was decided in Harare to convene a conference of "organisations of the oppressed" to formulate a joint strategy to continue the struggle against apartheid

Azapo was the first to be canvassed and will now be a major participant

Inkatha is not expected to attend after its president Mangosuthu Buthelezi said in a TV interview last week the conference would lead to polarisation. Government, he said, would be on the one side and black organisations on the other

Organisations expected to attend include the SA Communist Party, Cosatu, the National Council of Trade Unions, the SA Council of Churches, National Olympic Council of SA, SA Council on Sport, Foundation of African Business and Consumer Services (Fabcos) and the National African Federated Chamber of Commerce (Nafcoc)

The conference will be the first major meeting of black organisations looking at the negotiations issue The PAC, Azapo and ANC have sniped at each other since May last year when the latter had its first meeting with government The PAC and Azapo have both rejected government invitations to negotiations

Similarly, they have behind-the-scenes differences on sanctions, and this conference may see them take a common position

Full details on the conference will be released this week, once the size of delegations and their voting rights have been decided on

Concern over medicine thefts

BiDay 22/7/91

GERALD REILLY

183

PRETORIA — The Medical Association of SA (Masa) is concerned that recent reports on medicine thefts in the pharmaceutical industry have given the impression that "trading doctors" bought and sold medicines for profit

Masa federal council chairman Bernard Mandell said at the weekend Masa was not aware of any specific cases

It could not condone so-called trading doctors

Mandell said exceptionally high standards were maintained by dispensing doctors

They were not primarily profit-motivated and did not "trade" in medicines, but provided a convenient and cost-effective one-stop service to patients

Masa's ethical committee monitored dispensing doctors' activities, he added.

AECI's earnings slump by 56 percent

183

By Sven Lunsche

Star 24/7/91

Chemical giant AECI's tale of woe continued in the first half of this year, with earnings a share slumping by a hefty 56 percent.

And managing director Mike Saunders does not expect an improvement in the trading conditions for the rest of the year

As a result, the interim dividend has dropped from 30c to 18c after the plunge in earnings from 73c to 32c a share

While sales rose by five percent to R2,5 billion (R2,73 billion), a substantial decline in margins saw net trading income fall by 38 percent to R136 million (R219 million)

Commenting on the poor results, Mr Saunders says demand for the group's products fell in the agricultural, automotive, mining and building sectors

Exports rose from R199 million to R203 million, but revenues were adversely affected by a slump in international prices of commodities such as PVC and polyethylene

The price for PVC, for example, has fallen from $700 to $400 a ton in the past few months

Mr Saunders also blamed "predatory" pricing of imported commodities by international producers for the erosion of profit margins

"Existing protective measures and anti-dumping legislation are proving ineffective and we have applied to the government for more effective protection from cheap imports, particularly those originating from Turkey."

Despite lower interest rates, AECI's finance costs rose by R20 million to R68 million as borrowings increased to fund investments in fixed assets and working capital

Most of the large projects, such as the soda-ash plant in Botswana, were completed during the interim period and working capital as a percentage of sales is expected to fall from its current level of around 23 percent

"However, little improvement in trading conditions beyond normal seasonal variation is foreseen for the balance of the year and it is unlikely that results in the second half will match those of the same period last year"

Slump plays havoc with AECI formula

(183)

B Day 24/7/91

BRENT VON MELVILLE

SLUMPING international commodity prices and production problems have slashed AECI's profits in half for the six months to end-June

SA's premier supplier of chemicals and related products saw earnings down 56% to 32c (73c) a share off a decline in attributable income to R50m (R113m) The dividend was cut to 18c from 30c for the comparable period last year

In an interview yesterday MD Mike Sander said the decline was a result of accumulated woes in the industry He said it was the third half year in succession that aggregate local demand had fallen by 10%, prompted by sagging local demand and oversupply on world markets.

Net trading income dropped 38% to R136m (R219m) while turnover moved up 5% to R2,5bn (R2,4bn)

High levels of investment in fixed assets and working capital saw borrowings move up to about R900m from about R800m for the same period last year, pushing gearing to 70% (41% last June and 57% in December) and increasing financing costs to R68m from R48m He said the group hoped to see gearing improved by year end

The weakness of the world petrochemical market could call into question the viability of the R4,5bn naphtha cracker plant which is under consideration by AECI, Engen and Sentrachem

Sander said the chemical plant was planned for four to five years down the road "However, it will have to be decided whether the project is economically justifiable at that point," he said, adding that the Koreans and the Americans were commissioning plants of their own

The weak international market was illustrated by the fact that while AECI increased export revenues slightly to R203m (R199m) during the period poor prices on commodities such as PVC (plastic) and polyethylene cut margins dramatically Since last year the international price of PVC has fallen on world markets from about \$900 to \$400 a ton The glut on world markets had also resulted in a dumping problem, which current protective measures failed to address, Sander said

On the local side, Chlor-Alkali and Plastics trading income was off 45% for the period, suffering from reduced demand from the paper industry, while explosives, chemicals and agricultural products saw trading

☐ To Page 2

AECI

BDay 24/7/91

(183)

☐ From Page 1

income fall 30%, mainly as a result of failing demand from the mining sector

Sander said income had also been reduced by continuing problems at the VCM plant at Coalplex in Sasolburg and by the Modderfontein ammonia plant overhaul

On the positive side, the specialist chemical sector had performed strongly, represented by Chemserve and SA Nylon Spinners, which operated in niche markets Sander said while there was little room for more growth in those markets locally, there was some scope for exports in future

He expected little improvement in trading conditions for the remainder of the year, although operational efficiencies would provide a substantial improvement.

Market plays waiting game with Royal

Star 25/7/91

183

Diagonal Street

Jabulani Sikhakhane

The market appears to be bidding its time in rerating Royal Corporation (Royal) relative to its underlying assets

Royal's only assets are 65 percent of Royal Foods (Royfood) and 58 percent of Royal Chemicals (Roychem)

Based on Royfood's current share price of 400c and Roychem's 260c, Royal should be valued at 480c.

In the past three months Royal's share price has risen to a high of 400c before easing to 380c, where it trades at a 21 percent discount to the underlying holdings in Royfood and Roychem.

Contrast this with the price of 410c for Royal Holdings (Royhold), Royal's holding company

Royhold has 35 million shares in issue, against Royal's 67,8 million and since Royhold owns roughly half of Royal, the two counters should be trading at roughly the same level.

Industrials pyramids do not normally trade at a discount of more than five percent to underlying assets, except if there is debt in the pyramid

One analyst suggests the market could be waiting for Royal's published accounts for the 18 months to August, which will include figures of the two major acquisitions — SA Preserving Company (Sapco) and Ferro Chemicals.

These acquisitions were followed by a rights issue and a separate listing of the food and chemical interests into Royfood and Roychem respectively.

Financial director Jacques Fragis has said that the former US parents of Sapco and Ferro had paid little attention to their profitability in recent years.

In the three years to 1990, Ferro's pre-interest margin fell from 16 to 12,4 percent and Sapco's from 25 to 22 percent.

The market could be waiting to see if the Royal management team can lift the profitability of Sapco and Ferro

Group MD Doug Johnston says the answer he has received from institutions is that it will take time before the market understands the relationship of Royal, Royfood and Roychem

Mr Johnston adds that is "pretty close" to its forecast profits for the six months to end August. (The year-end has been changed from February to August)

Acquisitions Sapco, Ferro Chemicals and Fedbisco are faring well. Sapco and Ferro were effectively acquired from the beginning of March and Fedbisco in April.

Sapco, which cans fruit for Del Monte Foods International for sale in the UK and Europe, is doing exceptionally well.

Sapco has the right to export canned fruits to Eastern Europe, the US, Canada and the Far East, but not using the Del Monte label.

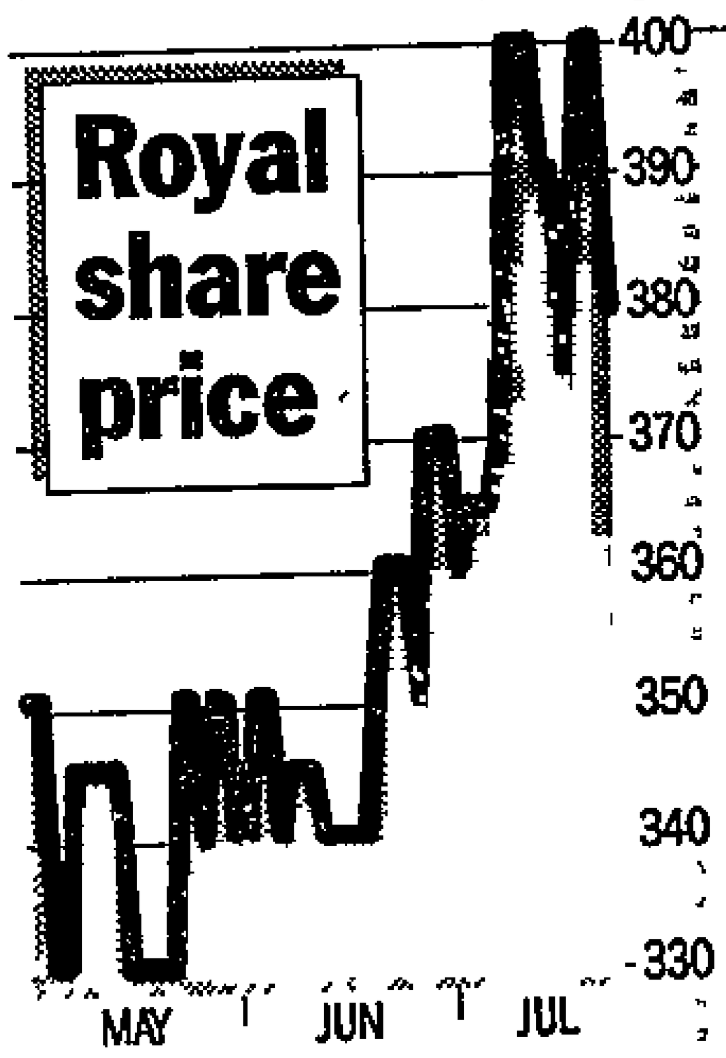
Mr Johnston notes that demand for SA fruit has risen with the easing of sanctions

"With more fruit available, Sapco could easily double its turnover. We are now investing in plant and equipment to be ready by December for the beginning of the next decidous fruit season"

Ferro, a maker of specialty chemicals, is benefiting from the switch from wet to dry powder paints and the shift from imported Italian tiles to locally ones

Fedbisco will make a real contribution to group profits for the six months to August.

"We have had contact with our former parent, Nabisco, and they are sending delegations to help us with the Fedbisco business We are looking for improved contribution for financial 1992," he says



SA DRUGGISTS FM 26/7/91

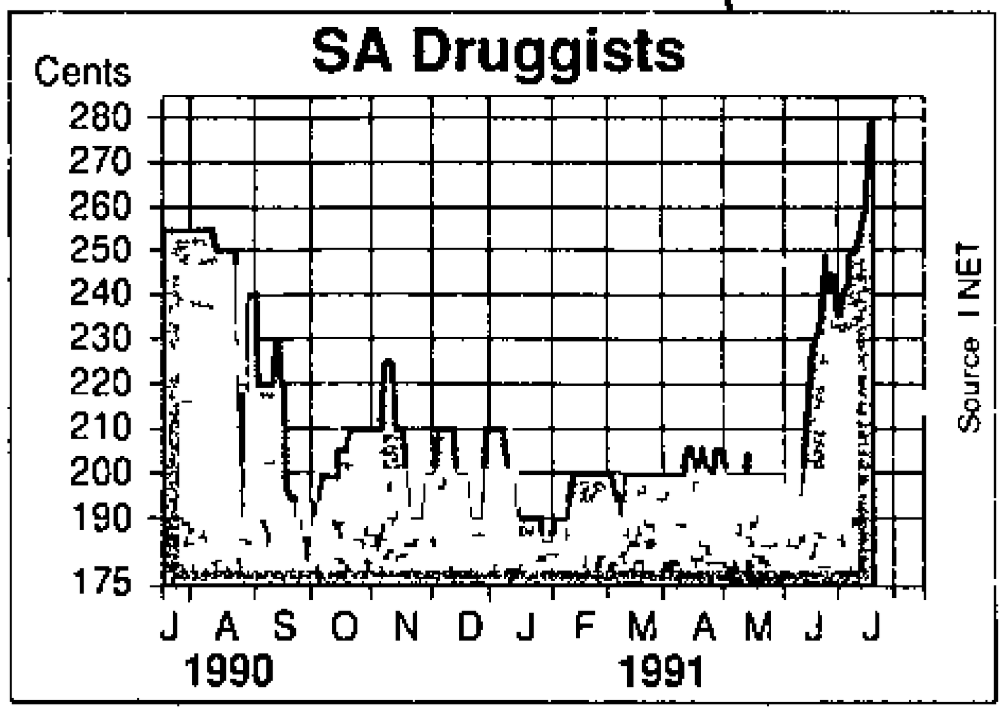
SHRINKING PROFIT (83)

Attributable earnings fell for the second year in a row, yet SA Druggists (SAD) is trading close to its 12-month high of 290c and there has been no down-rating of the share from its p e of about 10 Cover was reduced to 2,5, to maintain the dividend at 10c, but the board plans to lift the cover back to 3

Management has at least identified problem areas and is addressing them This year the main culprit was identified as shrinkage — this was given as the main reason why the operating margin fell from 9,2% to 7,6% More than R10m was stolen from the wholesale division An upgrade of the security on a national basis was completed by year-end

SA Druggists' Van der Walt
profit growth expected continue-P

FM 26/7/91



Activities: *Manufactures and distributes pharmaceutical, medical, dental and veterinary products*
Control: *Fedvolks 68%*
Executive chairman: *J H van der Walt*
Capital structure: *141,5m ords Market capitalisation R396m*
Share market: *Price 280c Yields 3,6% on dividend, 9,0% on earnings, p e ratio, 11,1, cover, 2,5 12-month high, 290c, low, 180c Trading volume last quarter, 352 000 shares*

Year to Mar	'88	'89	'90	'91
ST debt (Rm)	4,7	15,5	37,5	54,9
LT debt (Rm)	14,1	7,4	15 6	3,8
Debt equity ratio	0,12	0,12	0,26	0,25
Shareholders' interest	0,55	0 53	0,49	0 48
Int & leasing cover	7,7	6,6	4,2	3,3
Return on cap (%)	25	26,2	22,1	17,9
Turnover (Rm)	651	791	948	1 062
Pre-int profit (Rm)	64,3	84 1	87,2	80 2
Pre-int margin (%)	9,9	10,6	9,2	7,6
Earnings (c)	22,6	29	28,7	25,2
Dividends (c)	8	10	10	10
Net worth (c)	98,5	119,3	135,5	150,2

Another reason for lower earnings was the move away from the high-volume tender market by the main manufacturing arm, Lennon, to concentrate more on the lucrative private-sector market

Executive chairman Johan van der Walt says it takes time to build up these markets and reap the benefits of new contracts On the advice of consultants, more resources have been put into the marketing area and the group has developed "appropriate marketing strategies "

A new factory for the production of injectibles opens in the second quarter of calendar 1992 This is expected to strengthen earnings in financial 1993

Van der Walt acknowledges that asset management is the key to success in the business, which is obliged to maintain high stock levels Stocks increased by 15,6% and debtors by 14,3% Creditors, though, increased by 18,3% Interest-bearing debt rose by 10,7% There should be a slowdown in the increase in interest payments, which rose by more than a fifth last year

Van der Walt says adequate profit growth can now be expected Certainly, if the new security system works, benefits will go straight to the bottom line SAD will also benefit from any move towards generic substitution, in which the cheaper generic brands it makes will be used in preference to a more expensive branded equivalent, at the pharmacists' discretion

The share is trading well below the highly rated sector leader, Adcock Ingram, which

7/91 (83)

stands on a p e of 31,2 However, real growth will need to be shown at the interim if the share is to become attractive on fundamentals

Stephen Cranston

MOLYSLIP (183)

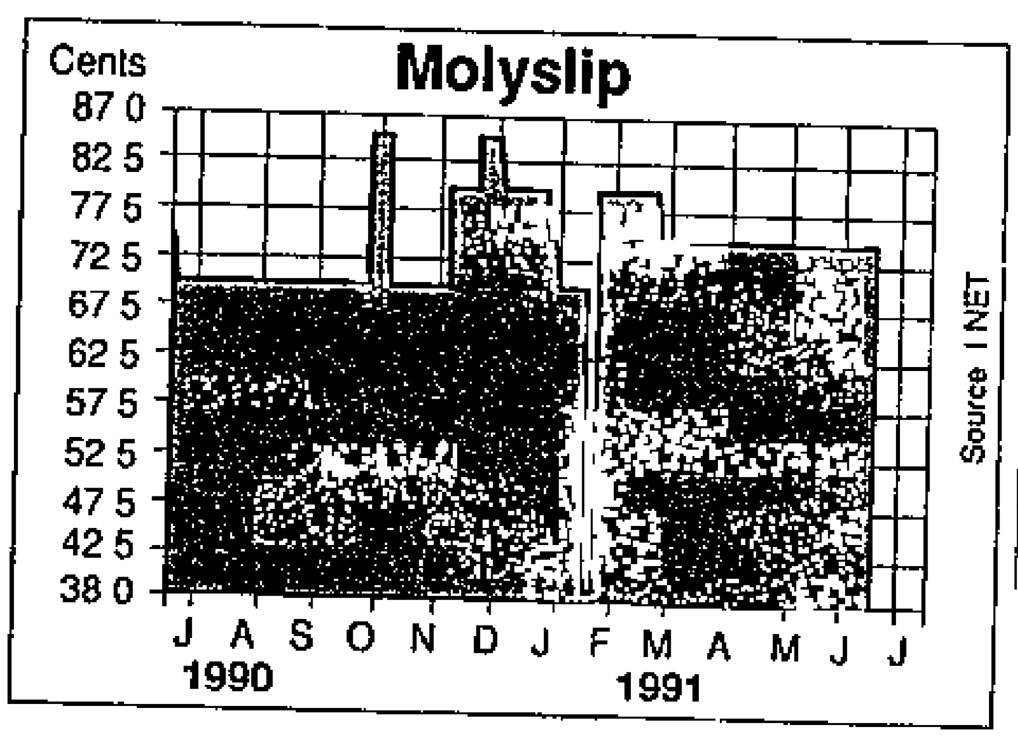
POOR SECOND HALF

Activities: *Makes lubricants and allied products for industrial and consumer uses*
Control: *Directors 90%*
Executive chairman: *R J W Spanjaard*
Capital structure: *5,7m ords Market capitalisation R4,3m*
Share market: *Price 75c Yield 6,1% on earnings, p e ratio, 16,3 12-month high, 85c, low, 40c Trading volume last quarter, 1 000 shares*

Year to Feb	**'88**	**'89**	**'90**	**'91**
ST debt (Rm)	0,32	0,19	0,40	2,13
LT debt (Rm)	0,46	0,45	0,51	0,42
Debt equity ratio	0,42	0,28	0,34	0,72
Shareholders' interest	0,47	0,47	0,47	0,44
Int & leasing cover	3,4	7,5	2,4	1 6
Return on cap (%)	16,8	15,1	15,2	9,1
Turnover (Rm)	8,3	10,9	13,2	15,7
Pre-int profit (Rm)	0,65	0,75	0,86	0,73
Pre-int margin (%)	7,9	6,8	6,5	4,7
Earnings (c)	8,9	11,4	8,8	4,6
Dividends (c)	—	3	3	—
Net worth (c)	36	41	48	62*

* Property revalued

Considering that interim earnings were up 26,4% at 2c a share, the final return is disappointing On the face of it, second-half earnings were only 2,6c a share, against 7,2c the year before Turnover, up 33% at half-time, is only 19% up overall



Chairman Robert Spanjaard says the new general export incentive scheme is giving "reduced support" for export sales, which used to be about 30% of turnover While financial ratios tightened, the directors point out that factoring of trade debtors was abandoned in June 1990, leading to large increases in debtors and the bank overdraft Spanjaard tells the *FM* that the terms on which factoring was available deteriorated and the move brought substantial savings

Spanjaard says costs have been trimmed wherever possible Interestingly, Ivan Visée, named MD in October 1989, who promptly set about "enhancing" the management team and buying new cars and office equipment, resigned on September 27 1990, but Spanjaard, now executive chairman, denies that there's any change of philosophy

Spanjaard hopes for "much improved" results this year, as an aggressive marketing approach and sales since the financial year-end "give reason for optimism "

Possibly because it's so seldom traded, the share price has held remarkably steady in the face of these results The directors showed confidence by raising their collective stake from 4,7m to 5,1m shares during the year, but there doesn't seem to be any need for outsiders to rush in *Michael Coulson*

AECI FM 26/7/91 (183)

DEMAND STILL SAGGING

In previous recessions, AECI has been bolstered by a strong gold mining sector It was generally assumed that if world economies weakened, the gold price would soar and, with it, demand for AECI's explosives and accessories

This time gold did not act contracyclically Demand from this market declined even further than that of the rest of AECI's customer base, mainly in the agricultural, automotive and building sectors MD Mike Sander says demand for AECI's products declined by 10% for the fourth half-year in a row

Partly because of this, the interim performance was well below market expectations Some analysts were predicting a 10% decline in earnings This would have been possible had the operating margin been maintained But the operating margin buckled from 9,2% to 5,4%, EPS slumped by 56%

Davis Borkum's Jacques Pickard says AECI's image as a well-managed company is unlikely to change much, but he expects the market to react negatively to these results

Sander says the exceptional weakness of world commodity prices was the biggest single contributor to the profit deterioration The early end of the Gulf War brought petrochemical prices down, along with crude oil prices

The group has increased its exports but this year the price of PVC, for example, has fallen from $700/t to $400/t — and it is no special case AECI has been faced with increased competition from international chemical companies exporting to SA at "predatory prices" because there are large stockpiles of these chemicals around the world

"Anti-dumping policy is not working," Sander claims "Chemicals are being sold into this market well below the prices at which they are sold in home markets, according to Gatt that is an unfair trading practice " But he says domestic competitors such as Sasol in explosives, and Omnia and Sasol in fertilisers, did not make further inroads into AECI's market share

It's hoped that at least two factors that contributed to the profit slide will not be repeated There were recurrent failures of compressors, which restricted production at the Coalplex plastic feedstocks plant, and the ammonia plant at Modderfontein went through an overhaul which takes place every three years

These production restraints helped curb volume throughput — and AECI's operating margins are highly sensitive to volumes The group is particularly capital intensive Last year it turned over fixed assets — worth R2,6bn at cost or valuation — just 1,9 times Returns could improve appreciably with just a small increase in volumes and that will hinge largely on the economy "We are a pervasive industry," says Sander "There is scarcely a sector of the economy which does not use chemicals "

He adds that management is assuming the economic downturn has bottomed out, so production capacity will not be scaled back much further The interim dividend cover was reduced to 1,8 from 2,4 last year

Speciality products, which are less volume sensitive, are still doing well, as was shown by the 17% earnings advance reported last week by Chemical Services, a 65%-held AECI subsidiary Plastics for packaging and fibre from SA Nylon Spinners are also holding up well Consumer demand for paint has been sustained, but this has not compensated for the decline in paint demand from the construction and automotive industry

An increased working capital requirement and the reduced cash flow pushed gearing up to 0,70, from 0,57 at year-end Financing costs were R20m higher, at R68m

Frankel Max Pollak Vinderine analyst Mike Haworth says AECI is looking more like a full-blown cyclical chemical company — and these operations do not enjoy high ratings internationally He expects the share will be accorded a less favourable rating after these figures

At R13, the share stands on an earnings multiple of 11,5 when adjusted for the interims That compares with 8,4 based on the last full-year figures Even allowing for the recovery potential, it would not be surprising to see the price drop to about R10 At that level it would provide good capital growth prospects *Stephen Cranston*

PROFIT FIZZLES

Six months to	June '90	Dec '90	June '91
Turnover (Rm)	2 374	2 657	2 499
Pre-tax profit (Rm)	171	198	68
Attributable (Rm)	113	125	50
Earnings (c)	73	81	32
Dividends (c)	30	57	18

UNIVERSA/ABSA FM 26/7/91

NOT THERE YET

A cleaner shareholding structure for the financial services interests held by Rembrandt, Mines Pension Fund and Sage was one of the objectives behind the formation of Amalgamated Banks of SA (Absa)

The advent of Absa is a big step towards that end, but there is more to come Aspects still to be dealt with fully include the control structure, as well as some related interests not yet held by Absa When Universa, holder

COMPANIES

Farm-Ag struggles out of the red

MARC HASENFUSS

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

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

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

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

Directors are aiming to reduce borrowings further and negotiations for the disposal of more businesses are underway

Agricultural chemical manufacturer Sanachem, the joint venture with Sentrachem, performed poorly due to the drought conditions prevailing in 1990 183

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

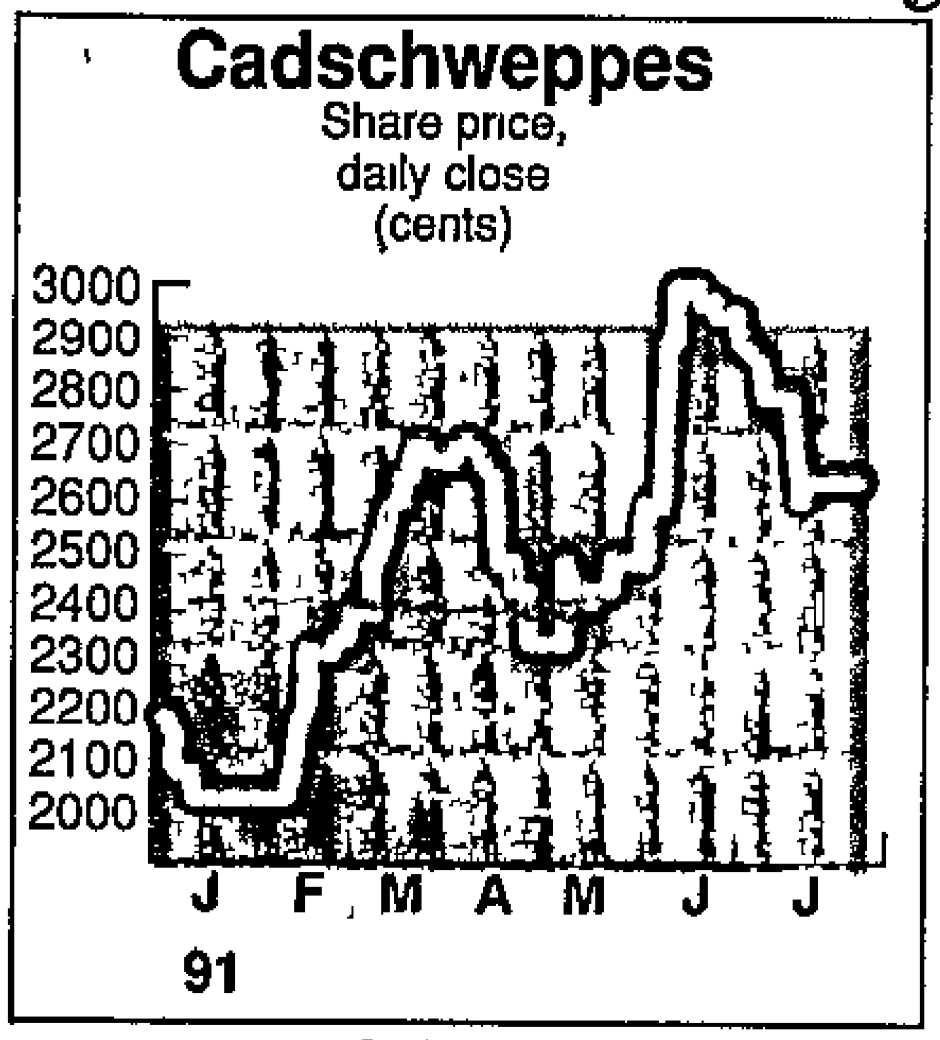
In addition, the benefits of the merger became apparent only in October 1990, which was too late for the 1990/1991 agricultural chemical season

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

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

Cadswep's expansion plan pays off

Bday 30/7/91



Graphic LEE EMERTON Source INET

MARCIA KLEIN

THE success of Cadbury Schweppes's (Cadswep) strategy to broaden its base is reflected in results for the six months to June, which show earnings grew by 33,1% to 47,8c (35,9c) a share (183)

The strategy, implemented some years ago, saw the confectionery, soft drink and food group broaden the base of its business through acquisition, including Bromor Foods and Chapelat-Humphries

Results for the six months indicate why MD Peter Bester is confident of real growth for the full year,

The highly rated share rose by 50c yesterday to close at 2 700c after reaching a yearly high of 3 000c in June and a low of 1 750c in November last year

● See Page 6

Bad debt provision of R1m cuts Manro's income by 16%

INCOME for Manro Chemical Holdings, recently listed through Pricefurn Holdings, fell 16% in the half-year to June largely as a result of a R1m provision for bad debt from Vadek Paints, which is in provisional liquidation B/Day 1/8/91.

The debt and rationalisation costs during the period saw a substantial decrease in margins for Manro, a supplier of organic and inorganic chemicals

"This resulted in operating income of R3,5m (R4,1m) off a slight increase in turnover to R45,6m (R42,8m)

A slight rise in interest payments saw pre-tax income down 23% to R2,3m (R3m), and after-tax income was down at R1,4m (R2m), translating to earnings of 3,4c a share

BRENT VON MELVILLE

An interim dividend of 1,25c was declared

183

On the balance sheet the current ratio was reduced to 1 1 from 1,3 1, as current liabilities jumped 53% to R29,2m (R19,4m)

Net current assets decreased to R1,2m from R5,3m

Group MD Morris Allnatt said the bevaloid division, based in Durban, had been restructured and a much improved contribution was expected in the second half of the year

"During the year the quality of certain product ranges has been upgraded, enabling us to increase market penetration both locally and in European and certain other overseas markets," he said.

Noristan to expand cosmetic, toiletry lines

8 | Day 17/8/91

WILLIAM GILFILLAN

LISTED health care group Noristan Holdings has established a new division to expand its cosmetic and toiletry lines

The new division, Consumer Products, was established last month and it was negotiating to buy a small cosmetics operation, MD Hugo Snyckers said in an interview this week.

This development is part of Noristan's strategy to reduce its exposure in the pharmaceutical operations

Turnover contribution from pharmaceuticals decreased from 72% in 1989 to 61% in 1990 while chemicals contributed 22% in 1989 and 17% in 1990.

Its pharmaceutical operations have also been hit by the state's cost cutting and private medical aids 183

Snyckers said medical equipment manufacturer Crest had also been targeted for further expansion

Noristan's year end has been changed from June to December to fit in with W & A, who hold a 21% stake in Noristan

Earnings for the 12 months to June are expected to be down, finance director Graham Jones says

Highveld's move on slag worries dealers

MATTHEW CURTIN

COMMODITY dealers in the US reacted with consternation yesterday to the news that Highveld Steel and Vanadium was planning to convert part of the vanadium slag it produces into vanadium pentoxide in SA

(183)

This, the US dealers feared, would remove slag from the international market, which could put some European and US slag processors out of business Highveld announced yesterday that it planned to spend R10m on plant needed to convert as much as 20% of its slag into pentoxide in the coming year

B/Day 1/8/91

However, chairman Leslie Boyd made it clear yesterday that Highveld's decision would not affect overseas conversion contracts "at this stage"

The company did not intend to end contracts with overseas slag processors

"Highveld will continue shipping slag while boosting vanadium pentoxide output by processing extra slag in SA," he said

At present slack demand for slag has left Highveld's slag facilities operating at less than full capacity

Analysts have said that Highveld's decision to start a vanadium slag beneficiation operation would bolster the company's performance and increase SA's export revenue

Highveld produces steel and by-product vanadium slag from vanadiferous iron ore

It also produces vanadium pentoxide directly from vanadium ore

Pentoxide is used to produce the ferro-vanadium alloy

FARM-AG

Easing out

There is not much left of Farm-ag's operations but, through restructuring and asset sales, it has, at least, survived It is well on its way to becoming a passive holding company with no managed subsidiaries

EPS totalled just half a cent in the year to February, but it was up from the previous year's 57c per share loss No dividend has been declared The profit was thanks to contributions from the associate companies Operating companies lost R5,8m, while R5,5m was made from associates A net loss attributable to outside shareholders of R350 000 put Farm-ag a mere R74 000 into the black This made only a dent in the extraordinary write-offs of R3,8m from disposed operations

Farm-ag's major asset, its agricultural chemical maufacturing operations, now forms part of Sanachem, a 50 50 partnership with Sentrachem, created in May last year Income from associate companies grew from R3,5m to R5,5m It includes a 40% holding in Hacks Hosiery and 23% of Bearing Man, as well as Sanachem

Financial director Richard McElligott says the company is working on disposing of its remaining operating companies These include Potter & Moore, which manufactures toiletries, pharmaceutical and consumer products, and Farm-ag International Trading, which exports general goods and industrial chemicals

Potter & Moore's working capital requirements have been a large drain on the company and the main reason for its extremely high debt equity ratio At year-end, there were shareholders' funds of R30m and borrowings of R59m, gearing of almost 200% Borrowings have at least fallen from the year-ago R97m, and management is aiming to reduce debt to R30m this year

McElligott says that the focus of the company will be its half share in Sanachem Sanachem should have a better year in financial 1992 The merger was finally sealed only in October Since then, there has been a major cost reduction programme, a rationalisation of sales and marketing and an integration of management

Sentrachem MD John Job says he believes the outlook for manufacture of agricultural chemicals is strong, especially for exports But he says there could still be rationalisation of distribution Farm-ag's retail distribution arm, Staalchem, has been sold in its entirety to Sentrachem Sentrachem will acquire all of Sanachem in 1995 and then Farm-ag's main asset will be cash

The price will be determined by the higher of either 50% of NAV or 50% of Sanachem's average annual earnings multiplied by a p e equivalent to 80% of the average monthly p e for the industrial holdings and chemical sectors On the company's projections, Farm-ag's share of Sanachem will be worth 617c a share, more than four times the current Farm-ag price of 140c

McElligott predicts that next year the interest bill will be reduced from the present R12,4m to around R9m and Farm-ag's EPS will increase to 50c This would give a p e on the present share price of 2,8 If the forecasts are met, shareholders can expect a favourable cash distribution after Sanachem is sold in 1995

Stephen Cranston

OLD MUTUAL FM 2/8/91

Offshore vehicle

For Old Mutual its new offshore investment vehicle is more than just another trust Chief operating officer Gerhard van Niekerk says "Mutual is opening up an international shop window for SA equities in Europe "

In an innovative move to promote SA equities in European markets, Mutual is launching a Channel Islands-based, closed-end investment trust dealing only in SA shares

This follows a visit to London by the assurer's investment chief Johannes van der Horst to gauge the extent of foreign investor sup-

Continue

GRESHAM FM 2|8|91

Less healthy 183

Activities: *Pharmaceutical and tool and hardware wholesaler and distributor*
Control: *Premier Group 78,6%*
Chairman: *G M Utian*
Capital structure: *52,5m ords Market capitalisation R26,3m*
Share market: *Price 50c Yields 6,0% on dividend, 13,0% on earnings, p e ratio, 7,7, cover, 2,2 12-month high, 60c, low, 45c Trading volume last quarter, 312 000 shares*

Year to Mar 31	'88	'89	'90	'91
ST debt (Rm)	1,5	1,4	8,4	3,0
LT debt (Rm)	29,2	31,1	37,1	106,2
Debt equity ratio	0,92	0,37	0,90	2,22
Shareholders' interest	0,32	0,32	0,30	0,25
Int & leasing cover	7,0	4,0	4,9	1,7
Return on cap (%)	13,0	11,7	9,8	10,2
Turnover (Rm)	281	665	626	833
Pre-int profit (Rm)	16,4	23,3	18,5	19,2
Pre-int margin (%)	5,9	3,5	3,0	2,3
Earnings (c)	20,1	17,3	14,4	6,5
Dividends (c)	8,0	9,0	6,0	3,0
Net worth (c)	75,0	89,2	67,0	65,4

Gresham Industries' increased exposure to the pharmaceutical and health care sector assisted in boosting turnover in financial 1991, but profits are still sliding and debt is rising Any marked improvement in the performance this year will hinge on the fortunes of PDC Holdings (see page 82)

The pharmaceutical division last year contibuted 87,4% of group turnover (with 63% coming from PDC) and 75% of trading profit This division's new acquisitions, Amalgamated Chemists Association (ACA) and

continue →

Gresham's Utian *hoping for higher margins*

Salters — from Twins — proved successful

Chairman Gordon Utian reports a substantial increase in turnover and profit at wholesaler and distributor ACA, and ascribes this to its broad range of customers across the entire health care sector He intends to adopt the ACA formula at PDC Holdings in an effort to boost its performance

ACA will continue to concentrate on coastal areas — it recently expanded its distribution centre in George and opened a new facility in Port Elizabeth — while PDC will confine its activities to the interior

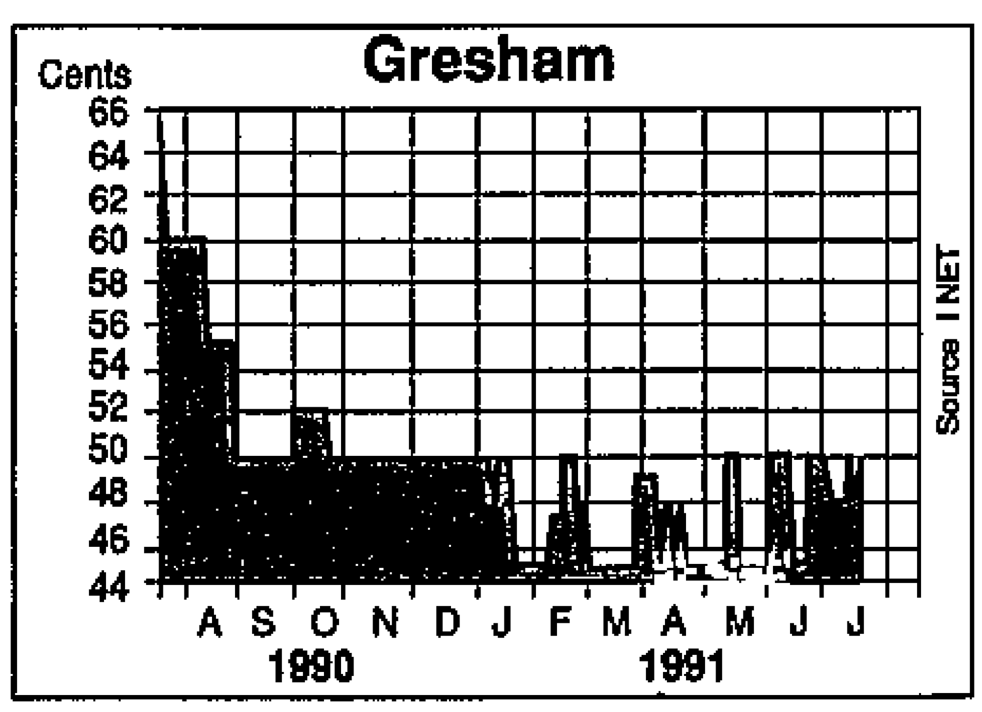
Salters, distributor of medical, surgical and pharmaceutical supplies and equipment, achieved "excellent profits" and Utian is delighted with this acquisition The right management is in place and he is expecting even better returns this year

Gresham also operates in the DIY tool and hardware sector. Utian says this sector, like pharmaceuticals, has more than its share of problems DIY building suppliers feel the squeeze on consumers' discretionary income keenly, and this is reflected in a 32,3% fall in the division's trading profit A rationalisation programme has been implemented but Utian expects a real improvement only once economic growth resumes

The group also has limited exposure to babywear and haberdashery wholesaling and the manufacture and distribution of belts A loss incurred at Unovex (haberdashery and sewing accessories) caused a decline in this division's profit

With a further slide in the operating margin to 2,3% in financial 1991, and pre-interest profit only up 3,8% on a turnover advance of a third, the climb in debt and the deterioration of liquidity ratios are of concern

Interest-bearing debt more than doubled to R109,1m, of which R104,4m represents an unsecured loan from holding company



Premier The resultant rise in interest costs saw R10,7m lopped off operating profit and constrained cash flow Debt cover, interest and leasing cover, and the debt equity ratio all deteriorated markedly and look unhealthy

Capacity to improve liquidity this year appears limited Though Utian is hoping that higher margins at PDC, and better performances from ACA and Salters, will improve profitability, he says this is "subject to the caveat that economic conditions do not deteriorate further" Yet his own observations tend to confirm that they have

Gresham will need more than this financial year to overcome its trading and financial constraints and restore shareholder confidence This is reflected in its share price and weak rating on the Retailers & Wholesalers board

Pam Baskind

Durban refinery output to be boosted by 30%

Shell, BP to spend R450m

S/Times (Buss Times) 11/8/91. (183)

OIL MULTINATIONALS Shell and BP will spend R450-million to increase output of jointly owned refinery Sapref in Durban.

It is believed that politics could have made it a difficult decision. But they decided to go ahead to avoid losing their share of SA's fast-growing liquid fuel market

Shell's share of the investment will be funded in SA But a BP source says part of his company's share of the funding may come from abroad

By CURT VON KEYSERLINGK

He says "BP is optimising its financing globally and if it is beneficial to use external finance we may do so But no decision has yet been made"

Sapref is Africa's biggest oil refinery and the project will raise its capacity by about 30%

The increase is more than the output of the Mossgas synthetic fuel project. It will be achieved at a little more than a twentieth of the cost of Mossgas

Mossgas' capital cost will be R8,8-billion and its capacity will be less than the growth in SA demand for petrol in a year

The magazine Petroleum Economist puts Sapref's present capacity at about 200 000 barrels a day

In response to questions from Business Times, the BP source says "Synthetic fuel plants are prohibitively expensive and are not remotely justifiable commercially

"The strategic need for them should cease when sanctions are repealed"

The news of the investment follows announcements of capacity expansions by all three other oil refineries in SA — Engen in Durban, Caltex in Cape Town and Natref in Sasolburg Mossgas will start producing when these projects are complete

Initially their combined output will be greater than SA needs and will allow for more exports But the liquid fuel market has grown even during the recession It is expected to grow faster in the next upturn

Bombers

The BP source says "We are investing at the bottom of the business cycle, but believe growth prospects are good Sanctions are being lifted and SA should become more attractive to foreign investors

"Also, demand for petroleum products is to some extent related to urbanisation We believe this process will continue"

A Shell source does not believe the announcement will provoke a significant reaction from political activists in the Netherlands where they have firebombed Shell service stations in protest against the company's involvement in SA

The BP source defends the investment decision against critics who favour continued sanctions, saying "BP has always opposed apartheid as is shown by our track record of working for a more democratic society and attacking things such as group areas legislation and separate schooling

"Our investment is for an addition to a refinery which plays a vital role in supplying the needs of all South Africans Demand is rising at a rate that will soon outstrip our capacity to supply We believe it is incumbent on us to help meet the future needs of the new SA"

☐ To Page 3

Refinery

(183) 4/8/91

☐ From Page 1

He says BP does not break the oil embargo by supplying crude to SA But he says current legislation forbids his company from disclosing sources of crude oil

"We look forward to the day when sanctions are lifted and this sort of information is made freely available," he says S/Times (Buss Times)

The American firm Badger has been awarded the main engineering contract, but 65% of the investment funds will be spent in SA

Engen in group bidding for Namibian oil rights

B/Day 7/8/91. (183)

LINDA ENSOR

CAPE TOWN — Gencor's energy giant Engen is a member of an international consortium currently bidding for the rights to explore for oil in an area off the Namibian coast.

The step follows Engen's recent £24m purchase of 27% of Gencor's 8% interest in the oil and gas exploration project in the Alba and Kilda fields in the North Sea.

Engen MD Rob Angel also said the group was "aggressively" pursuing the possibilities for oil exploration in West Africa and was looking into the feasibility of participating in refineries elsewhere on the continent to supplement its export drive

Angel said the existence of a large gas field off the Namibian coast had been confirmed but the exploration consortium's interest was not in gas but in oil exploration

"We are keen to get in there and are quite optimistic about finding oil because it is probable that the geology of the area where oil has been found along the West African coast extends down to Namibia"

He said the absence of a large and close industrial and domestic market for gas made it unlikely that the gas field would be developed for some time The cost of converting it into petrol or transporting it as liquefied natural gas would be prohibitive.

"We are primarily interested in oil which would serve as a back-up to Engen's refinery not necessarily by being transported there but in making oil swaps possible."

The outcome of the bid opened by the Namibian government is expected to be announced early in 1992.

Angel said the deal with Gencor, concluded on July 1, included the transfer to Engen of the management of all of Gencor's interests in the North Sea off the Scottish coast.

He was very excited about the deal because, apart from generating income for the group, it represented the first entry by Engen into the physical production of oil and brought credibility to the group as an international player in the petroleum industry

Development of the Alba field, which has proven reserves of about 300-million barrels of oil, was moving ahead quickly and oil production should start at the end of 1993.

Gencor's and Engen's share of the oil produced would not come to SA because of the distance but would be traded out, Angel said

Production of gas and gas condensate at the large Kilda field, physically located underneath Alba, had been fast-tracked because of additional reserves and condensate discovered Whereas production had been scheduled for 1998/99, this had been brought forward to about 1996

The cost of the project is expected to be about £650m.

R4,5bn chemical plant under threat

(183)

B/Day 8/8/91.

BRENT VON MELVILLE

THE huge R4,5bn chemical cracker plant proposed by a joint venture consisting of AECI, Engen and Sentrachem is in danger of being shelved, according to industry and market sources

Sources claim the sagging state of the chemical industry and intensifying international competition for feedstocks will end plans by the three producers to go ahead with the venture, which at inflation-adjusted prices could cost about R9bn

The plant, due to come on stream in about 1996, was intended to utilise the extensive infrastructure put in place by the Mossgas project to produce chemical feedstocks such as ethylene and propylene The aim initially is to export the feedstock and eventually serve the domestic industry when the market warrants it

Research into the viability of the project, called a gas/liquid cracker, has been under way for the past three years, and industry sources say a considerable amount of money has been spent on ensuring its viability

However, with the profits of SA's main chemical producers eroded by a glut on world markets and crumbling domestic demand, the viability of the project is now in question

AECI, whose participation is considered crucial, has shown declining profits over the past 18 months on the back of slumping international commodity prices and production problems Its latest set of interim results showed profits down by 56%

AECI MD Sander said the world petrochemical market would have to show drastic improvement by the time the final decision was taken to build the chemical plant He also pointed out that the Koreans and the Americans were commissioning plants of their own

Sentrachem, for its part, has not been spared the cost of poor trading conditions, and posted a 25% decline in profits for the six months to February

Sentrachem senior executive director Roy Pithey said SA's high inflation and the high level of corporate tax were still major issues to be addressed before a final decision was made, "especially if foreign partners are to be attracted to the project".

"But we believe a gas/liquid cracker sited in the Mossel Bay area to benefit from Mossgas infrastructure can be viable," he said The cracker had to have attached to it three or four downstream plants, which necessitated other partners

On the local side he cited Sasol, AECI and the IDC as possible partners

Engen, while it turned in a stable performance for the six months to February, has a lot on its plate in terms of North Sea exploration expenditure

AECI pays dearly to protect ozone layer

ST Times (Bus Times) 183

11/8/91

By IAN ROBINSON

AECI's commitment to the environment has cost the company many millions of rands because of its policy to phase out chlorofluorocarbons (CFCs)

In 1988 AECI started to urge its customers to move away from the use of CFCs in aerosols AECI's stand was based on evidence that CFCs were depleting the earth's ozone layer

AECI is South Africa's only producer of CFCs, which are chemicals used as aerosol propellants, refrigerants and blowing agents in plastics

AECI has a plant with an annual production capacity of 10 500 tons of CFCs 11 and 12, but has cut output to about half this in accordance with SA's signature of the Montreal Protocol

The protocol, which was signed by 50 countries in September 1987, requires the phasing out of so-called group 1 substances which have ozone depletion potential (ODP) This group includes CFCs 11 and 12

At AECI's urging, the SA Government signed the protocol in January 1990

AECI's decision to withdraw CFCs from the aerosol propellant market meant a permanent loss because it has not committed itself to producing substitute materials

CFCs used to be the predominant aerosol propellant in consumer applications, but its market has been taken over by butane and dimethyl ether (DME) Both gases are produced in SA — butane by Pure Gas in Alrode and DME by CG Smith in Durban

Fishing

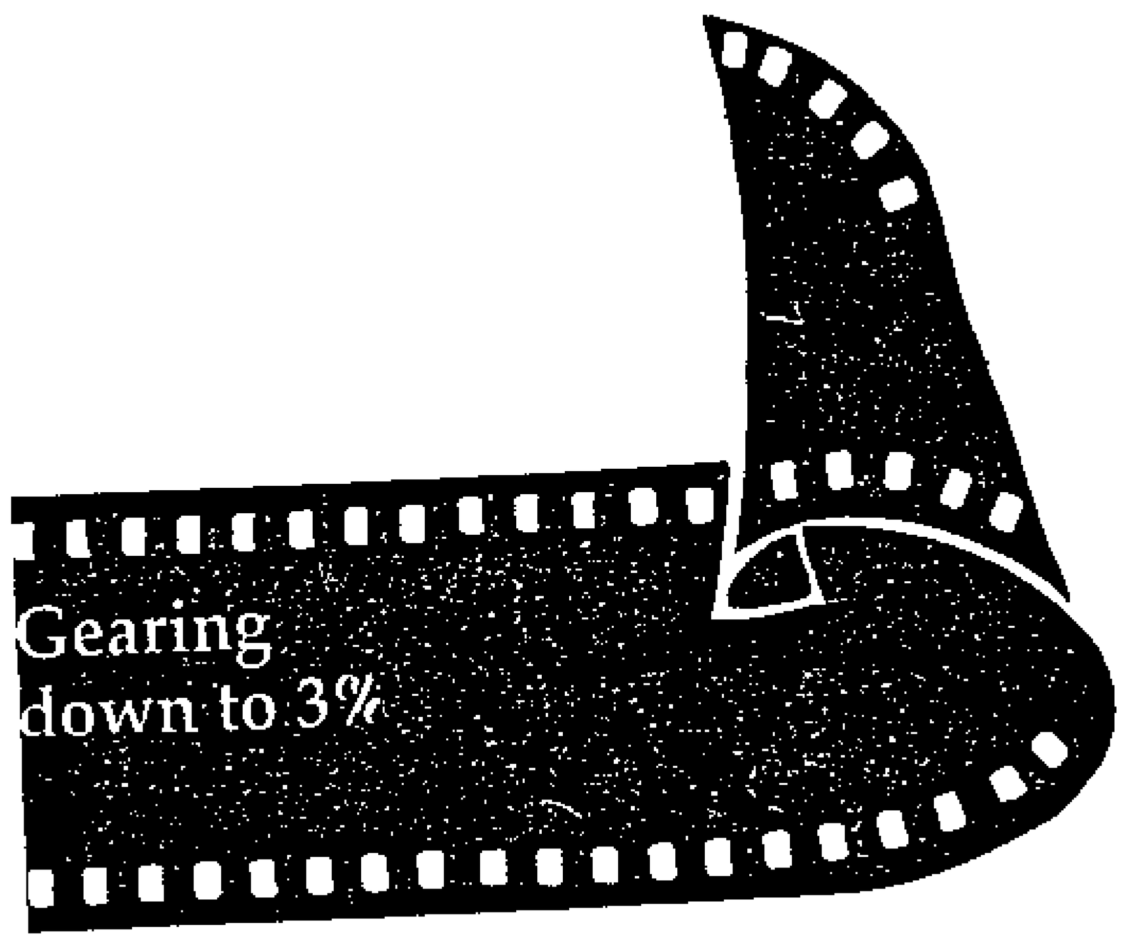
In contrast to its withdrawal from the aerosol market, AECI has invested large sums in providing consumers with alternative refrigerants The group has invested R18,7-million in a plant to produce HCFC 22, a hydrogen CFC known commercially as Freezone The 5 000-ton-a-year plant will come on stream in November

The major refrigerant consumers are gold mines and the fishing industry Extra costs are involved in switching refrigerants, but some gold mines have already installed plant to use HCFC 22 in place of CFC 12

HCFC 22 represents a provisional solution inasmuch as it also affects the ozone layer — although it has an ODP only a fifth of CFC12 AECI has launched an imported product, Klea 134A, as a long-term solution ICI UK spent \$500-million on developing this product which costs R75 a kg compared with only R7,50 for CFC 12

AECI continues to produce CFCs 11 and 12 for customers in specialist areas or where no substitutes are available, such as pharmaceutical aerosols and hospital refrigerants But in terms of the Montreal Protocol, it is committed to phasing out production by the end of the century

.end



	1991 R000's	1990 R000's
	111 643	91 591
	9 574	10 283
	121 217	101 874
	0	453
	3 221	21 922
	3 221	22 375
	124 438	124 249
	98 757	90 390
	27 201	18 845
	125 958	109 235
	112 296	93 119
	238 254	202 354
	(109 247)	(75 942)
	(4 569)	(2 163)
	(113 816)	(78 105)
	124 438	124 249
	3%	22%
	51%	50%
	59	49
ar	31 084	25 365
	36 224	28 981
d	27 050	18 212

lend

vidend of 6,25 cents per share for

R450-m boost for fuel refinery

Star 12/8/91

183

CAPE TOWN — Shell South Africa and BP Southern Africa yesterday announced a R450 million expansion project for the largest refinery in Africa — Sapref in Durban

Sapref is owned jointly by Shell and BP

The project is to start this year and will be completed by the end of 1993 About 65 percent of the total cost will be spent locally and the peak construction phase will provide jobs for 800 people

Shell said its share of the costs would be financed locally It added that the expansion project was primarily designed to increase capacity to meet expected growth demand

The project included advanced process technology allowing for the production of low-sulphur diesel fuel and an extension of capability to produce unleaded petrol

Shell said Sapref had maintained its leading position in process efficiency

The refinery currently conformed to rigorous pollution standards and consistently operated below regulated limits Advanced technology and energy conservation techniques would further reduce smoke emissions and improve environmental control. — Sapa

R450m expansion for Sapref

B/Day 12/8/91 (183)

ANDREW GILL

A R450m expansion is being planned for Africa's biggest oil refinery, Sapref, the Durban-based plant jointly owned by Shell SA and BP SA, the companies announced at the weekend

The 200 000-barrels-per-day (bpd) refinery is set for a 30% (60 000 bpd) boost This is despite recent reports that it was to lose a 30 000 to 40 000 bpd supply contract with Trek, which has entered the Engen stable, at the end of the year.

Financing for the project looks set to come mainly from inside the country but BP could be looking for some offshore funding

The programme was being undertaken to ensure Sapref maintained its competitive edge and would enable it to meet the growing demand for petroleum products in SA

Also, the new equipment will cater for other furture environmental demands, particularly that of low sulphur diesel New technology being installed will facilitate the refinery's ability to produce unleaded petrol

The move follows similar announcements by two other major refineries, Genref and Caltex

Engen's Genref announced a R670m expansion which will see a 50% increase in capacity to 150 000 bpd Caltex is developing its previously mothballed plans

The programme is due to get under way towards the end of the year and is likely to take two years to complete At peak construction phase about 800 people will be employed About 65% of the R450m will be spent within SA

Advanced processing technology and the use of energy-saving techniques will lessen emission and improve environmental control by reducing atmospheric pollution Facilities will also be installed to improve control of water pollution

Sasol, IDC plan acrylic fibre plant

183

ANDREW GILL

SASOL and the Industrial Development Corporation (IDC) are planning a R320m acrylic fibre plant with a view to replacing SA's estimated imports of 35 000 tons a year

Weekend reports said the two were in the final stages of negotiations on setting up the plant, which could save SA R110m a year in imports

The Durban-based plant would have an annual capacity of 36 000t but this could be increased to 50 000t.

Industry members, however, expressed concern that the final product could be more expensive than the imported product B/Day 12/8/91

Acrylic fibre is used extensively by the local textile industry and, the planners believe, the new plant could see transport costs fall and eliminate the need for large stockpiles

Sasol would run the venture, which should reach full production by 1993.

Market expects a strong performance from Sasol

B/Day 13/8/91 (183)

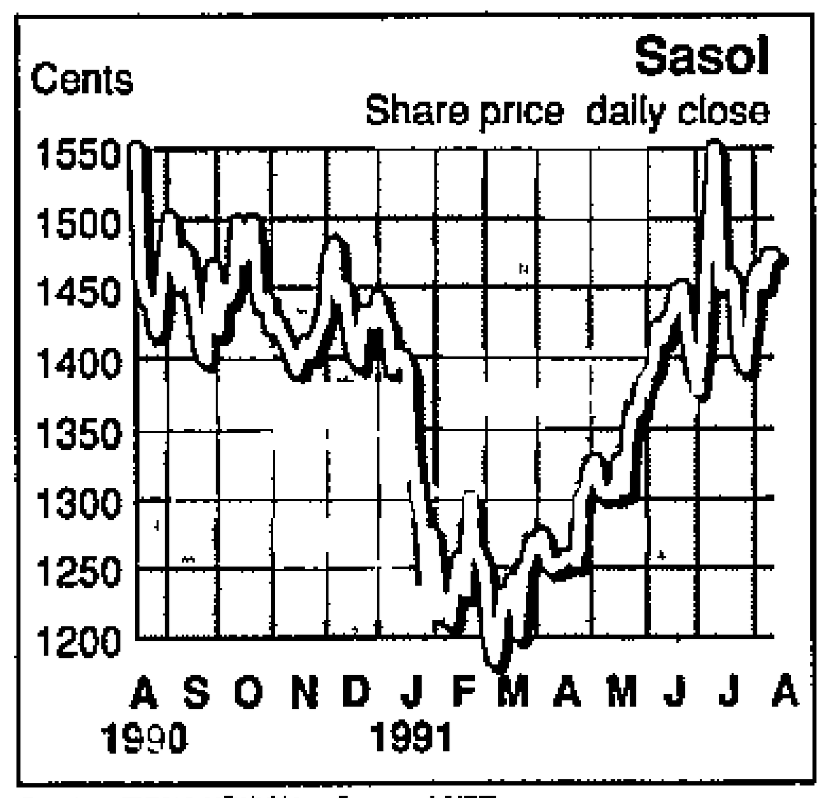
BRENT VON MELVILLE

THE market is expecting big things from Sasol for the year to June, based on better margins on oil refining and higher synfuel volumes

Investment analysts yesterday said they expected a 24% to 32% rise in earnings to between 164c and 175c a share The dividend payout is expected to be in the region of 70c

The variation in forecasts is due to the unknown level of taxation Last year Sasol changed its policy for deferred tax, and there is uncertainty about what the tax rate will look like this year

On a fundamental level, analysts believe a strong factor in favour of Sasol — which derives its profit about equally from synfuels, petrochemicals, fertiliser and explosives, and oil refining — is the rand/dollar exchange rate, and first-half oil price which was well above the notional floor price of $23 a barrel Crude oil is



Graphic: FIONA KRISCH Source: I-NET

currently at about $21,75, allowing Sasol variable tariff protection

Analysts also suggest that while the price Sasol is entitled to for synfuels dropped from an effective 64c/l during the first half to about 60c/l currently, volumes have improved

The feeling is that Sasol has not enjoyed such good margins since two explosions (apparently due to corrosion) caused extensive infrastructural damage in 1989 An expensive maintenance programme to rectify the damage is nearing completion

Analysts also argued against speculation that Sasol's balance sheet may suffer because of the ambitious capital expenditure programme embarked on this year They claim Sasol's cash flow is more than adequate to compensate for last year's R2,9bn takeover of Sasol 3 and for current and envisaged expenditure — capex will be well over R1bn for the year

As a result the debt to equity ratio is not expected to be much higher than the interim level of 40%

The market also feels Sasol is undervalued relative to other industrial counters Sasol yesterday attracted strong interest on the market, with about 127 000 shares trading hands in 18 deals worth R1,9m

Assuming earnings of 175c a share and a dividend of 70c, the current share price of R14,70 rates Sasol on a forward price to earnings ratio of 8,4, and a dividend yield of 4,8% This compares to the sector averages of 11,5 and 3,7%, respectively

First step in new Noristan scheme

WILLIAM GILFILLAN (183)

HEALTH care group Noristan Holdings has acquired direct marketing cosmetics company Martinique Beauty Products for what market sources said was about R400 000. B|Day 13/8/91.

Noristan MD Hugo Snyckers said the acquisition represented the first step in Noristan's strategy of moving into cosmetic manufacturing.

Martinique will fall under the newly established consumer products division which is to concentrate on expanding JSE-listed Noristan's cosmetic and toiletry lines

Because of the "political sensitivity" to high-margin patented medicines, the worldwide trend to generics and the emphasis on a primary health care infrastructure, Noristan had decided to diversify, Snyckers said.

Noristan shares closed yesterday at 95c a share down from 120c 12 months earlier.

AECI leaves it to the big boys

183

BDay 13/8/91

ROBERT GENTLE

AECI has dropped out of the chemicals & oil index after more than a decade because its market capitalisation is no longer big enough

This leaves heavyweights Engen and Sasol as the sole constituents of the index, which is weighted by market capitalisation

A spokesman from the JSE's research division said that the index was arrived at by taking those companies in the sector with the highest market capitalisation until 80% of the sector had been accounted for

Sasol (market capitalisation of R8,28bn) and Engen (R5,62bn) together accounted for R13,9bn — or just more than 80% of the sector's total capitalisation of R17bn

The spokesman said AECI, with a market capitalisation of R1,8bn, was an important share However, the line had to be drawn somewhere when compiling the index

An analyst expressed little surprise that AECI had dropped out of the index, especially after the Engen rights issue earlier this year which boosted considerably that company's market capitalisation.

AECI shares, which stood at 1 550c in March, have been moving steadily downward since and eased a further 10c yesterday to close at 1 175c

Sasol and Engen shares, however, have been on an upward trend over the same period

Engen sets sights on Africa

B/Day 13/8/91 (183)

LINDA ENSOR in Cape Town

SA's HOMEGROWN petrochemical company, Engen, has joined the international oil exploration race and could soon become a giant straddling the African continent

The energy arm of mining house Gencor is not an insignificant player in SA terms, with gross assets after the rights issue this year of about R3,6bn, a market capitalisation of about R5,6bn and an expected turnover of about R5bn

Its interests include a 100% stake in Mobil SA, 100% in Trek-Petroleum, 85% of petrol distributor Sonap, the Genref refinery in Durban and a 30% stake in the synthetic fuels plant, Mossgas

Sanctions prevented the group from capitalising on its natural advantages as an exporter of oil products, advantages which are now coming to the fore

The world's big oil companies — Mobil, Shell, BP, Chevron and Middle Eastern suppliers — have carved out their niches in Africa, but space will have to be made for Engen's products, cheaper due to the shorter distance over which they have to be transported from the group's Durban-based refinery

Group MD Rob Angel says Engen has the makings of a formidable competitor Already export volumes to Africa are about to treble this year

"It would be better if we are able to secure our markets by establishing ourselves there rather than just trading products," Angel says

The only constraint on exports this year has been limited capacity This will be eased to some extent by the R630m expansion of the Genref refinery in Durban due for completion in August 1992

Only a small portion of the new 30% capacity increase will be available for export with most being taken up by processing for Trek An important aspect of the expansion is the greater amount of value-added products that will be obtained

Expansion and a substantial rebuilding of the group's lubricating oil blending plant in Durban at a cost of about R110m will be completed by the end of this year Further down the road there is the possibility of a joint venture with other chemical manufacturers to establish an ethylene manufacturing facility

But refining and selling oil on the international market is only one leg of the group's future growth strategy The other is the exploration and production of oil.

On this front the group has an R8bn stake in Mossgas, a 20% participation agreement with Soekor for exploration of the Bredasdorp Basin, an agreement to participate in the massive Alba Kilda project in the North Sea, a bid for exploration rights off the Namibian coast, and it is far down the road in its search for opportunities in West Africa

Angel stresses the importance for Engen to become involved soon in the production of oil to offset and provide funds for its exploration activities which will take some time to generate a return While some of the finds in the Bredasdorp Basin have been promising, Angel does not believe there is a significant supply source in the area

"We feel there are a couple of small fields which may be economic but probably dependent on further technological advances before they become commercially viable "

What about funding for these ambitious plans? Angel says with zero gearing Engen has the capacity to borrow, although it will not "hock itself to the hilt to drill holes"

After a successful R1,1bn rights issue, borrowings will not be necessary for some time The first phase expansion of the Genref refinery will be paid for out of cash flow, which means the R1,1bn is currently being invested in a variety of financial instruments the nature of which Angel says will be disclosed at a later date

This investment income will offset any dilution of earnings — 44-million new shares were issued in the rights offer — in the financial year to end-August 1991

The R1,1bn will be used to fund the R1,5bn second phase expansion of the Genref refinery, the detailed engineering and feasability studies for which are well under way Angel says much of the new expansion will be earmarked to cater for projected growth in the export market

Mossgas is expected to commence production late this year or early next year Engen's decision on whether it will follow its rights is likely to be taken at the end of 1992 Crucial factors to be considered in making the decision will be the pricing structure for the project's products and whether its commercial viability is assured A rights issue to fund the estimated R1bn additional funding will be required if Engen follows its rights

Regarding the financial results for this year, Angel expects an earnings growth in line with the interim performance of about 20% This excludes the inventory or windfall profit (R120m at interim stage) arising from the increase in oil prices caused by the Gulf war

The general slowdown of the domestic economy has required a revision of volume forecasts from an expected 3%-3,5% growth rate to flat sales for the year However, the financial impact of this will be offset by the higher refinery margins resulting from the Gulf war

Angel says these margins have now eased to their expected level which is still high due to the worldwide shortage of sophisticated refinery capacity — a shortage likely to persist for several years "Refinery margins are very important at this time because about 70% of our earnings come from oil refining with the balance coming from marketing "

Refining margins are quoted in dollars and are thus a rand hedge for the group

Sustained good results will justify confidence in the share, which has to be a critical element in the group's future growth strategy to place itself as a leading oil producer and refiner on the continent

COMPANIES

Coates Bros still climbing, but slowly

Bdau 14/8/91

ROBERT LAING 183

PRINTING ink supplier Coates Brothers' interim results were in line with its directors' predictions — real growth in earnings and dividends although not at last year's high levels

Coates' interim dividend was 19c, which was 19% higher than 1990's interim dividend of 16c Earnings a share increased 17% to 120,7c (103c), which was slow compared with 1990's 51% growth for the same period

The group's share price, listed in the paper and packaging sector, has been one of the JSE's top performers The firm's share, price increased from R9 at the beginning of this year to R23 a share

Directors said the rate of earnings increase for the second half was unlikely to increase beyond the first half's level

Economic conditions in the sectors in which the company trades reflected negative growth and there were no signs of any significant improvement in the economy in the short term, directors said

"The high level of capital expenditure incurred in the first half year has ensured that the company is well positioned to benefit from the upturn when it comes. In the interim interest charges are expected to increase"

The group's long term liabilities increased 35% to R6,9m (R5,1m) The net asset value increased 8% to R12,76 (R11,74) a share

Deal with Sentrachem 'on the cards'

Taiwan to invest $200m in local plant

183

BIDay 15/8/91

TAIWAN's government is to invest $200m in an SA petrochemical plant, making it the single biggest investment yet from Taiwan and the first significant foreign capital injection in the post-apartheid era

A formal agreement between the China Investment & Development Company (CIDC) and Sentrachem is expected to be announced next month, according to CIDC president Shih Ta-Shao

A spokesman for Taiwan's embassy confirmed the proposed scheme would be the biggest industrial investment to date

He said while it was difficult to assess Taiwan's total investment in SA, embassy estimates put the figure at about $400m

Reuter reported Ta-Shao saying the plant would produce about 100 000 tons of di-ethyl hexanol annually He said the two companies would sort out the finer details of the project in September The plant is to be located at Mossel Bay — to take advantage of the giant Mossgas project

The investment will mark Taiwan's first investment in SA's petrochemical industry. Ta-Shao said the intention was to ship the material — used in products such as plastic films and sheets — back to Taiwan

SA, he said, had also provided an investment guarantee and tax exemption — which local sources said would probably prompt further investment from Taiwan

Sentrachem MD John Job confirmed the group was involved in discussions with the CIDC, but said the company was only one of many involved in discussions

He said the plant would form part of the

BRENT VON MELVILLE

R4,5bn gas/liquid cracker plant, which was intended to utilise the extensive infrastructure put in place by the Mossgas project to produce chemical feedstock

However, there has been strong speculation that the SA partners in the cracker, including AECI and Engen, were getting cold feet as the worldwide chemical industry sagged and plans were put in motion for several crackers in Korea and the US

Job said Sentrachem was largely the driving force behind the proposed cracker plant The group has put three years of research, and a significant amount of money, into ensuring its viability

A local analyst said Taiwan did not produce di-ethyl hexanol and relied totally on imports for supplies The joint venture proposal stems from an informal study conducted recently by the Chinese Petroleum Corporation into the viability of the plant.

The investment is also the first following the recent announcement by Trade and Industry Minister Org Marais of greatly expanded trade, investment and technological ties between SA and Taiwan

According to Safto, Taiwan's industrialists invested R800m between 1979 and 1989 However, Safto Asia manager Graham Limerick said investment had tailed off slightly over the past few years mainly due to concerns about the levels of violence

A spokesman for Sasol — SA's premier petrochemical producer — confirmed the group was aware of a proposed project, but added that it was not Sasol policy to comment on ventures by other companies

Sebobe's vision stretches ahead

Sowetan 15/8/91 (183)

Sowetan

THE innovative managing director of the first black hair products manufacturing company, Medicos Products of South Africa, Mr Lucas Manyane Sebobe (43), has a great vision to advance an industry often neglected by township entrepreneurs.

By JOSHUA RABOROKO

He is branching out and his new product - BMW Airfreshner - will breathe new life into your car and home and eliminate all musky smells and tobacco smoke - a major breakthrough for this enterprising black businessman.

Lucas ventured into the black hair product manufacturing industry when he realised that most black business people produced almost the same type of goods and had, therefore, to compete in the same limited market

Added to that was the major threat of having to share the market with big manufacturers who enjoy the advantages of large-scale manufacturing processes.

Haircare

Medicos Products SA manufacturers a variety of professional hair care products, which are sold in most stores and saloons in the PWV area and the Transvaal The firm is situated in the Orlando West Industrial Park in Soweto

Sebobe became interested in the haircare industry - estimated to be growing into a R400 million giant - after he saw more and more product lines entering the market place

"We have seen an industry emerging from the ghettos of Johannesburg, providing employment for thousands of blacks

"We have also witnessed with pride as all the communities of South Africa, irrespective of race or colour, enter the market as hairdressers "

Lucas, known as Rapeipi (pipesmoker) in business circles, has now turned his attention towards manufacturing new products.

Research

Early this year he started manufacturering the BMW airfreshener. He also hopes to produce other products, like cleaning shampoos

Born in Newclare, Johannesburg and matriculated at Meadowlands High School he, like many black youths, was forced to leave school at an early age because his parents could not afford to pay for his education

"I never had any ambition at school because blacks are normally not motivated at school. I just went to school to be there."

Lucas worked for IBM as equal-opportunity manager, which included "affirmative action" programmes for all race groups, from 1985 to 1988

During this time he also served on various organisations, including the Black Management Forum, various chambers of commerce and the Sullivan Signatory Association

He has travelled overseas, where he presented a research document based on the impact of disinvestment on the black economic development to the US Black Caucus, Senators and businesses in the US

His business supplies and distributes haircare products to most spaza shops in the townships, as well as big companies in the cities

Turnover

He is reluctant to talk about his turnover, but says the business is doing "fairly well "

He says the past the eight years could be regarded as Phase One for him - laying the foundation

It has been an interesting phase indeed for many individuals and corporations

Lucas started the business with two partners; however, they have since fallen away and he continues alone He has 21 employees and believes that his staff must be trained and educated so that they can produce good products

His future plans are to conduct research with a view to opening other companies in which he will sell shares

● This article qualifies Sebobe for the Sowetan/Sanlam Entrepreneurs of the Year Competition


LUCAS SEBOBE

AMIC (183)

Battling FM 16/8/91.

Amic chairman Graham Boustred predicted the group would do well to maintain earnings at 1990 levels this year That view now looks too optimistic — there would need to be a significant upturn in world steel, chemical and paper prices in the next few weeks for the group to make up for the 26% profit slide in the first half Amic is more exposed to commodities than most industrial conglomerates and prices are weak almost across the spectrum

The poor showing was expected once two major contributors, subsidiary Highveld Steel and associate AECI, reported earnings declines of 43% and 56% respectively Boustred says there was "continued difficult trading conditions" for other group companies In particular, unlisted Mondi is not thought to be performing any better than Sappi, which saw profits tumble by 38% in the year to February and is not forecasting much improvement

Amic has particularly high fixed investments, valued at R5,7bn It will turn over these assets scarcely more than once this year Moreover, it is unusually exposed to the mining industry, particularly with wholly owned Boart International and 40%-held AECI

Lower tax rate

Nevertheless, income from associates was down 19%, which was relatively good Associates are drawn from a wider portfolio and include interests in the Altron group and LTA, both of which improved earnings

Income before interest and tax fell by a third, but Amic enjoyed a sharp decline in its tax rate, from 24% to less than 10% Interest fell by a quarter and net borrowings by a tenth The interim dividend was maintained at 110c, which reduced cover from 4,1 to 3 Demand for funding in the group has diminished, capital expenditure commitments, at R256m, are less than half those in June 1990.

The poor results have done little to deter investors Since early July, the share price,

Continue →

FOX FM 16/8/91 (183) (189)

AMIC SLIDES

Six months to	Jun 30 '90	Dec 31 '90	Jun 30 '91
Turnover (Rbn)	2,96	3,16	3,12
Trading inc (Rm)	344	227	211
Ass companies (Rm)	109	113	89
Invest income (Rm)	46	42	35
Attributable (Rm)	243	208	182
Earnings (c)	451	385	333
Dividends (c)	110	240	110

has increased from R82, briefly touching R92 earlier this month, and is now trading at R90, giving a dividend yield of 3,9% and an earnings yield of 8% These are similar yields to those for Barlow and Malbak, both of whose profits may prove to be more resilient Amic is worth looking at on a longer-term view and it remains a good rand hedge, but immediate prospects are not encouraging

Stephen Cranston

No new petro-chemical plant

Finance Staff Star 16/8/91

Sentrachem has denied any connection with a reported R560 million petrochemical to be built at Mossel Bay, "by the China Investment and Development Corporation and Sentrachem"

183

Sapa reports that a spokesman for Sentrachem said discussions with a number of local and foreign companies have failed to reveal definite plans for the construction of any new plant in South Africa

Expressing similar views Mossgas MD Bernard Smith said no agreements had been reached with Mossgas for the supply of feedstocks to the reported project

FM 16/8/91 (183)

SPICER-MITCHELL FM 16/8/91

Turning (183)

Activities: *Manufactures chemical compositions and effluent treatment plants Provides cleaning and pollution control facilities to power stations and heavy industry*
Control: *Directors 74%*
Chairman and MD: *R S Prince*
Capital structure: *10m ords Market capitalisation R2,5m*
Share market: *Price 25c Yields 12% on dividend, 19,6% on earnings, p e ratio, 5,1, cover, 1,6 12-month high, 30c, low, 8c Trading volume last quarter, 11 000 shares*

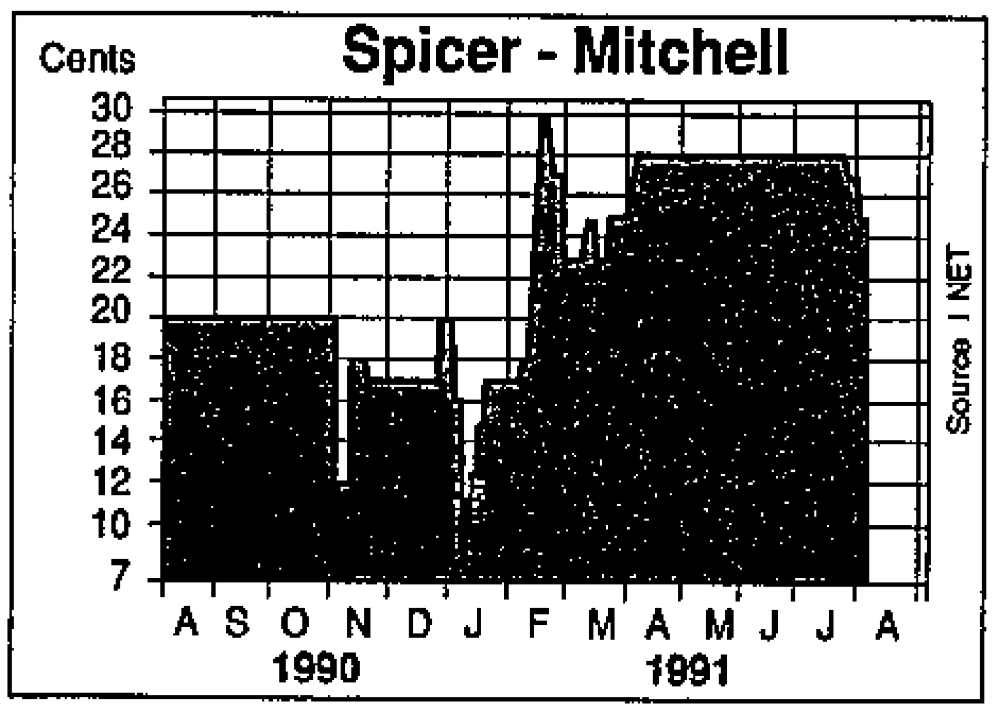
Year to Feb	'88	'89	'90	'91
ST debt (R000)	206	333	2 291	2 658
LT debt (R000)	180	272	722	413
Debt equity ratio	0,17	—	2,81	1,82
Shareholders interest	0,54	0,48	0,16	0,22
Int & leasing cover	21,0	n/a	n/a	3,5
Return on cap (%)	23,4	19,3	n/a	17,4
Turnover (Rm)	8,14	9,51	15,55	16,10
Pre-int profit (Rm)	0,95	1,04	(1,08)	1,30
Pre-int margin (%)	11,6	10,9	n/a	8,1
Earnings (c)	4,6	5,2	(15,2)	4,9
Dividends (c)	1	2	—	3
Net worth (c)	22,7	25,9	10,7	16,7

DCM-listed Spicer-Mitchell has fully recovered from last year's losses, incurred mainly in its recently acquired subsidiary, SSS Engineering The directors rationalised operations and reduced staff numbers Chairman Dick Prince says contracts were won with acceptable margins, so that growth in operating income was more than double that in sales

The most spectacular recovery was at the speciality chemicals subsidiary, Edentec Industrial Its sales doubled and margins were "much improved" Management repurchased 49% of the equity Spicer-Mitchell Construction returned to profitability in the second quarter and though it has inadequate work, it has made a major contribution SSS Engineering returned to profitability in the first quarter and finished all loss-making work in the third quarter

Extraordinary items of R413 000, for the disposal of fixed assets and the sale of equity in Edentec Industrial, almost doubled net income and reduced the accumulated loss, after dividends, by two-thirds, to R300 000

Prince says the market will shrink further before it improves and it would be "inappropriate" to expect growth in sales or profit for the current year He says better control and



management of operating costs is needed In the 1991 year, working capital increased by more than R900 000, stocks grew by two-thirds but debtors fell by 6% and creditors were cut by a quarter

The outlook for heavy industry and construction, the main industries which the group supplies, remains uncertain

The share looks fairly priced on an earnings multiple of 5,1 and a dividend yield of 12% — the counter lacks tradeability and the profit record is too volatile for most investors

Stephen Cranston

Striking petrol workers march on companies

183

ARG 17/8/91

SHARON SOROUR
Labour Reporter

STRIKING placard-bearing petroleum workers from BP, Caltex and Total marched on their firm's headquarters to voice their demands.

Chemical Workers' Industrial Union (CWIU) members, downed tools this week over wage, job security and centralised bargaining, joining about 1 000 others in the Transvaal, Free State and Eastern Cape.

The union claimed the strike had "severely affected fuel and gas supplies in the country" with companies resorting to the assistance of contractors.

However, Caltex spokesman Mr Mike Maxwell said production and deliveries had not been disrupted.

Police monitored proceedings as workers gathered in front of Caltex House in D F Malan Street yesterday, chanting: "Meet our demands".

Workers, who obtained municipal and magisterial permission for the march, peered at Caltex management through the building's glass doors.

Most were holding placards with slogans like "Caltex supports Inkatha?", "The white rabbit is dying" and "Let the workers share the profits".

They then marched up Hertzog Boulevard and the Heerengracht to B P Centre on Thibault Square where they accused management of allowing them to go hungry.

Caltex workers have been picketing outside the Milnerton refinery this week, joining workers at nine Free State and Transvaal depots.

The firm was offering workers a monthly rise of 16 percent on payroll, which consisted of a R200 across-the-board increase or a 13 percent increase, whichever was bigger.

The balance was taken up under an "equalisation to the rate for job formula" which had been agreed with the union, plus a service allowance offer of R2,50 a month for every year of service up to 25 years, said Mr Maxwell.

Workers were demanding an increase of 25 percent.

Mr Maxwell said the firm would not bargain with other companies and sacrifice its independence and flexibiltiy "to negotiate what is in the best interests of its employees and the company".

B P spokesman Mrs Pam Jooste said the company was offering workers a monthly increase of 10 percent to higher-paid workers while lower-paid workers would get a 16 percent monthly increase.

The union said BP workers were demanding a 21 percent rise. Total workers were demanding a 25 percent increase.

Oil workers strike

ABOUT 1 000 employees of BP, Caltex and Total have gone on strike to support demands for wage increases of between 21% and 25%, job security and centralised bargaining for the petroleum industry. The companies offer between 9% and 19%.

An industry source says offers for most jobs exceed the inflation rate. The offer for the lowest-paid job is a 16% increase to R1 445 a month.

In addition one company subsidises its employees' home loans to bring interest rates down to an effective 4%. It pays for group life assurance amounting to 26 times gross monthly salary of each employee and has a subsidised pension and medical aid scheme. S/Times (Bus Times) 18/8/91

The trade union says workers are particularly angry about the multinationals investing millions in upgrading refineries, marketing networks and improving their images.

(183

AECI toppled after 24 years as the chemical industry's leader

B Day 19/8/91

(183)

BRENT VON MELVILLE

AECI's disappearance from the chemicals and oil index marks the end of the group's 24-year reign as the undisputed heavyweight in the chemicals industry

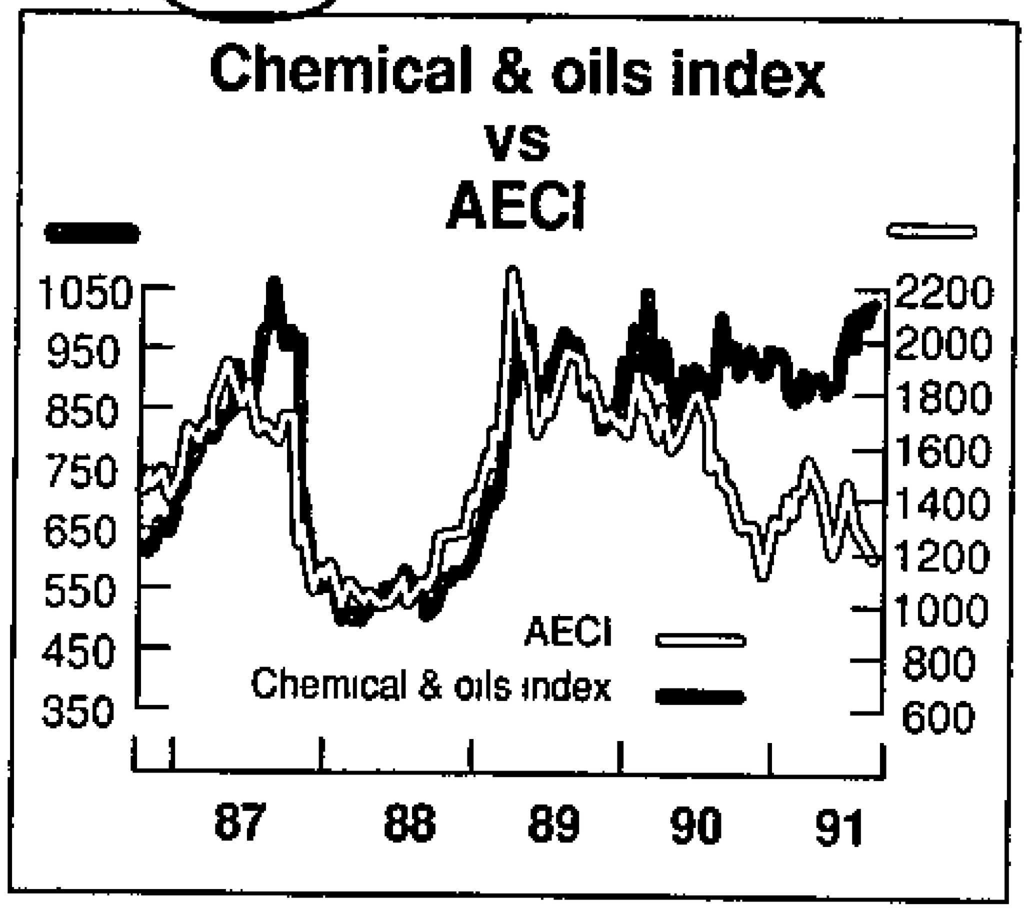
The JSE dropped AECI from the index because, it said, its market capitalisation no longer warranted its rating Sasol and Engen have now stolen the limelight with a combined market capitalisation of almost R14bn — compared with AECI's R1,8bn

It is a significant comedown from 1967 when the diversified chemicals group was rated as SA's biggest industrial concern, with total assets of R145m In this year's Financial Mail Top Companies ratings AECI had dropped to 13th spot at R3,3bn

AECI has been overtaken at a marked rate It reflects to a considerable extent mergers which absorbed the assets of divesting foreign firms, the development of state-sponsored petrochemical and synfuels plants and government's belated reluctance to underwrite new synfuels projects

AECI's focus on heavy chemicals became a drag as the local and world economies slipped into recession Still, in 1980 it was ranked as SA's fifth largest industrial concern, with total assets of R757m

And in the 1979 boom, AECI virtually doubled its market capitalisation to R929m in less than a year, almost single-handedly pushing up the chemicals and oil sector index a dramatic 97% That year was also the last that half-way earnings were as low as 32c a share — and then turnover was less than 15% of what it is today



Graphic LEE EMERTON Source I NET

According to group MD Mike Sander, this year was the third half-year in succession that aggregate local demand for AECI's products fell by 10%

AECI has also been hit by a worldwide oversupply of basic chemical commodities such as PVC The latest reported results for AECI — for the half-year to June 1991 — saw earnings tumble 56% to 32c (73c) a share

Consequently its market rating has plunged

In an otherwise recently buoyant sector, AECI has gone the wrong way Between August and November of last year it shed 33% of its share price, moving off a high of R15,35 to R10,25, and it is currently labouring at just below R12

Investment analysts feel AECI has been suffering from management complacency One analyst said it had not made any major investments in the past 10 years, other than the Sua Pan project in Botswana However AECI's contribution was a relatively low R80m

A Martin & Co analyst said AECI urgently needed the injection of new businesses or projects to reduce its current emphasis on selling commodity products to hard-pressed domestic customers (mining and farming)

He said even then, large projects in the pipeline will take years to come to fruition and the balance sheet is in no shape to handle them

Analysts said not only was AECI not investing in new plant and equipment (its newest ammonia factory in Modderfontein is 18-years-old) it was also slow in moving into new products While its annual sales are up at R5bn, analysts report that its profit margins are well below the industry average

The consensus is that AECI is due for a shake-up The market's impression is that it is a dinosaur in a vibrant industry The seriousness of the situation is underscored by the decision to cut the dividend — the first such decision since AECI was listed in 1966

Business Report

MONDAY, AUGUST 19 1991

AECI toppled as industry leader

(183)

19/8/91 CAPETIMES

From BRENT VON MELVILLE

JOHANNESBURG — AECI's disappearance from the chemicals and oil index marks the end of the group's 24-year reign as the undisputed heavyweight in the chemicals industry

The JSE dropped AECI from the index because, it said, its market capitalisation no longer warranted its rating Sasol and Engen have now stolen the limelight with a combined market capitalisation of almost R14bn — compared with AECI's R1,8bn

It is a significant comedown from 1967 when the diversified chemicals group was rated as SA's biggest industrial concern, with total assets of R145m In this year's Financial Mail Top Companies ratings AECI had dropped to 13th spot at R3,3bn.

AECI has been overtaken at a marked rate. It reflects to a considerable extent mergers which absorbed the assets of divesting foreign firms, the development of state-sponsored petrochemical and synfuels plants and government's belated reluctance to underwrite new synfuels projects

AECI's focus on heavy chemicals became a drag as the local and world economies slipped into recession. Still, in 1980 it was ranked as SA's fifth largest industrial concern, with total assets of R757m.

And in the 1979 boom, AECI virtually doubled its market capitalisation to R929m in less than a year, almost single-handedly pushing up the chemicals and oil sector index a dramatic 97% That year was also the last that half-way earnings were as low as 32c a share — and then turnover was less than 15% of what it is today.

According to group MD Mike Sander, this year was the third half-year in succession that aggregate local demand for AECI's products fell by 10%

AECI has also been hit by a worldwide oversupply of basic chemical commodities such as PVC. The latest reported results for AECI — for the half-year to June 1991 — saw earnings tumble 56% to 32c (73c) a share.

As a Consequently its market rating has taken a plunged.

Kroks deny plan to sell Twins stake

183

B/Day 22/8/91

WILLIAM GILFILLAN

THE Krok family has denied it is considering selling its 44% interest in listed pharmaceutical group Twins

Speculation that there would be a sale was prompted by Abe Krok's replacement as chairman of Twins last month by Premier CE Peter Wrighton

Market rumours were that the Premier group, which had the controlling interest in Twins, wanted to buy out the Kroks' interests because of a "difference in opinion" between the two largest shareholders

Premier and the Krok family hold 90% of the shares in Twins through Twin Propan Holdings, a private company controlled by Premier

Krok says the family is happy to hold on to its interest for the moment, although "most prudent businessmen do diversify their portfolios"

Wrighton did not rule out the possibility of Premier increasing its stake in Twins although he said this involved "the private relationship between the principle shareholders".

One industry source said the Krok family was unlikely to reduce its holding now as it believed the share was undervalued

At 300c a share, Twins is trading at a premium of 36% to its net asset value of 220c a share

As most of the remaining 10% interest in Twins is held by management, share tradeability is tight but this could improve

Twins MD Phil Nortier had been given an undertaking "from large shareholders" that they would release shares onto the market "if budgets are achieved"

Growth

Nortier did point out though that no guarantee had been given by the major shareholders that they would release scrip to the market Nortier has predicted real growth in earnings for this year This might set the scene for improved tradeability as soon as 1992

Twins' share price has more than doubled to 300c a share from 140c in January, this, Frankel Kruger analyst Teigue Payne says, reflects future prospects

Nortier, appointed last October, has rationalised three of the four divisions through by selling off underperforming assets and making changes to senior management He said trading results in the first quarter were above expectations

Windfall for Sinclair shareholders (183)

BRENT VON MELVILLE

FOLLOWING the sale of its Aquanaut pool-cleaner division for $7,1m earlier this year, Sinclair Holdings yesterday announced that it would spin off the proceeds of the deal to shareholders

The company — soon to be renamed Urquhart Motor Group following its takeover last July — has decided to hand out the special bonus dividend of 93,5c per share, equivalent to 76% of the group's current share price

Shareholders will also receive 24 preferred ordinary shares for every 100 existing shares The handout will be worth about R20m and stems from the extraordinary profit of the R17m realised from the Aquanaut sale

BDay 23/8/91.

Sinclair director Jonathan Bader said the preferential dividends could be valued at a premium as high as 14% on the ordinary share value, or about 180c a share He said the decision had been prompted by the fact that there was excess cash in the business and non-existent gearing

Sinclair has managed to steer itself to a 55% rise in attributable earnings to R6,2m (R4m) The rise, off a 7,6% improvement in turnover to R235m (R218m), translates into earnings of 24,1c (15,5c) a share

An extraordinary profit of R5m is also listed on the books, arising from the disposal of Aquanaut as well as the closing of two motor dealerships The group's existing businesses includes franchises for Audi, Ford, Honda, Mercedes-Benz, Nissan, Toyota and Volkswagen cars

Bader said the company was committed to growth by acquisition and would pursue this objective strongly in the coming year He said the group would be comfortable with a gearing in the region of 75% to 80%, because of the group's high asset turnover

In terms of the group's re-organisation with Urquhart & Co, the group's shares will be consolidated on a one for two basis, the company's name will be changed to Urquhart Motor Group Limited and its listing sector on the JSE will change

Noristan feels effect of medical cutbacks

Star 23/8/91

Finance Staff (183)

Cutbacks on medical expenses took their toll on pharmaceutical group Noristan Holdings, which has reported a decline of 18,8 percent in earnings for the year to June

Attributable earnings fell from R10,84 million to R8,52 million, which translated into a decline in earnings a share from 19,6c to 15,9c

The drop in earnings was the result of a pressure on margins, which reduced the turnover increase of 11,7 percent to R108,4 million (R97 million) to a 10 percent decline at the operating profit level

No final dividend has been declared, so the total payout for the year is 33 percent down at 4c (6c)

The group has changed its year-end to December to bring it into line with that of W & A, which has a 21 percent stake in Noristan

MD Hugo Snyckers says the cutbacks and curtailment of medical expenses in the public and private sectors have had on a detrimental effect on the health-care industry.

For the current financial year, however, he says real growth in sales and improved margins can be expected, while a substantial decrease in capital expenditure would stabilise gearing and financing costs

Noristan subsidiary, Norimed exceeded its forecast earnings per share of 87,8c at the time of the listing in August last year by over 6c to 94c An interim dividend of 30c a share will be paid.

Turnover increased by five percent, but operating margins remained virtually unchanged.

Norimed continued to earn interest on cash held, which amounted to R16 million at the end of June and accounted for 518c of the net asset value per share of 756c at the end of the year

8|91

able In the last quarter only 6 000 changed hands, not an unusually low volume for the counter

Stephen Cranston

FM 23|8|91 183 **COMPANIES**

SOLCHEM

Better volumes

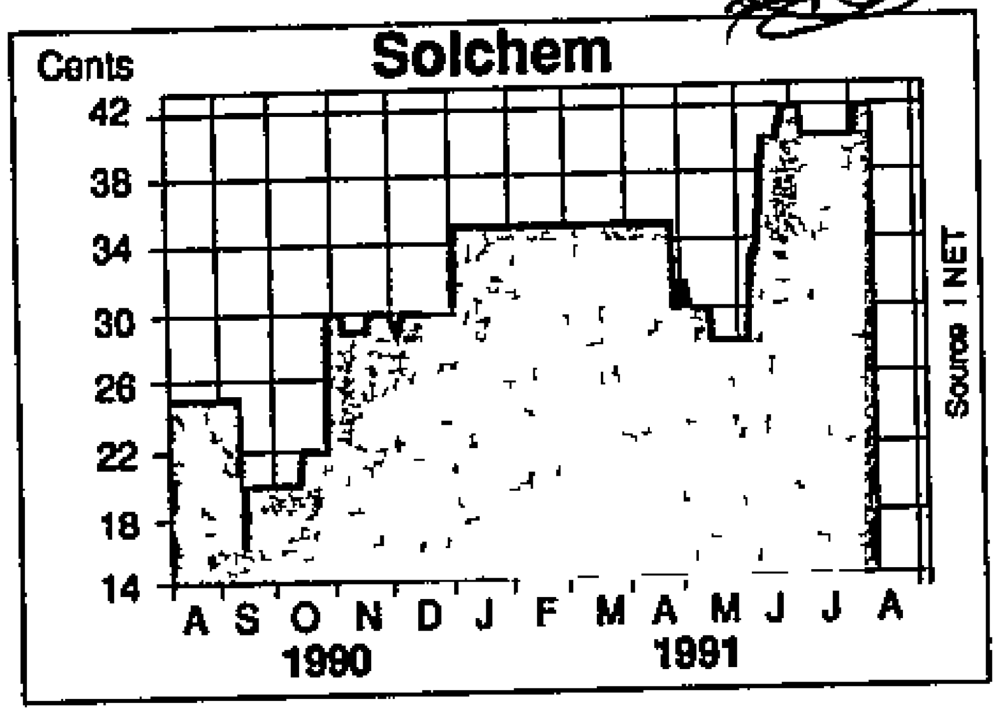
183

FM 23|8|91

Solchem's trading margin fell because of increased competition in the Transvaal area The group, however, retained its market share and lifted volumes substantially in the Web Offset market.

During the 1991 year the new liquid ink

Activities: *Manufactures printing inks*
Control: *CTP 77%*
Chairman: *E M Jankelowitz.*
Capital structure: *40m ords Market capitalisation: R16m.*
Share market: *Price· 40c Yields 2,5% on dividend, 12% on earnings, p e ratio, 8,3; cover, 4,8 12-month high, 42c; low, 15c Trading volume last quarter, 653 000 shares*



Year to March 31	'88*	'89	'90	'91
ST debt (Rm)	4,2	10,0	5,9	5,3
LT debt (Rm)	0,1	0,6	0,5	0,4
Debt equity ratio	0,35	0,99	0,52	0,41
Shareholders' interest	0,39	0,37	0,47	0,42
Int & leasing cover	14,6	3,0	3,3	3 9
Return on cap (%)	13,9†	9,9	19,5	15,4
Turnover (Rm)	44,7	42,0	47,7	49,2
Pre-int profit (Rm)	5,2	2,8	5,1	5,1
Pre-int margin (%)	11,6	6,7	10,6	10,3
Earnings (c)	5,1†	3,1	5,1	4,8
Dividends (c)	1,3	—	1	1
Net worth (c)	24	26	30,5	34,3

* 18 months
† annualised

factory in Prospecton was completed It will take strain off the Sebenza plant, which has not had the capacity to meet all orders A

continue →

FM 23/8|91 183

varnish factory was commissioned after year-end in Montague Gardens, Cape Town Chairman Edwin Jankelowitz says the group's technical assistance programmes with leading manufacturers in the US and UK should keep Solchem at the forefront of printing ink technology

However, Jankelowitz notes that asset management deteriorated at year-end, stock had increased by 21% and debtors by 29%, while creditors grew by just 4% He expects working capital will be brought under control during this financial year

Solchem moved from the DCM to the printing and publishing sector during its last financial year As usual for the Caxton companies, the dividend cover is high, at nearly five times The earnings yield is above the

FM 23|8|91 183

average for the sector, but the dividend yield is relatively low. The share, on an earnings multiple of 8,3, looks pricey in view of the patchy profit history

Stephen Cranston

LABOUR

Sparks fly in petrol dispute

w/Mail 23/8 - 29/8/91 (183)

Wages, job security and centralised bargaining are at the heart of the petrol industry strike

By FERIAL HAFFAJEE

FUELLED by interdicts, sleep-ins, pickets and the introductionof replacement labour, the strike which has disrupted the petroleum industry for the past two weeks went into negotiations yesterday

Nationally 1 000 BP, Caltex and Total workers are out on strike Central demands are a 21to 25 percent across-the-board increase, job security and centralised bargaining in the sector

Caltex and BP are offering 13,2 percent increases across-the-board, which amounts to R200 at the bottom of the scale In addition, BP is also offering a 16,6 percent rise to its lowest-paid workers which will take their wages to R1 445 a month

On Monday, workers were locked out of depots in Johannesburg and Durban And on Tuesday, an interdict was slapped on workers at BP's Cape Town terminal

BP's management alleged interference with the company's operations Workers were preventing the loading of vehicles and no bulk delivery vehicles were able to leave BP's premises, said the company

BP believes this type of action could "disrupt essential services and flights and cause considerable public harm"

These claims contradict statements this week by the National Energy Council, which said the strike was not disrupting the supply of petrol

BP workers in Johannesburg and East London have also been threatened with interdicts after bringing depots to a standstill

A union representative warned that strike-breaking drivers posed a hazard to the public because drivers in the sector underwent special training He pointed out that transporting petrol was dangerous Investigations are being made into allegations that replacement drivers were mixing diesel and petroleum at the depots

The Congress of South African Trade Unions' call for centralised bargaining seeks to set industry-wide minimums and fair standards It also allows unions and employers to make use of their most skilled negotiators and sets wages for the industry, thus preventing wage cuts, say unionists

But Caltex said in a statement this week that it "is not prepared to sacrifice its independence and flexibility to negotiate what is in the best interests of its employees and the company"

Both BP and Total have signalled their willingness to discuss centralised bargaining

Chemical Workers' Industrial Union (CWIU) representative Martin Jansen says the union's campaign for job security dovetails with Cosatu's campaign In addition to a moratorium on retrenchments, the union is seeking guarantees against contracting

Jansen says the petroleum sector is prone to contracting — which results in a decline in working conditions and wage cuts Contracting starts with catering and cleaning workers and eventually affects drivers

The CWIU campaign also targets deregulation of the industry The union believes that with the lifting of trade embargoes on South Africa, petroleum will become more easily accessible and cheaper Price barriers are also likely to be dropped and have negative effects on working conditions

Unions point out that already the 80km radius for fuel deliveries has been dropped and rationalisation measures have meant drivers often work dangerously long shifts

They also question the expensive upgrading and marketing programmes which petrol companies have undertaken

Still pumping ... An attendant fills a motorist's drum at one of strike-hit BP's service stations. The petrol price goes up on Saturday

Photograph: GUY ADAMS

Caltex has spent R300-million on upgrading its refinery, and Mobil and Shell have spent R450-million on their SA Petroleum Refinery.

Workers' marches on the three petroleum houses' headquarters in Johannesburg yesterday were voluble about the companies' marketing campaigns Placards protesting against Caltex's sports sponsorship said "Blacks boycott NSL-Caltex Colts games" and "Caltex sponsors Abdul Bhamjee's bail"

BP's latest marketing campaign got short shrift when workers said "BP is going green while its workers are going starving"

Contract row hits soda ash project

S/Times (Bus/T) 25/8/91

183

By DON ROBERTSON

CONTRACTUAL disputes involving Soda Ash Botswana's Sua Pan project and major contractors could delay the build-up to full production of the R920-million plant

The latest disagreement involves Siemens, which has contracts worth about R7-million

Siemens general manager Roelof van Ark says it was hoped to resolve the matter at a meeting last Friday, but this was not possible

Stake

Mr Van Ark says that in international contracts of this nature, disputes "are a normal course of events"

"Our technical know-how strictly followed these guidelines and we are sure that once normal business issues have been settled, the alleged non-payment will no longer be an issue"

AECI has a 26% stake in the project and Anglo American holds 25,5% The balance is held by the Botswana Government

Mr Van Ark says the scope of the project changed during construction and the contract value is now larger than originally specified

When in full production Sua Pan it will produce 300 000 tons of soda ash and 650 000 of salt a year In the past, soda ash has been imported

AECI says construction involves hundreds of contractors and it is inevitable that contractural disputes arise, usually through misunderstandings and departure from the terms of contracts

Soda Ash Botswana is not immune from such disputes, says a company spokesman

Sentrachem plant bounces back

BRENT VON MELVILLE

SENTRACHEM is set to re-open part of its R120m mothballed Newcastle synthetic rubber plant to produce a specialised chemical feedstock previously imported to SA

In addition the chemical producer has not ruled out that the carbide part of the plant may be converted to ferrochrome production, in line with market speculation earlier this year

The plant, mothballed last year because of slumping world natural rubber prices, is to come back onstream under Sentrachem subsidiary Karbochem It will produce alkyl amines, used in the manufacture of a wide array of agricultural chemicals, explosives, rubber, and water treatment chemicals

SA imports about 12 000 tons of alkyl amines at an estimated cost of R40m

Karbochem director Alex Olivier said the group would be looking at supplying the total domestic market and could not rule out exports

At the same time he said that the mothballed calcium carbide furnace on site would lend itself to ferrochrome production. The group was prepared to "ride out the storm" of depressed ferrochrome prices

As for the production of alkyl amines, Karbochem MD Ben Schoeman confirmed that the group had been investigating the production of the specialist chemical for several years

Schoeman said the project had only now become viable through the acquisition of necessary technology, as well as the availability of the necessary equipment at the mothballed plant

At its closure last year Sentrachem said the isoprene plant had accumulated a loss of R140m since coming onstream in 1983

Vaccine to help kids in homeland

183

Sowetan 28/8/91

A LEADING pharmaceutical company has donated a Hepatitis B vaccine, Engerix B, to Tintswalo Hospital in Gazankulu to benefit 600 children in the area

The donation is part of an awareness drive by SmithKline Beecham Pharmaceuticals because of their concern over the lack of knowledge about the infectious disease among the general public

The donation has been made to Tintswalo Hospital on recommendation of the University of the Witwatersrand's Department of Community Health

"The donation of the vaccines is a move in the right direction towards achieving the ideal (of providing protection from Hepatitis B) at the grassroots level," said the head of Tintswalo's Community Health Department, Dr Alan Pugh

"It now needs to be taken further by making it a routine infant immunisation programme "

Hepatitis B is a highly contagious disease accounting for some 15 000 deaths a year in South Africa.

It is responsible for more deaths than measles and mumps during pre-immunisation days.

According to Professor Barry Schoub, head of Virology at Wits University, the best way to combat the disease is the incorporation of Engerix B into routine infant immunisation programmes in line with recommendations of the World Health Organisation

Smithkline Beecham's awareness campaign is to include pamphlets, posters and editorial about the dangers of the disease more dp capabilities per unit cost

But a trend is emerging which sees the wider use and acceptance of the concept of multiprocessors — two, three or even four central processing units linked together and behaving as one computer

Multiprocessing is now becoming the accepted alternative to adopting a new technology — Josephson Junction — which has greater speeds at the level of the electron.

ICL has decided to abandon Josephson Junction for the time being and is now building its prowess in parallel and distributed array processing

It already has a number of installed duals ranging from the 2956 at the bottom end of the 2900 range up to the 2982 It is also planning to have the first dual 2966 up and running by March next year, and is offering dualling software on another new machine, the slightly smaller 2955

One of the most popular machines running in dual mode is the 2960 computer This was originally offered under the Virtual Machine Environment (VME) but more recently ICL has provided some customers with dualling software under Direct Machine Environment (DME)

They include some quite prestigious sites the BBC, Nottingham City Council, the Welsh Water Authority, the Co-operative Wholesale Society and Computel, one of the largest bureau houses offering solely ICL-based services

Computel's pair of dualled 2960s have enough power to match its much larger 2976 which also has four megabyte store

Computel's managing director, Basil Cousins, is enthusiastic about his dualling product claiming it is one further indication that contrary to some recent speculation the mainframe is not the dinosaur of computer evolution.

there is some power degradation of between 10-15% But Computel, like other dualling customers, benefits not only from an increase in power but also in resilience

When Computel bought its 2976 computer the price was around £2 million, considerably more expensive than the dual 2960s despite an equivalent order of processing power

Although Computel does provide VME services on its 2976 the bulk of its work is DME-based

In fact Cousins says there is quite some evidence to suggest that customers are nearing the cross-over point from DME to VME 'The amount of DME work we did for customers came to something like 90% of our total, but this is starting to fade VME is increasing at a faster rate than DME ' he explains

The first 2960 was installed at the end of 1978 to replace an old 1904 and its workload Computel was quickly running out of mainstore and decided at the end of last year to buy the dualling software

Cousins' views on where mainframe technology is going do not ignore the microcomputer Computel is working on the possibility of providing a micro-based service where users with their own Pets or Apples can hook into the bureau's big mainframes for big number crunching but still perform their own local processing

One of the reasons for Cousins' interest in microcomputers is the cost of the ICL 7502 terminal He admits that ICL has lagged behind on a cheap powerful micro-based terminal to compete with the microcomputer revolution

Cousins expects the lifespan of the 2960 duals to be about five years by which time he expects to have dual 2966s initially running under both DME and VME concurrently Computel he says, will have its first 2966 with the Concurrent Machine Environment (CME) operating system by next year

Business Day award goes to top achiever Engen for its faith in SA

BIDay 5/7/8/91

183

Business Day Reporter

ENGEN and its chairman Bernard Smith have won Business Day's Business Achievement Award for 1991. The award was made at a banquet in Sandton last night, attended by top businessmen.

Editor Jim Jones said the award recognised the exceptional vision and leadership which had taken Engen to the forefront of the energy and petrochemical industries.

"In particular, it recognises the group's boldness in positioning itself in the oil and related industries at a time when the benefits were not always apparent," he said.

The award acknowledged the huge investment in strategic capital projects which underlined Engen's commitment to SA and its faith in the country's economy.

Smith, in accepting the award, said the departure of Mobil from SA two years ago was seen as a body blow to a society already in deep trouble. But it had also provided "an extraordinary opportunity for an SA group to acquire a real and meaningful stake in an industry historically dominated by foreign countries".

The creation of Engen had been a turning point for an industry in need of a new direction and a keen new player.

"In a relatively short period, I believe Engen has pursued this new direction, with our robust mission for real growth."

Investor confidence had much to do with Engen's imaginative expansion programme, and a 90% participation in the employee share scheme had unquestionably been a vote of confidence "from the people who know our business best of all".

Engen was committed to a code of business ethics and values appropriate to the new SA, and was spending R9m a year in projects on job creation, health care and education to address the vital issue of the country's "lost generation".

Guest speaker Eddie Cross of Harare urged SA businessmen to take a positive role in shaping the country's future.

He said the SA economy should be opened up to competition, and now that the gap between the commercial rand and the finrand had narrowed, the currency should be made convertible.

"This will not only have the effect of keeping the value of the rand down, but will also give your business community confidence and encourage international companies to recognise that SA is back at the table, and ready to play"

The Business Achievement Award has been one of SA's most prized awards since it was first introduced by the newspaper's predecessor, the Rand Daily Mail, in 1972

The citation to Engen said it had earned the respect and support of institutional and private investors in a very short time.

The combination of Mobil, the group's interests in Mossgas, the Genref refinery and oil exploration activities had given shareholders and employees a stake in a fast growing industry with tremendous prospects at home and overseas

Engen's strategic stake in Mossgas underscored the group's broad approach to its business and laid the foundation for growth, the citation said.

● Picture: Page 3
● See Page 8

Saschem buys candle maker

B/Day 29/8/91

BRENT VON MELVILLE

SASOL is to become SA's premier candle maker with the announcement that subsidiary Sasol Chemical Industries Limited (Saschem) is to purchase Price's Candles from Shell SA for an undisclosed price. (183)

A Sasol spokesman said the acquisition would, at current prices, result in savings and earnings (from future exports) of about R80m in forex annually. At present candle waxes are mainly imported

The acquisition also follows Sasol's announcement earlier this year of a capital investment of R850m to convert Sasol I from predominantly fuels to chemicals production A major wax expansion will be part of this, which will push production from 64 000 tons to 120 000 tons a year.

"The bulk of the increased production is aimed at the SA candle wax market," the spokesman said The move is also expected to lower prices for wax and promote the local manufacture of candles.

Pharmaceuticals probe runs into complications

WILLIAM GILFILLAN 183

THE Competition Board's investigation into alleged restrictive practices by pharmaceutical manufacturers was running up against a number of complicated issues, Competition Board chairman Pierre Brooks said on Monday.

The Board was trying to ascertain whether manufacturers were adopting discriminatory pricing practices which restricted competition in the wholesale and retail distribution network

Brooks said the investigation was being complicated by high levels of pilferage in the industry and the distribution of samples to doctors.

Pilferage interfered with the pricing system as it could create a situation in which retailers might be able to sell pharmaceuticals at prices below the wholesalers' prices, he said. BDay 29/8/91

Brooks said the Board was not looking at a "one exit pricing system" because it accepted that higher discounts could be given on higher volumes sold. It wanted a non-discriminatory pricing system.

Retailers and wholesalers were the prime instigators of the investigation as they claimed manufacturers had been discriminatory in their pricing between various customers, Brooks said

Deadly mix-up denied

183

CT 29/9/91

CLAIMS by the Chemical Workers' Industrial Union that "scab" labour had caused life-threatening contamination of some products were yesterday denied by pharmaceutical manufacturers Johnson and Johnson

Company spokesman Mr Wayne Munro rejected as unsubstantiated and completely untrue union charges about the alleged "mix-up of products" at Janssen Pharmaceutica in Midrand He said all safety practices had been followed

Union organiser Mr Meshack Ravuku said "Immediately after a strike settlement was reached on Friday, Janssen Pharmaceutica engaged scabs over the weekend who caused life-threatening contamination of products" — Sapa

Louw lauds Plastic Board

183

ELI LOUW

By IKE MOTSAPI and Sapa

TURNOVER totalling R8 billion was generated in the fairly new plastics industry, which employed about 43 000 people last year, Manpower Minister Mr Eli Louw said yesterday.

Louw was addressing a function celebrating the accreditation of the Plastics Training Board at the Johannesburg Country Club.

He said the R8 billion turnover contributed about four percent of the South African gross domestic product

"The industry is a very diversified one, spreading right across the South African economy," he said.

Louw said the industry was "fairly young with no comparison to others".

Sowetan 29\8\91

Set standards

"Therefore one of the main tasks of the new Plastics Industry Training Board will be to define, categorise and set standards for various job categories

"Amendments to the Manpower Training Act enabled industries to establish training boards in order to facilitate training and to provide the needs for training labour

"Training boards will have to undertake surveys and indepth training analyses with regard to present and future skills requirements in order to ensure proper apprenticeship and other training," Louw added

He also called for the amendment of the constitutions of the training boards so that they could also provide for employee representation

Petrol takes bigger bite in SA

B/Day 30/8/91

183

BRENT VON MELVILLE

SA has had to pay dearly for its oil and petrol over the past 12 years in an attempt to get around the international oil embargo But with sanctions falling away, is the SA petrol price out of kilter with world prices?

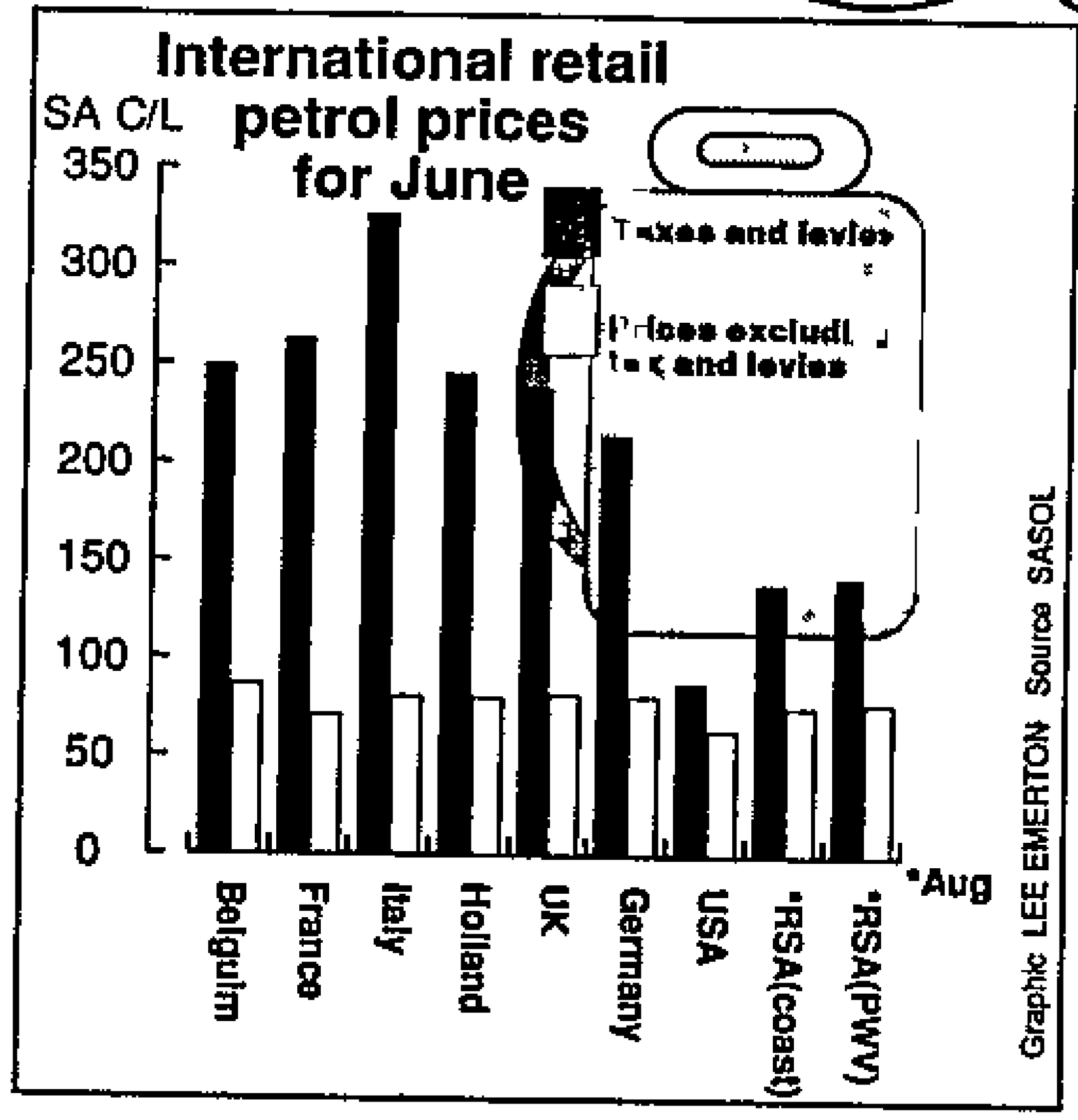
Recent comparisons between SA and international retail pricing would seem to indicate that it is not, and there is thus still room to bleed the automobile-using consumer further

Figures indicate that, outside the US, SA has one of the cheapest petrol prices in the world The comparisons, provided by Sasol, show that on a rand basis SA compares favourably with Western Europe

But, as analysts point out, the comparisons are limited, and show only the pricing of eight countries in Europe and the US Excluded, for instance, are a number of countries in the Americas (such as Mexico and Canada), the Middle East, and Australia

Many of these other countries not only have cheaper petrol prices but offer a wider choice of alternate fuels such as propane and natural gas One of the leaders in alternate fuels is Canada Canadian propane costs about 74c/l and natural gas costs even less

But in terms of the Sasol comparisons to June 1991, Italy comes in with the highest price at 326,4c/l, while the French pay 262,4c/l, the English 238,2c/l, the Germans 213,8c/l and the Americans 87,3c/l This is compared with the current price of 93 octane (Reef) petrol of 143c/l



Graphic LEE EMERTON Source SASOL

Of the total 143c/l South Africans pay at the pump, 43% goes to tax and levies This is relatively low in contrast with government slices of 75% in Italy, 73% in France and 66% in the UK Again looking healthy was the US consumer, who only paid 27% of the petrol price to government

But on a per capita income basis the SA picture does not come out looking quite so rosy According to National Productivity Institute figures for 1989 (at constant 1985 prices and 1989 exchange rates) Italy has a gross domestic product per capita of R18 719, France R23 411, the UK R20 637, Germany R25 373 and the US R41 068 SA came in with a per capita income of R3 575

So while the Italians, for instance, pay about 2,3 times more for their petrol, their per capita income exceeds SA's 5,2 times The French pay 1,8 times more for petrol but make, on average, 6,5 times more money a year

And none of these countries has had the rapid and severe fluctuations in the price of petrol that South Africans have had over the past decade

The biggest relative change from one day to the next came in 1979, when the price jumped 38% to 54,3c/l from 39,3c/l That rise stemmed from the Iranian revolution which deposed the Shah of Iran It had an immediate effect on SA because the Shah had continued exporting fuel to SA even after the imposition of the oil embargo against SA in 1973

In late 1985/1986, the oil embargo prompted a jump from 94,6c/l to 102c/l in two months That fell back by early 1986 to 83c/l, and it remained at that level until August 1988 when it rose to 95c/l

In 1989 it again climbed above 100c to 104,5c/l and continued to 118c/l until the Gulf crisis, which spurred the price to 128c/l in August, followed promptly by a dramatic 25% rise to 160c/l It then fell back to 130c/l until the recent announcement of a 13c/l increase

There is also a protection formula for the indigenous fuels industry which becomes effective should oil prices drop below $23 a barrel

Above that level the protection falls away and above $28,70 Sasol has to repay the protection it receives

Weak demand for ozone-friendly gas

S/Times 1/9/91 (183) (Business)

By IAN ROBINSON

CG SMITH CHEMICALS' R12,5-million DME (dimethyl ether) plant in Durban is operating at only a fifth of capacity

Weak demand is restricting the 5 000-ton-a-year plant to only 1 000 tons

CG Smith Chemicals is part of the Barlow group

The plant was commissioned in May 1990 to provide an alternative gas propellant for CFCs (chlorofluorocarbons) which are being phased out because of alleged damage to the ozone layer

CG Smith Chemicals managing director Mike Buchanan says capital costs more than market considerations dictated the plant's size The technology is an off-the-shelf package from UHDE in Germany and is similar to that in a plant commissioned in Australia recently

Mr Buchanan says the DME plant is making a profit, but he stresses that DME's role is that of a complementary product to alcohol produced for the aerosol industry

Mr Buchanan is confident that demand for DME will rise through both substitution and growth in the total aerosol market

But another gas — butane — provides competition

Butane, usually blended with propane, has the lion's share of the aerosol propellant market, which is estimated at 6 000 tons a year Butane accounts for at least 5 000 tons

Purified

Puregas of Alrode is the major supplier of butane to SA aerosol manufacturers It buys the butane from oil refineries and purifies the gas to remove the odour The plant has an annual capacity of about 5 500 tons

There are some applications where one gas is superior to the other DME is a strong solvent, suited to hairsprays, paints and lacquers However, its solvency capability would break down the foam in products, such as shaving foam, in which butane is used

There is strong competition between the two in the deodorant market

Puregas managing director Dave Hidden — also chairman of the Aerosol Manufacturers Association (AMA) — claims that butane is about 40% cheaper than DME at about R3 a kilogram

But customers are ultimately more concerned with the cost of the formulation in the can (gas, solvent and product) than the cost of the gas alone

The AMA campaign to promote the use of aerosols could benefit sales of both gases The AMA is concerned about the negative image of aerosols because of their association with CFCs

CFCs are used only on a small scale in specialised applications, such as medicines and paint in mines

In 1990 the aerosol industry filled 109-million cans valued at between R400-million and R500-million

Pact puts an end to Caltex depot strikes

Bday 21.9.91.

WILSON ZWANE

WORKERS at Caltex Oil (SA) depots are expected to return to work today following an agreement between the Chemical Workers' Industrial Union (CWIU) and Caltex Oil (SA) on wages and terms and conditions of employment.

CWIU spokesman Martin Jansen said at the weekend the agreement was reached on Friday afternoon after the petrol company had imposed a lockout on striking workers two days previously.

Jansen said mediation between his union and two other petrol companies — BP and Total — would begin today

"The strike action at these companies was suspended on Wednesday pending the outcome of mediation," he said

Agreement

About 1 000 Caltex workers downed their tools 13 days ago in a legal strike for higher wages, job security and centralised bargaining.

Caltex Oil (SA) said in a statement at the weekend CWIU shift workers at its depots were expected to return to work today following the agreement between it and CWIU

Workers at the Cape Town refinery were due to return to work on Friday night, Caltex said

Caltex said the union accepted its final offer of a 16% increase.

The union also accepted Caltex's position on centralised bargaining and agreed that plant level negotiations would continue, Caltex said

The CWIU also agreed to submit proposals on job security to the petrol company

Buyout mooted after rise in Coates share

183

B Day 6/9/91

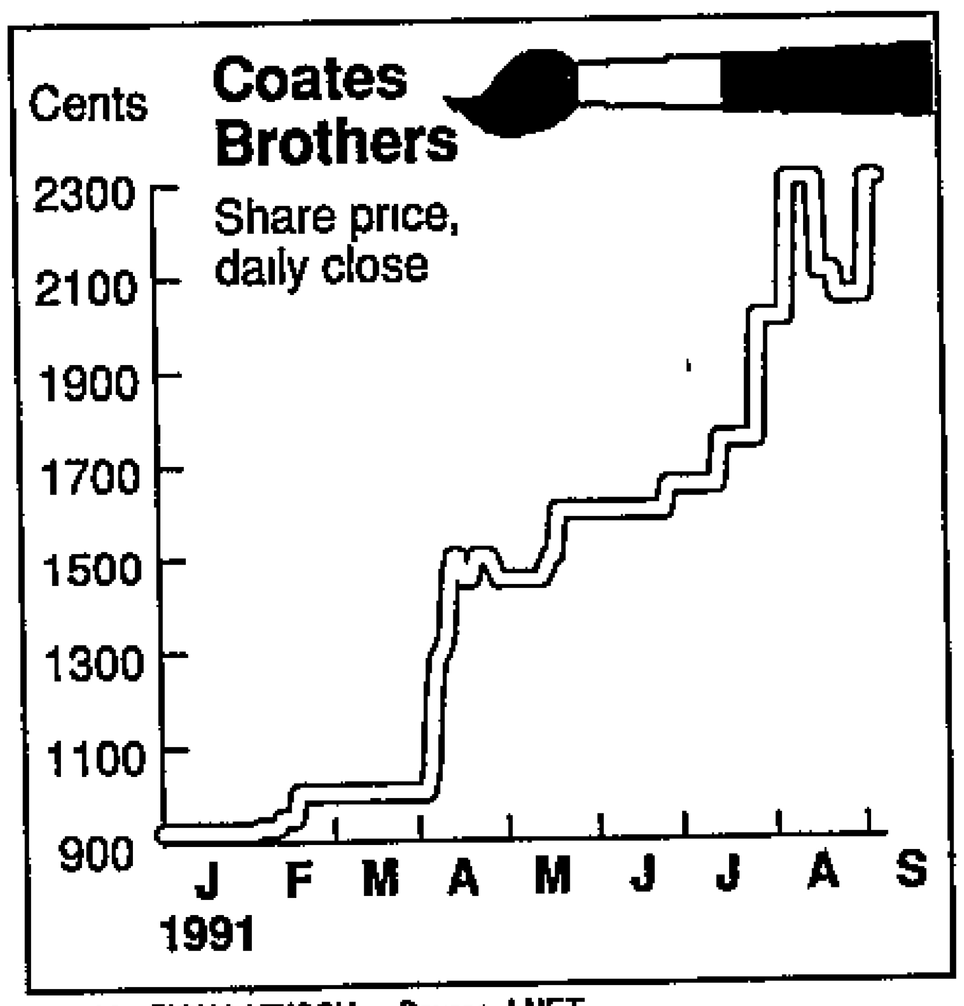
SEAN VAN ZYL

THE strong rise in printing ink supplier Coates Brothers' share price has sparked market speculation that the company's UK parent might be on the verge of buying out minorities' interests

Coates's share price has more than doubled to R23 from the R9 it traded at at the beginning of the year The share climbed by more than 7% this week, which brokers noted had no fundamental support

They added the share seldom traded or attracted institutional support as the company's issued share capital was tightly held by the UK parent

Coates Brothers plc holds roughly a 69% controlling stake in Coates



Graphic FIONA KRISCH Source I-NET

Perception

Coates chairman Bill Beck denied market rumours and said there were no "deals" in the pipeline which could affect the share price.

He felt the strong rise in the share price was probably due to market perception that Coates was a good investment based on earnings performance He added the company had introduced rigid controls over costs and working capital which had significantly improved its bottom line

Coates's interim results to June reflected a slower 18% growth in taxed earnings to R4,1m (R3,4m) compared with previous years The directors said that, due to recessionary conditions, growth in earnings for the full trading year would be much in line with the interim figures.

However, despite the conservative earnings forecast, analysts said the share was running ahead of fundamental buying support They noted Coates's present share price of R23 was almost double the net asset value of 1276c a share

One analyst noted the share had improved from an underrated position to overrated over the past nine months "The share price has risen steadily," he said "There must be something in the offing"

He added that the UK parent could be priming Coates for local manufacture of goods for export

Durr welcomes move to Europe

KIM BENTLEY (183)

LONDON — Internationalisation of the activities of SA companies would play a crucial role in the years ahead as the convergence of global economic and political interests determined SA's future, SA ambassador to the UK Kent Durr said yesterday.

Opening the Edinburgh offices of Sasol Chemicals Europe, he said this expansion into Europe came at "a particularly opportune and momentous period in SA's political and economic relations with the outside world".

He was convinced, Sasol's move, which follows Old Mutual's announcement that it was to list an SA investment company on the London stock exchange, would "encourage other firms in SA to move into this vital market and contribute to the strengthening of (the) economy". BDay 6/9/91

Durr said SA was poised to become the "refined oil producing engine of southern Africa as oil refineries gear up for a massive export drive into Africa and beyond.

"In 1990 SA exports to Africa soared to R5,5bn, over the R3bn in exports the previous year."

He said a steady stream of applications had been received by the Reserve Bank from foreign banks wishing to locate in SA and 32 foreign banks had set up representative offices.

Sentrachem product to be discontinued

B Day

BRENT VON MELVILLE

SENTRACHEM is to cease production of high impact polystyrene (HIPS) by end-September, claiming that it can no longer compete with the imported product which is flooding the local market. 6/9/91.

The SA market for HIPS, which is used in the manufacture of ladies' shoes, thermal food trays, plastic coffee cups and yoghurt containers, is estimated at R25m a year. (183)

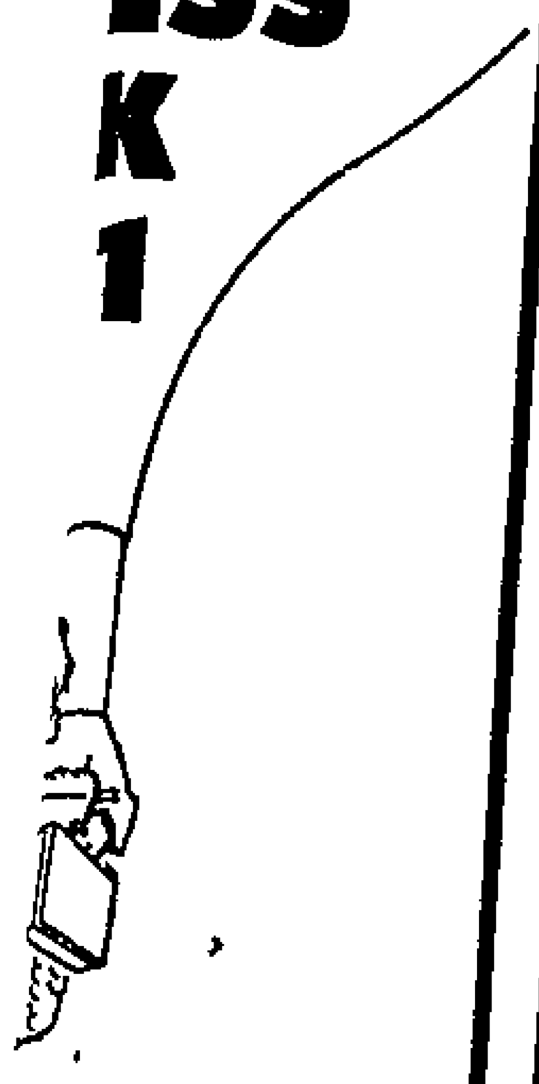
Sentrachem's Styrochem division produces about 70% of SA usage (aout 5 500 tons).

Styrochem GM Lammie de Beer said yesterday that with world capacity exceeding demand, SA had been inundated with low-cost polystyrene, especially since the 15% ad valorem import duty on polystyrene products was scrapped last year.

The company would concentrate on production of expandable polystyrene (EPS) and general-purpose polystyrene

Sentrachem (specialities division) CE Tony Roocroft said the group would look to increasing the export of its newly developed "thin walled" EPS, of which it was only one of five or six producers in the world.

LL
ESS
K
1



ıve years ago, ıon. This year ber 1991, will ıent organisa- arranged and tage their own

Week, Sonny been asked to ector in South o the national rt, training and small business

prise sectors in

Another sale by Shell SA

183

(Times) 5/8/9/91

(Bus)

CHEMETALL Gmbh, a subsidiary of group Metallgesellschaft Ag, has bought Reef Chemical Corporation from Shell SA.

The sale follows the purchase by Sasol of Price's Candles from Shell for R30-million.

Shell has decided to concentrate on its core business, oil and chemicals.

Reef Chemical supplies high-technology metal surface treatment products to the automotive, domestic appliance and industrial engineering industries

It also supplies speciality chemicals for metal surface treatment and metal processing for all of SA's vehicle manufacturers

Reef Chemical has its head office in Boksburg and branches in Durban, Port Elizabeth, East London and Cape Town

Chemetall also has a shareholding in Chemrite. It will transfer Chemrite's metlube division to Reef Chemical This will give Reef Chemical direct access to the latest technology

Chemetall's central research laboratories are finishing work on several products which will be introduced in SA later this year

Oldest

BUSINESS

R3 billion Sasol shares could come on market

(183) ARG 11/9/91

Business Staff

THE Industrial Development Corporation (IDC) could decide within the next month to sell some of its 170 million Sasol shares, which are worth almost R3 billion at current pricers.

Sasol has risen strongly in the last few days, after reporting good results. The share closed 25c up at R17,50 yesterday and there is still good demand

At yesterday's closing price, the IDC's stake in Sasol is worth R2,98 billion At R20 it will be worth R3,4 billion

Managing director Carel van der Merwe said yesterday "We have made it known that we intend selling some of our Sasol shares in the future

"The current share price looks attractive We are carefully looking at the situation and we will look at our cashflow situation A decision could be made within the next month.

"The shares would be offered in terms of the original prospectus But no decision has been taken yet," he said.

When the IDC decides to sell its Sasol shares, they have to be offered proportionally to existing shareholders.

Analysts say a proportional offer could result in a few institutions taking large blocks of shares, resulting in a distortion of their investment portfolios and leaving them exposed to the counter

David Meades of Meades De Klerk says State pension funds, reported to have R40 billion, which could soon be freed for investment in equities, might underwrite the IDC offer

He reckons that Sasol shares could still go up to R25. Even at that price, the shares would be cheap relative to other blue chips

A R25 price would place Sasol on a historic P/E ratio of 13,5 and a dividend yield of 2,86

"Sasol managing director Paul Kruger says Sasol is worth R23 a share, which hints at the possible level at which the IDC could pitch its offer

"If Sasol shares reach R23, the IDC could offer its shares at R20," says Mr Meades said

He says the IDC offer could be on the basis of 30 shares for every 100 Sasol shares held

■ SUNCRUSH maintained its unbroken record of real profit increases with preliminary results showing turnover up 25 percent at R445 million and earnings up 35 percent at R43,4 million.

The market value of the group's portfolio of listed investments jumped to R200 million from R111 million.

The low-profile bottler of Coca-Cola, Fanta, Sprite, Krest, Schweppes and Sparletta increased its final dividend by 32 percent to 335c, making 460c (350c) for the year ended June 30.

Margins were maintained as the group's operating profit rose by 25 percent to R70,7 million

■ MACPHAIL, the nation-wide coal distributor, reported marginally increased earnings of R2,5 million for the six months to June and the interim the dividend has been maintained at 5,5c

Turnover rose by 5 percent to R101 million

Bid to save ailing gold mine Loraine

Business Staff (184) ARG 11/9/91

MINING house Anglovaal has embarked on a last-ditch effort to save the ailing gold mine Loraine from closure

It said yesterday that it was to scale down mining operations in an effort to cut down on continued losses

If the situation did not improve by November, the mine might have to close down, it said

In total, about 900 workers will lose their jobs under the latest cutbacks.

This decision was taken by the Anglovaal board as a result of continuing weakness in the rand-/gold price as well as escalating costs on the mine

In April the monthly milled throughput was reduced to approximately 113 000 tons, which led to the retrenchment of about 900 workers.

"Recently, the rand gold price has been relatively static and this, combined with the negative impact of the ongoing inflation rate, has resulted in the mine's readily accessible payable ore reserves diminishing to the point where a milling rate of 113 000 tons monthly cannot be sustained without substantial increases in the mining and processing of other than payable ore.

"This would lead to unacceptable monthly losses," Anglovaal said

"Therefore it has become necessary to mine on a more selective basis and the mine is now implementing phased reductions in underground operations, which will lead to lowering the milling rate to 90 000 tons monthly, with the objective of at least eliminating monthly losses

"Regrettably, the phased reduction in underground mining and mill throughput necessitates further retrenchments of about 14 percent of officials and union men, and some 11 percent of category 1 to 8 employees and staff."

This would affect about 900 workers in total, a spokesman for Anglovaal said yesterday

Loraine has been threatened by closure many times in recent years, but escalating losses as well as sharp increases in working costs have made the closure imminent.

Only a sharp and sustained increase in the rand gold price in the next two months can save the mine

Judging from yesterday's announcement, Anglovaal appears to consider this unlikely.

During the first (December) quarter of its financial year, the mine reported a taxed profit of R312 000, but capex and loan repayments totalled R1,427 million

In the March quarter there was a loss of R5,169 million and outgoings of R1,111 million.

For the June quarter the losses were R162 000 and R1,228 million respectively.

Thus the cumulative loss for the first nine months of Loraine's current financial year to September 1991 was R5,019 million, to which must be added R3,766 million for capex and loan repayments, making a total loss of R8,785 million

Engen set to double exports to Africa

183A CT 13/11/91

From BRENT VON MELVILLE

JOHANNESBURG. — Oil and fuel group Engen is poised to double its exports into sub-Saharan Africa next year, positioning it as a key player in the African oil market, says MD Rob Angel.

Last year the group pushed up its exports of mainly gasoline, diesel and jet fuel to include 13 countries in the region. Engen's exports are currently estimated at 300-million litres, representing about 5% of total sales volumes

On Angel's forecast this should increase to about 600-million litres in the coming year

Industry sources say Engen's total sales volumes amounted to 5,7-billion litres last year, representing about 28% of the market for fuels. Turnover for the group amounted to R6,1bn (R5,1bn), attracting operating income of R379m (R322,6m)

Of total sales, inland trade represented 4,8-billion litres, with most of the remainder (outside of exports) to bunkers. A small amount went to competitors, sources said

Engen's annual report, released yesterday, confirmed that exports had accounted for about 5% of volumes, although total sales volumes were not disclosed

The report disclosed that 40% of total sales volumes last year were attributed to gasoline sales, while distillate — of which diesel and kerosenes (such as jet fuel) represent about 75% and 25% of sales respectively — made up about 35% of the total About 10% was made up by fuel oils, used in industrial applications

Others, made up of lubricating oils and bitumens, made up 7,5% of sales last year and, reflecting the group's emphasis on Africa, exports were at about 5% (mainly gas, diesel and jet fuel) and solvents (such as benzenes) made up the remaining 2,5%.

Angel said exports were not restricted by opportunity, but by physical capacity He added that at the moment the group had an "embryo" trading operation which was expected to pick up more trade next year.

Chairman Bernard Smith said Phase I of the Durban refinery expansion was on schedule for commissioning next July within total budgeted costs of R670m. The expansion would increase capacity by 30% and increase the yield of gasoline and distillates.

Smith said the detailed feasibility study on Phase II was also proceeding. Phase II would double current capacity

The group continued to make strong progress in African countries in respect of participation in oil exploration programmes. Namibia and the Aptian Salt Basin of West Africa — in which it had secured a 10% participation — were areas of particular focus.

Engen also broadened its upstream portfolio with the acquisition of 27% of Gencor's North Sea Interests, securing participation in the giant Alba Oilfield and the Kilda Gasfield.

AECI FM 13/9/91 (183)

Fighting a plastic threat

Chemicals giant AECI has made an urgent application to the Board of Trade & Industry for sharp hikes in tariffs on imported PVC, but the move is bitterly opposed by the main importer of the plastic and a number of users

The notice was published in the *Government Gazette* of August 30 and called for responses by today David Kenny, MD of importers Cargo Trade, says he has taken legal opinion on the matter, has applied to the board for an extension of the response date and is drawing up a memorandum to oppose AECI's application with as many users' signatures on it as he can get

continued

He says that if the proposed tariffs go through, they will stop all PVC imports, now running at about 12 000 t annually, and allow AECI to monopolise local supply And, he says, this will cause sharp hikes in PVC prices, which would harm the competitiveness of major users such as pipe and cable manufacturers Kenny promises to take the issue to the Competition Board if AECI's application succeeds

Kim Fraser, PVC marketing manager for AECI Chlor-Alkali and Plastics, says the move's aim is not to monopolise supply but to plug loopholes in the present tariff structure that are being used by importers to pay less duty and are harming AECI's business

He concedes that AECI would have a monopoly, which is a "sensitive" point with customers But he denies that prices would soar as a result, claiming that AECI would not take advantage of the situation He adds that AECI has an export incentive scheme that offers customers PVC at lower, world prices provided they furnish invoices showing that the goods manufactured were exported

Fraser says PVC now sells in the US at about R1 600/t, but on world export markets at about R1 300/t, to which must be added the transport costs to SA AECI sells PVC at about R2 800/t locally, but the company's plant produces more than the local market can take, so AECI must export at the lower, international price

The present tariff system uses a reference price and the minimum duty on imports is R230/t PVC bought overseas for R1 300/t to R1 600/t should attract duty of R1 130/t to R860/t, but through loopholes this can be reduced to the minimum Under the proposed system, the reference price would be scrapped and duty of R1 160/t would have to be paid on PVC costing R1 600/t Duty on PVC at R1 300/t would be R1 130/t

Kenny says AECI's main problem is its plant it has high operating costs and cannot meet local supply because of breakdowns He estimates AECI's production at about 90 000 t annually

Fraser concedes that the plant is not competitive by world standards, but that's because it was set up to use SA raw materials, specifically anthracite, as a strategic industry He says there were production problems in 1988 and again late last year when PVC had to be imported, some by AECI itself, but these now have been sorted out

He says annual production runs at 150 000 t and denies Kenny's claim that AECI cannot meet local demand He also denies an allegation by Kenny that AECI is trying to pressure customers not to use imported material ■

Medicines

ST Times (Bus) 15/9/91. 183 (284)

From Page 1

gation

The PSSA opposes granting the right to medaid schemes to dispense medicines because it would close many retail pharmacies and severely restrict the availability of their services.

Mr Van der Merwe says pharmacies are already being put out of business because more doctors are being allowed to dispense medicines

One reason for the rising share of medicine as a proportion of total medical costs is that medication is being used increasingly as a substitute for hospital care and surgery

BUSINESS DAY, Monday, September 16 1991

Manufacturers worried about PVC price rises

B Day 16/9/91

(183)

CHARLOTTE MATHEWS

PRICE increases in polymers of vinyl chloride (PVC) announced last week have caused consternation in industrial circles

PVC is extensively used in manufacturing, including the footwear, cabling, agriculture and motor industries

According to an advertisement placed in Business Day on Friday AECI Chlor Alkali Plastics has applied to the Board of Trade and Industry for a "massive increase in duty", which could increase the price of PVC by as much as R1 000 a ton

The advert, placed by legal firm Cuzen and Woods on behalf of Cargo Trade said "If the tariff increase is granted it will effectively halt PVC imports and so allow AECI to monopolise local supply."

Footwear manufacturer Conshu CE Robert Feinblum said the firm used substantial amounts of PVC and if there were a R1 000/ton increase in the price of PVC it would result in an increase in the price of footwear of about 5%

However, AECI Chlor Alkali and Plastics PVC marketing manager Kim Fraser said the proposed duty would merely close the loophole which was left after the duty established on April 26 this year

He said AECI was not announcing a price increase in PVC but it would be able to restore some prices to real import parity which had been depressed by the use of the loophole in the duty

Of a total PVC market in SA of about 105 000 tons a year, Fraser estimates AECI will supply between 93 000 and 95 000 tons in 1991 and the balance will be imported — in many cases using the loophole

Fraser confirmed the proposed system would see PVC, which costs R1 600/ton in the US, attracting duty of R1 160/ton while PVC bought for R1 300/ton would attract duty of R1 130/ton But this would not be greater than the present duty, if it was correctly applied

Besides the price issue, PVC customers said there had been problems with local supply from AECI, which had breakdowns in 1988 and late 1991 In the event of a plant breakdown they would be forced to import

Medaid pharmacies could slash muti cost

183

ST Times (Bus) By IAN ROBINSON 16/9/91

MEDICINE prices could drop by as much as 36% if medical aid schemes had the right to run pharmacies

This emerges from figures supplied to Business Times by Transmed, Transnet's medaid scheme Transmed is one of the few allowed to run pharmacies

It found that this year the average cost of an ethical medicine dispensed to its members by retail pharmacies came to R43,80 compared with R27,80 for the identical one provided by its pharmacies

A Transmed spokesman stresses that the R27,80 covers all overheads and the two figures are directly comparable

John Cowlin, director of medaid administrator Medicaid, calls for changes in the Pharmacy Act to allow all schemes to operate pharmacies.

The retail-protective legislation is reinforced by ethical rules of the Pharmacy Council that forbid pharmacists from being employed by anyone other than pharmacists This prevents non-pharmacist managers of medaid schemes from employing them

Dr Cowlin says "Enormous savings could be achieved if medical-aid schemes were permitted to employ pharmacists

"Medical-aid schemes are struggling to keep costs down The highly regulated pharmaceutical industry contributes to achieving the opposite"

A total of R1,6-billion is spent annually by medaid schemes on medicines Pharmaceuticals are the largest single cost for medaid, accounting for about 28% of bills 15/9/91.

Dr Cowlin says the collusive and restrictive pharmaceutical practices contribute to the crisis in health care.

His view is shared by a Competition Board report on pharmaceuticals in July It criticises the industry and says that "this investigation is the latest in a series of investigations that have been conducted over the years involving participants in an industry, certain sectors of which, with a few notable exceptions, have at best been lukewarm in their adherence to the basic tenets of a free-market economy"

Pharmaceutical Society of South Africa (PSSA) executive director Boet van der Merwe says he would welcome an independent investi-

☐ To Page 3

The Environment Minister warns firms of tough action, writes **James Clarke**

Star 17/9/91. (183)

Industry told: go green or lose out

IN A no-nonsense speech on the Government's forthcoming environmental policy, Environment Minister Louis Pienaar has warned of tough action if companies did not voluntarily adopt "green" policies.

He also warned that the European Community's new environmental standards, which come into effect next year, could have repercussions in South Africa

Speaking at Mintek in Randburg — at the AECI's first annual environmental conference — the Minister said unless South African industries accepted firmer environmental controls, their overseas clients could begin shopping elsewhere

He predicted a trend overseas towards "fiercer competition in areas such as quality and environmental acceptability".

He said "when the new EC standards take effect in 1992, in terms of the tightening of EC trade barriers, EC countries are likely to apply strict environmental control and auditing standards on products and services being imported

"A wise company will prepare and be ready — the unwise one may find itself out in the cold "

He said the burden imposed on the world living systems by industry was "disproportionately heavy if we consider the rest of the world's needs"

"Within the period of one generation we must solve our environmental problems and we must put an end to the process whereby we transfer our problems elsewhere — or shift the burden to the shoulders of later generations "

He gave the example of West Germany, which had used its poor neighbour, East Germany, as a waste dumping ground "The chickens have now come to roost and the new United Germany is faced with rubbish heaps of mountainous proportions

"The South African Government takes the view that the success of the implementation of environmental policy would be greater if consensus could exist between Government and industry on the manner by which targets and objectives should be reached.

"However, if the targets set are not achieved, the Government will not hesitate to introduce the necessary legislation "

The Minister warned of "policies we intend to pursue":

- Promoting substantially changed attitudes to existing waste producing patterns of production and consumption
- Even without 100 percent scientific evidence, no longer waiting before taking action to protect the environment.

He praised AECI's comprehensive environmental policy statement, which is adhered to by the company's 36 operating sites across South Africa

AECI now undergoes annual environmental audits — done by internal and exteral auditors — to assess its annual progress

The Minister's warning reinforces a recent CSIR statement that said overseas companies were under pressure from greens movements, especially in Europe, to provide information showing that their overseas suppliers were behaving in an environmentally compatible way It began with the wood industry, which was suspected of buying hardwoods from Third World countries that were destroying rainforest to make quick cash

Dr Dirk Grobler of the CSIR's environmental unit told The Star that more and more South African companies were approaching it after receiving letters from their overseas associates asking for proof that their South African operations were environmentally non-polluting and environmentally sustainable □

AECI slated by PVC users

B/Day 17/9/91

BRENT VON MELVILLE

(183)

INDUSTRY users of PVC have slammed SA's major producer of the product, AECI Chlor Alkali Plastics, for recent price hikes and its application to the Board of Trade and Industry (BTI) for increased tariff protection

AECI Chlor Alkali Plastics marketing director Kim Fraser has claimed the proposed duty would merely close the loophole which was left after the duty was established this April.

But a variety of PVC users, and especially the footwear manufacturing industry for which PVC is a major component, yesterday took issue with the application

Cargo Trade spokesman John Cuzen questioned why it was up to AECI to close the loophole, and not BTI He echoed accusations by many manufacturers that AECI merely wanted to protect profits and create a monopoly

Durban-based Dancor Plastics MD Greg Daniel said "Surely after the 20 to 30 years that AECI has enjoyed protection, they should be in a position to manufacture PVC on a competitive basis with anyone in the world"

'Revised PVC duty will not affect prices'

AECI yesterday said the introduction of a revised duty structure for PVC would not lead to a general price increase if approved

AECI said it had applied for the new duty structure because of the abuse of the current system where FOB prices had been overstated

Group marketing manager Kim Fraser said "It will not be used by AECI to command higher prices under the current formula duty

B\Day 20|9|91.

"There will be specifically negotiated adjustments to restore a more stable structure based on competition with imports, assuming the reference price formula remains in place"

AECI said the opportunity for converters to import PVC would be assured by an agreement now being negotiated by AECI and a large body of plastic converters

(183)

The company said the converters and AECI would meet regularly to review the level of protection afforded by the anti-dumping mechanism

Fraser said "The current anti-dumping mechanism can be abused by the overstatement of FOB prices and other similar activities It has been found that such abuse has occured Our application for a revision in duty structure was made in an attempt to prevent this abuse" — Sapa

Management buys out Shulton SA

SEAN VAN ZYL 183

13/12/91

DEODORANT manufacturer Shulton SA has been acquired by local management for an undisclosed sum

MD Philip Timperley said the management buyout, effective from December 1, came about when US-based American Cyanamid disposed of its worldwide Shulton interests to toiletry group Procter & Gamble (P & G) last July

He said P & G was not interested in operating in SA now As a result, Timperley said, with the assistance of First National Corporation (Firstcorp), management decided to acquire the local company in a recently concluded deal Firstcorp has retained an equity interest in Shulton

PVC price increase is 'unlikely'

Star 20/9/91

183

AECI has claimed that the introduction of a revised duty structure for PVC will not lead to a general price increase if approved

AECI said yesterday that the application for the new duty structure had been made as a result of an abuse of the current system where FOB prices had been overstated

The group's marketing manager, Kim Fraser, said "It will not be used by AECI to command higher prices than would be possible under the full and completed application of the current formula duty which was implemented on April 26 which includes a reference price and an ad valorem element

"There will be specifically negotiated adjustments to restore a more stable structure based on competition with imports, assuming the reference price formula remains in place @

AECI states that the opportunity for converters to import PVC will be assured by an agreement now being negotiated by AECI and a large body of plastic converters

The group says that the converters and AECI will meet regularly to review the level of protection afforded by the anti-dumping mechanism

Mr Fraser said "The current anti-dumping mechanism can be abused by the overstatement of FOB prices and other similar activities It has been found that such abuse has occured Our application for a revision in duty structure was made in an attempt to prevent this abuse" — Sapa

DARMAG FM 20\9\91

Tighter controls

(183)

Activities: *Manufacture of rubber and plastic products for industrial applications*
Control: *Zimco 51% — controlled by Anglo American Corp*
Chairman: *D A Buchanan, CE R M Dersley*
Capital structure: *22,2m ords Market capitalisation R7,8m*
Share market: *Price 35c Yields 5,7% on dividend, 25% on earnings, p e ratio, 4,0, cover, 4,4 12-month high, 40c, low, 25c Trading volume last quarter, 120 000 shares*

Year to Mar	'88	'89	'90	'91
ST debt (Rm)	1,0	0,6	3,8	1,8
LT debt (Rm)	2,4	2,3	2,7	1,7
Debt equity ratio	0,34	0,33	0,69	0,26
Shareholders interest	0,44	0,5	0,5	0,6
Int & leasing cover	7,9	7,0	1,3	3,2
Return on cap (%)	20,1	21,8	7,5	17,4
Turnover (Rm)	18,9	23,8	26,4	26,2
Pre-int profit (Rm)	3,1	4,0	1,5	3,2
Pre-int margin (%)	16,6	16,8	5,6	12,0
Earnings (c)	11,6	11,1	3,0	8,8
Dividends (c)	2	5,3	—	2
Net worth (c)	32,3	39,1	42,4	49,3

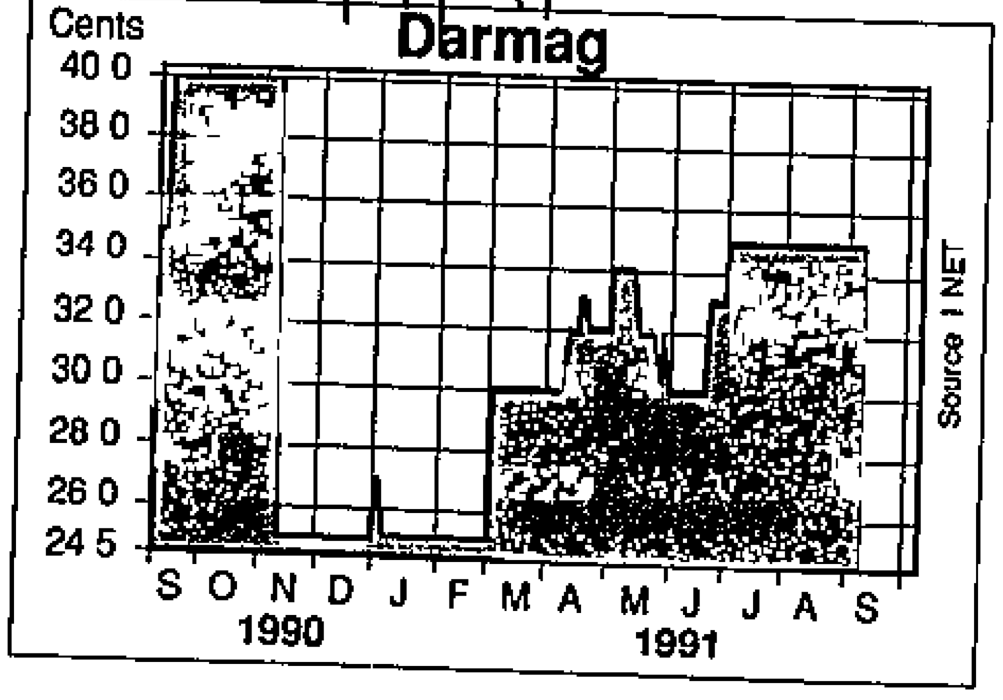
A 62% slump in operating profit for the 1990 financial year was followed this year by an even more dramatic turnaround, with profit rising by 113% Perhaps there is something to be said for having a capable big brother to call on when the going gets tough

Darmag and Sondor, though operating in different ends of the plastics and rubber industry, are effectively controlled by Anglo American Corp (Anglo), through unlisted Zimco For Anglo, these companies represent a strategic investment Should there be evidence that all is not well, Anglo can step in, take control, institute remedial action and ensure that there is follow through In the case of Darmag, this appears to be what happened

Some of the problems were apparent in the

continue -1

FM 20 9 91



rubber division which, in the 1990 financial year, made a loss because of product obsolescence and substitution of new products (*FM* September 14 1990) Since then, with effect from the beginning of the 1991 financial year, the group has been restructured to focus its activities more clearly

Noel Drew, who represents Zimco's interest on the Darmag board, says tight management control of expenses has improved efficiencies, cash flow has strengthened, working capital has been reduced and short-term borrowings have declined All the Ciskei operations have been consolidated Results from the rubber division improved because of the disposal of loss centres and other economies introduced Nevertheless, the company is dependent on the lead acid battery industry, which is stable but showing no growth (183)

GM David Looms will take over as MD from Monty Dersley, who will remain on the board Looms emphasises that diversification of the product range is a prime objective, though the group will also concentrate on the motor industry and on exports to African countries, which he believes could play a major role in Darmag's future

Looms sees no growth in EPS for the 1992 financial year This is to be a year of consolidation Capital expenditure on new machinery will absorb much of the cash flow In the plastics division, a new injection moulder is being imported from Japan to replace ageing equipment and enable manufacture of larger plastic components

With Anglo firmly behind the operation and Looms in the driving seat, it's likely that Darmag will produce a solid performance in the long term In its current form, though, results will largely remain linked to the fortunes of the economy and the motor industry in particular The share does not offer much excitement for investors in the short-term

Gerald Hirshon

AECI seeks break from Government

183

S/Times (Bus) 22/9/91

INVESTMENT opportunities abound for AECI — if only the fiscus permitted

By JULIE WALKER

Chief executive Mike Sander says that unless the Government focuses on its options to promote SA in the next few years, opportunities could be lost forever

Agriculture offers limited job growth and gold mining is declining The only way to boost employment is through secondary industry — particularly export-oriented manufacturing

AECI employs 24 500 and major areas of activity are explosives, chemicals, fertilisers and commodities It has always been vulnerable to economic cycles

Mr Sander says "I cannot say 'thank goodness for this particular business' because not one is doing really well"

Rain

He accepts that gold mining is declining, only partly compensated for by more activity in other minerals Fertiliser is in much better shape, but depends on the weather

Mr Sander keeps looking for clouds out of the office window, hoping for rain

Commodities are at the mercy of global trends International recession has led to large-scale dumping — a subject that touches a nerve with Mr Sander

AECI made headlines recently over a dispute about import tariffs on poly-vinyl chloride (PVC plastic)

Mr Sander says all AECI seeks is a specific duty to prevent PVC from being dumped in SA

"The General Agreement on Trade and Tariffs (Gatt) accepts that protection against dumping is legitimate Most of our customers know manufacturers cannot compete against dumped prices We seek to get the price back to the world 'undumped' level"

The Board of Trade (Bot) revised protective measures for PVC after a nine-month investigation The BoT arrived, partly by calculation and partly by other factors, at a reference price of R2 300 a ton for PVC This price was introduced to combat dumping and other unfair trade practices such as over-invoicing

It is believed that any buyer need only present an invoice at R2 300 a ton to get foreign-exchange approval from the Reserve Bank and not to have to pay any duty to the SA excise men

Those whose invoices read less than this had to pay the difference up to R2 300 a ton in duty

World PVC prices are about R1 400 a ton using a realistic conversion from the going dollar price It is hard to prove, but seems likely that the balances were being deposited abroad

Mr Sander says the R900 a ton specific duty now proposed will close the loophole and restore landed prices to agreed levels

He says American and other Organisation for Economic Co-operation and Development countries' anti-dumping defences are much more potent than SA's America recently imposed a 90% duty on Romanian urea which was being dumped

When the world comes out of recession the problem of dumping should recede and duty levels will be revisited

Housing

A domestic construction boom would help AECI Demand for paints, plastics, and other products would grow with housing projects

Yet the real challenge is to get into new fields for which markets are growing

"We are long-term investors — our projects last 30 years Thankfully, our major shareholders understand this It takes several years before there is any return on capital invested

"The first 10 years are payback, the middle 10 produce strong cash flow In the last 10, the plant is ageing, becomes less efficient and more costly to maintain and is surpassed by new technology"

Mr Sander says AECI has the ideas, the resources, the raw materials and the experience to make money on several new projects mostly with an export focus But none is profitable in the present fiscal environment where tax and inflation are so much higher than in the countries of competitors

"No foreigner would invest in a joint venture in SA — there is too low a return under the current fiscal structure We could use our own money, but we also want a return on investment

"The more the Government has tinkered with tax and increased the burden over the last ten years, the less investment in manufacturing has taken place"

Job creation is a function of manufacturing at a profit A future government is likely to be under even more pressure to boost social spending and little leeway is likely on tax concessions under those circumstances SA will not succeed without a growing tax base

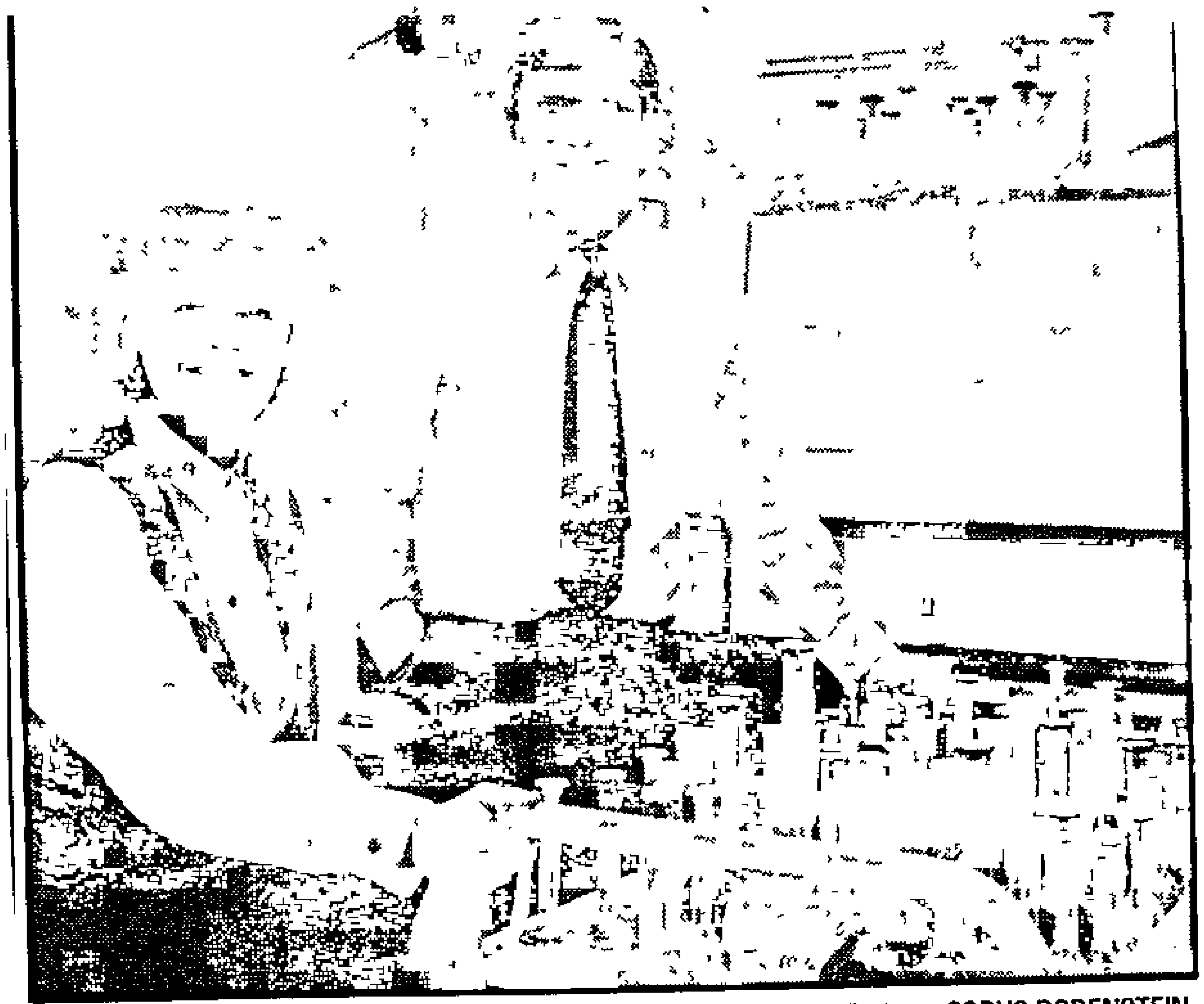
So AECI remains on ice It cannot go ahead with ventures that could be profitably run, but which made inadequate returns on investment after tax Its current expertise lies in diminishing markets — and recession compounds the gloom

View

But Mr Sander is not pessimistic He hopes that last weekend's peace accord will bear some fruit He knows the Government is seriously considering changes to the tax system

The world is due to emerge from depression next year

Shareholders must take a view on the economy and apply it to AECI's prospects The share price is R10,80, down by a third in six months, but having rallied 80c off its August low



VIVIANE FRANCOIS and TERRY ASHWORTH Time running out fast Picture COBUS BODENSTEIN

Chemists seek work for a redundant laboratory

S/Times (Bus) 22/9/91. (183) (2__)

By JULIE WALKER

A HANDFUL of experienced chemists intends to salvage a living from the closed Barplats refinery in Brakpan.

Led by Terry Ashworth and Viviane Francois, the chemists have been at the refinery since it opened four years ago

The refinery for base and precious metals and a laboratory were set up when Loucas Pouroulis launched the Lefkochrysos mine near Brits in 1987

After a year, control of Lefko changed The major holding was bought by Barplats, which was sinking a mine at Kennedy's Vale near Steelpoort in the Eastern Transvaal The refinery could treat production of both mines

Two years passed and Barplats announced the closure of Kennedy's Vale just as the refinery was fully operational In June this year, control and management of struggling Barplats passed from Rand Mines to Impala Platinum Holdings, part of Gencor

Impala has a refinery at nearby Springs Even before Impala announced the closure of the Brits mine — renamed Crocodile River by Barplats — the R80-million Barplats refinery was doomed

Mrs Francois is determined to make a commercial enterprise from the laboratories she runs

But a clock is ticking against her — the final returns from platinum group metal residues from the refinery now being treated in Germany will be returned and all the work completed only a few weeks hence

The few staff members remaining will then be told to go for good unless enough business can be got and an agreement reached with the owner

Technically, the owner of the refinery is Barplats and its directors have a responsibility to shareholders to get the best return on assets

If a rental agreement were struck between the chemists and Barplats, the refinery could earn money

Pressing

The refinery has been mothballed, but maintenance will probably continue.

Mrs Francois outlines some of the problems she and the chemists face in touting for business

Most pressing is the short time available in which to market the principle and make known their skills in new fields They could also face restrictions on certain analysis because of the potential conflict of interest. Finally, the recession means that customers are not seeking additional costs

The Brakpan team will not do any work for Impala, which has its own laboratories, as does Gencor

But there could be a market for an independent laboratory, particularly on the environmental side

Mrs Francois believes that many companies who fear their effluent and other emissions exceed statutory ceilings are reluctant to have their waste tested at Government-sponsored laboratories, such as Mintek or CSIR, for fear of being reported

Another potential is health tests It is unprofessional for a company to test its own employees There is also a case to be made for testing in a separate place to eliminate possible contamination

Dr Ashworth will act as consultant to the chemists if the venture gets under way

He believes the team has enough experience to consult on many matters linked to the environment and the cleaning of effluent

But, as Mrs Francois points out, working capital is needed to get the business going — something hard to come by when the chemists have no claim on the assets or premises

Always present is the threat of R3-million worth of equipment being sold to other laboratories both in and out of the Gencor group

If the commercial venture fails, some of the most experienced platinum chemists in the the world will be looking for jobs


Richard le Roux, owner of Plastic Concepts, with the pump that has become such a hit with children.

Gettinginto the framework

Star 24/9/91

(183)

Plastic door and window profiles and louvres are the latest alternative for house-builders, says Natal-based AECI Plastic Systems (APS), offering reduced maintenance

"PVC profiles increase resale value and are becoming increasingly popular," says the company's marketing manager Bob Haynes

Meanwhile, AECI's manufacturer of rotationally moulded polyethylene containers Polycon has begun a marketing thrust into the construction industry It says its tanks, ranging in size from 250 l to 20 000 l can be used in many applications, including hot and cold water storage, air conditioning systems and sewage holding on construction sites

Plastics: The expanding industry

The recession has hardly tamed the plastics industry, says Plastics Federation of SA executive director Bill Naude

Production of virgin polymer grew to 570 000 tons in the year to June, from 555 000 in 1989-1990 Star 24/9/91.

"True, the hard-hit building industry is using less But the motor industry has been using more now that Phase 6 of the local content programme has switched the emphasis away from mass and carmakers are catching up on European and Japanese design improvements" (183)

Close to half of the virgin polymer is used in packaging

Converters employ about 42 000 people out of an industry total of 45 500 and do R6 billion turnover out of the industry total of R8,2 billion (1989-90) Some 1 000 plants convert those 570 000 tons — but 80 percent is taken by fewer than 12

Perspex baths take over

Eighty percent of baths are now made of Perspex — described by some as the "Rolls Royce of plastics" — says sole South African producer Acrylic Products in the AECI group

Marketing manager John Lewis says "This usage now accounts for 40 percent of capacity"

He was responding to comment in the industry that large orders by BP SA for its much-publicised revamp might have caused some delay in fulfilling other orders

"While that order is welcome, it represents only about 2 percent of our capacity and compares with previous similar orders for FNB and Volkskas"

"Earlier this year we encountered technical problems which caused some hiccups in supply, but these have now been sorted out"

183

Meanwhile, ~~some~~ converters have apparently been finding that a relatively new material, Ultra High Impact acrylic (UHI) can substitute for Perspex in some uses

Happy about that is FBR Plastics of Edenvale, whose Rob Grant noted that it has installed an R6 million plant extension

Dominant in the Perspex display stand area is Plasticraft of Booysens, Johannesburg, supplier of a wide range of stands to most major chainstores

Managing director Neil Travis, who started the firm from a woodworking workshop 20 years ago, welcomed the introduction of UHI

S/Star 29/4/90

PLASTIC IN ACTION

Megapak in R35-m expansion

ST 24/9/91

183

Megapak, in Sentrachem's Mega Plastics group, is undertaking a R35 million expansion after winning a seven-year contract from South African Breweries

This is for an eventual 500 000 plastic crates a month to replace the corrugated cardboard ones now used to hold a dozen 750ml bottles of beer

"We believe it's the world's largest single order yet for the replacement of cardboard crates with plastic ones," says Mega Plastics chairman Ralph Oxenham "SAB research shows the high-density polyethylene crate will improve handling and storage, reduce breakages and improve hygiene and brand image"

The crate, fully compatible with SAB's present conveyor and washing facilities, was developed by Megapak's research and development department — using CAD extensively — and Schoeller International of Germany

Megapak MD Haryy Pretorius says nine state-of-the-art Engel injection moulders are being installed at the company's Olifantsfontein plant, and the first crate will come off the production line next month

In another first for SA, a fully automatic crate-printing facility will replace a semi-automated one.

"Although our secondary packaging products use mainly recycled plastics, in this case we shall have to convert an additional 12 000 tons of virgin polymer a year," says Mr van Niekerk Crate and other products for the bottling, dairy, meat, food, fishing, automotive and other industries are made in Olifantsfontein, Benoni, Pinetown and Cape Town

Dulux is set to move south

Own Correspondent

183

DURBAN — A R48,5m decorative paint factory is being planned for Dulux at Umbogintwini on Natal's South Coast It will occupy premises built in 1987 and designed for Dulux's expansion

B/Day 25/9/91

The Jacobs plant, which is still in use, has been sold

Dulux MD Trevor Munday says the project will be completed in mid-1992

However, PVA production at the new site is expected to start later this year

Work is well ahead of schedule, and once all the manufacturing and support facilities have been completed the Jacobs factory will close

Modern manufacturing methods with particular emphasis on computer process control will replace manual methods and processes

The Mossgas project ... can it justify its R12bn price tag?

Engen setting its sights on Africa

B/Day 27/9/91.

GENCOR-controlled energy group Engen is set for a push into the African market and is planning on trebling exports into adjoining states

The sole constraint on exports for the petrochemical company in past years has been its limited capacity

To that end, Engen is planning a R2,2bn, two-stage expansion at its Genref refinery in Durban

The first stage is due for completion by mid-1992

Engen, which holds 100% of Mobil SA, 100% of Trek Petroleum and 85% of petrol distributor Sonap, says little of the 30% capacity increase created by the expansion will be available for export as most will be taken up by local demand

Engen will also be spending about R110m on expansions at its Durban lubricating oil plant, which will be completed by the end of this year

There is also the possibility of a joint venture with other local chemical groups Sentrachem, Sasol and AECI for the construction of a R4bn "cracker" refinery for the production of chemical feedstock ethylene

The plant will likely be located at Mossgas to utilise its extensive infrastructure

Engen is also putting emphasis and capital into exploration

183

Exploration

It also has a participation agreement with Soekor for exploration of the Bredasdorp Basin and an agreeement to participate in the Alba Kilda project in the North Sea

There is also future potential for drilling rights in Namibia and West Africa and there is speculation that Engen is involved in a bid to secure rights to an oilfield in Mozambique

Most of its expenditure will be funded from borrowings, which are currently low

The R630m first phase of the Genref upgrade will be paid for out of cash flow, say directors, leaving much of the proceeds from the recent R1,1bn rights issue for investment

Ed Hern Rudolph investment analyst Peter Brown says southern Africa provides a logical market for SA oil

A lot of these countries were badly hit by the slashing of supply from war-torn Iraq and are desperate to get hold of alternate sources of fuel

The world's big oil companies, such as Mobil, Shell, BP, Chevron and Middle Eastern suppliers, are well entrenched in Africa

Now Engen is demanding that they make room for it

Engen's main advantage, now that sanctions have been largely dismantled, is its proximity to the rest of Africa, enabling imports of SA oil cheaper than its competitors

Its expansion and exploration plans, meanwhile, will result in increased supply and range of product

R2m boost for Omnia plant

PAUL ASH 183

CHEMICALS and fertiliser manufacturer Omnia Holdings had completed a R2m upgrading programme at its liquids plant in Delmas, the company said in a statement yesterday

The upgrading gives Omnia the latest technology, which was developed by the group and its British associates, says MD Neville Crosse

The group's interim results in August reflect 8% to 9% growth with attributable profits of R2,6m

Because Omnia's business followed the agricultural cycle, most of the company's earnings were notched up during the second half of the year, Crosse said

B/Day 27/9/91

Belt-tightening replaces Iscor's spending spree

B/Day 30/9/91

BRENT VON MELVILLE

AFTER several years of ambitious capital spending, depressed local conditions and low margins on exports, SA's major steel producer Iscor is taking major steps to tighten its belt.

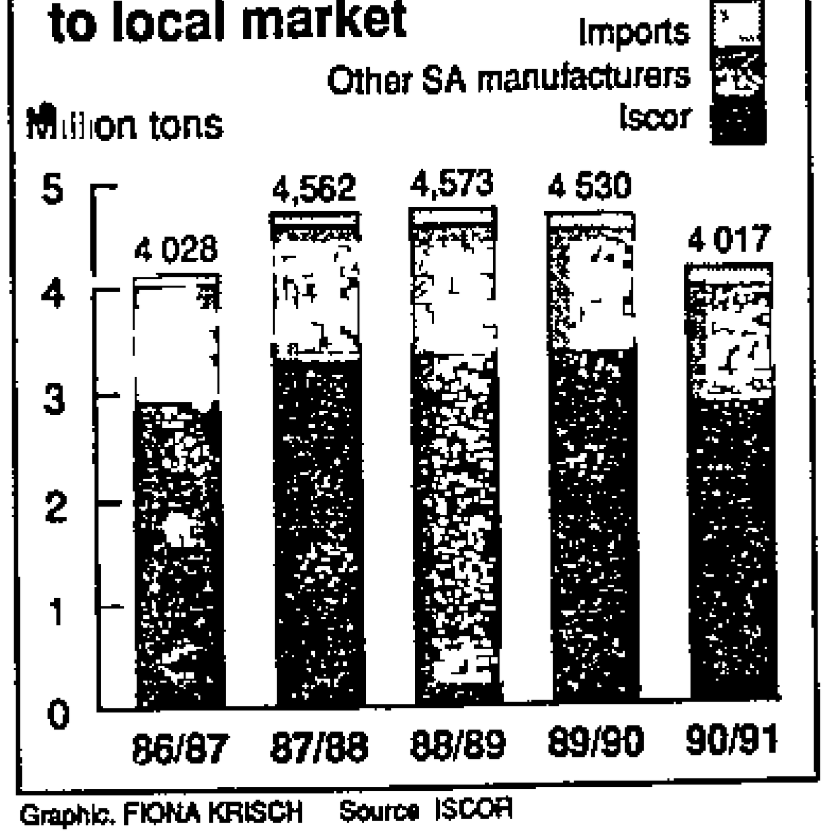
In his annual review MD Willem van Wyk says no new major projects to increase basic steelmaking capacity or to modernise plants will be undertaken during the next four years

For the current and forthcoming financial years Iscor has allocated about R800m a year and thereafter about R600m a year to finalise projects to which it is committed and for the essential replacement and maintenance of plant and equipment

This compares with a record R1,4bn spending spree last year and R1,3bn in the previous financial year

But at the same time the group is also actively promoting the local market for value-added secondary manufactured steel goods and structures for export, and is ready to exploit potential opportunities in the low-cost housing market and related infrastructure.

Van Wyk says these two market segments, together with the beverage and food-canning industries — which have recorded consistent 8-10% annual growth over the past few years — may be expected to have a favourable effect on Iscor's results over the medium term



Graphic: FIONA KRISCH Source ISCOR

He adds that in the meantime, Iscor has undertaken to reduce stock levels, and capital expenditure is being limited to essential items. Strict cost controls are being enforced to optimise cash flows

"These initiatives must, however, be seen against the backdrop of declining world steel prices in the wake of surpluses caused by overproduction," says Van Wyk.

In that respect, he says margins and operating profits will remain under pressure during the current financial year, although in the longer term, Iscor expects to emerge from the worst recessionary period in recent history with improved prospects for growth

During the 1991 financial year the SA market accounted for total steel sales (including rolled, drawn, and forged) of 4-million tons, compared with 4,5-million tons the previous year Iscor's market share dropped slightly from 74% to 73%, or about 2,97-million tons, compared with 3,4-million tons in 1990

Total liquid steel production from Iscor moved up 3,3% to 7,2-million tons and total Iscor steel sales amounted to 5,6-million (5,4-million) tons

Exports took up the slack in the depressed local market, and accounted for 47% of sales, a level not seen since pre-sanctions levels in 1985

Van Wyk says the group will continue to optimise its export drive wherever possible into higher-margin value-added profits

Inter-group mergers at Malbak

MELANIE SERGEANT

IN A MOVE to strengthen its health care product division, Malbak has announced a series of inter-group mergers

B/Day 30/9/91.

They follow the acquisition of Akromed

The mergers are aimed at rationalising the group's health care and consumer interests

From having Protea Pharmaceuticals and Akromed as holding companies within Malbak Health Care, each with separate finance and administration functions, the new single structure provides for five business units with common service functions.

This will make them more efficient and proactive for clients, says consumer division executive director David Webster

Webster says Promardis will continue to operate as the consumer division within the new structure, with trade and supply relationships enhanced by its new positioning

The five business units now comprise ethical, consumer, nutritional, hair care, and over-the-counter products

(183)

"Greater focus can now be directed at all our critical success areas, because we're consolidating under focused management into two product areas, namely ethical and consumer," says Webster

He predicts consolidation will lead to a new growth cycle for the group

Harwill shows static growth

B/Day 30/9/91

BRENT VON MELVILLE

CAPE-based Harwill Investments, manufacturer of packaging products, has posted a static growth performance for the year to end June, with earnings virtually unchanged at 19,5c a share. The dividend was left at 5c.

Directors attributed the mediocre performance to adverse trading conditions, and said the group did not foresee a meaningful improvement in the coming year.

"It is also not known at this stage whether the implementation of VAT will have a positive or negative influence."

Doctors get 'drugs war' perks

183

S/Times 6/10/91

By EVE VOSLOO and CAS ST LEGER

A MEDICINE war is being waged in South Africa with free trips, TV sets and videos being given to dispensing doctors as booty.

And the losers are the patients, who are being forced to pay increasingly high prices for medication

The Sunday Times has acquired documentary evidence that pharmaceutical distributors are handing out bonuses and discounts to dispensing doctors

The practice has come under fire from the Medical Association of SA, the Pharmaceutical Manufacturers' Association, the Society of Dispensing Family Practitioners, the Pharmaceutical Association of SA and the SA Medical and Dental Council.

Deals offered by one distributor, who asked not to be named as he was "a corner café" forced into "innovative marketing practices to compete with the big companies", include

- A trip to Europe for two worth R8 000
- A trip to Rio de Janeiro for one worth R3 500.
- Trips to Mauritius, the Seychelles and the Comores for two worth between R3 000 and R6 000
- Colour TV sets worth R1 700, video recorders worth R1 700, CD players worth R1 476, gold watches worth R800 and gold and silver pens worth between R500 and R600.

Other deals offered, again mostly to dispensing doctors, include.

- Medicines given free if a certain quantity is bought. This formula varies from company to company and according to the quantity ordered

Competitive

Net prices, on detailed lists, are far lower — in some cases half — the prices at which pharmacists can buy the same drug, for example:

- Erythromid, an antibiotic, offered to doctors at a net price of R188,28 for a pack of 500 250mg tablets. The normal price is R365,65 and the suggested retail price R548,48.
- Abburic, for gout, offered to doctors at R119,40 for a pack of 250 300mg tablets and to pharmacists at R316,10. Suggested retail price for both is R475,15.

There are many other such examples

The executive director of the Pharmaceutical Manufacturers' Association, Mr John Toerien, said the PMA was "alive to the fact that member firms and other companies operate in a competitive environment and that it is extremely important for them to be able to market and promote their products"

He said the PMA had set up an adjudicating committee with an independent chairman to review any complaints

The price lists of three major pharmaceutical companies, Amalgamated Chemists, SA Druggists and its subsidiary Lennon, in the possession of the Sunday Times, show that they all offer discounts and bonuses on drugs

However, they disagreed with the practice of offering huge free gifts All said they had one "exit price" for their products to doctors and pharmacies

Mr Garth Miller, marketing director of Amalgamated Chemists, one of the largest distributors in South Africa, dismissed claims that smaller companies were forced into discounting by bigger ones.

"They are doing this to break into our markets and they are not succeeding because we will in no way compromise our professional integrity and guarantee the safety, efficacy and stability of our products," he said

Mr Joe Tarry, marketing director of Lennon, the biggest manufacturer of generic medicines in South Africa, said this week that specials were offered for limited periods

But his company did not condone inducements such as free overseas trips and it had a policy of offering one exit price to all

Mr Lew Morris, executive director of Lennon's parent company, SA Druggists, said excessive bonuses had been on the increase since the advent of the dispensing doctor, who was a preferred client

A spokesman for the SA Pharmacy Council, a statutory body, said the council had made representations to the Department of National Health on the issue of one fixed price from manufacturers to all end suppliers of medicine The council had been advised that the matter had been referred to the Competitions Board

Mr Boet van der Merwe executive director of the Pharmaceutical Society of South Africa, said "Unfortunately this type of thing is happening"

He said there was "complete understanding" for the position of rural doctors who needed to stock medicine for patients who could not get them anywhere else, and for doctors who were supplying poorer patients cheaply with drugs they could not otherwise afford

The society had submitted evidence to the Competitions Board, he said.

Hesitant

Dr Hendrik Hanekom, secretary-general of the Medical Association of South Africa, said Masa's policy was that "doctors should not dispense medicines with profit as a motive, but as a service to patients."

"Masa has always been hesitant to recommend a specific mark-up because costs differ from practice to practice," he said

"But Masa is of the opinion that a mark-up of up to 50 percent on the purchase price of medicine would be reasonable."

Mr Nico Prinsloo, registrar of the SA Medical and Dental Council, said there was an ethical rule that a medical practitioner "may not prescribe medicines on a preferential basis where he has received some benefit to do so"

Voltex confident about Usko's cabling

S|Times (Buss 6/10/91.

By JULIE WALKER

MYRON BERZACK of Voltex — the cabling company that took control of Usko this week — is confident that Usko's cabling will have a significant impact on the bottom line

In a novel deal — the terms of which have not been made absolute — Voltex will inject R70-million into Usko in return for the issue of shares that will give Voltex 80% of the enlarged company

Voltex is not throwing R70-million into a dead duck The interest lies in Usko's non-ferrous division, which houses four cabling operations as well as a clutch of worthwhile investments

Mr Berzack says there were other bidders for Usko, which partly explains the haste behind the deal and the fact that the details are not yet ironed out.

"Usko's cabling operations are complementary to our own divisions," says Mr Berzack

He believes the subscription for shares is a novel move in SA Because the deal is imperative to Usko's survival, and because the existing major shareholders would not inject capital, an offer to Usko's minority will not be required by the JSE in spite of an effective change of control

Mr Berzack says one of the first steps will be to reduce Usko's debt burden, possibly through a rights issue.

Negated

Usko has already sold its steel interests for R55-million, and its vanadium operations to RhoVan After these disposals, Usko has negative shareholders' funds, and debt believed to be R60-million to R80-million

"Usko's non-ferrous division was making fair money, but it was negated by the lossmakers in the rest of the group," says Mr Berzack. He is cagey over just how much Usko's cabling does earn, but R20-million before interest and tax is probably conservative

"Once we have brought down the interest bill, Usko should turn out to be a real bargain"

MYRON BERZACK

This year Barlows' Reunert bought Cullinan's shareholding in African Cables in a R76-million deal.

Another large cable company, Aberdare, issued a warning on July 4, but cancelled negotiations two weeks later It is believed to have looked at Usko too

The other part of Friday's announcements concerns the cancellation by Usko of 20-year agreements with RhoVan to produce vanadium pentoxide flake

Usko's financial difficulties have necessitated the cancellation It must pay RhoVan R19-million cash before March 1992 Usko will also sell to RhoVan the assets used in the vanadium operations, free of liabilities and contingencies, for R1

Options

RhoEx will buy Usko's shares in Rhosco (the holding company of RhoVan) and the options Usko holds in RhoVan, for R2,1-million

Vanadium has been an expensive exercise for both Usko and for Rand Mines, whose loss-making Vansa mine had to be closed last year

Polymer merger

183

S/Times (Bus) 6/10/91.

HOECHST SA and Sentrachem, joint shareholders of Plastomark, are to merge their engineering polymer divisions

The new company, Plastomark Engineering Polymers, will become a subsidiary of Plastomark, and will be the largest supplier of engineering thermoplastics and thermosets in Southern Africa

The product range will include modified polypropylene, high-density polyethylene, engineering polymers and associated products such as nylon

Sankorp spawns twin giants

S/Times (Buss) 13/10/91. (183)

Business Times Reporter

MALBAK will become the biggest pharmaceutical manufacturer and distributor in SA following the R1-billion reshuffle of Sankorp's assets started this week. With sales of R2,2-billion, its food division will be a major player as well

Murray & Roberts will pick up assets worth at least R350-million, which will increase its focus on engineering and construction

All parties are bound to silence until all details of the transaction are completed later this week — but Business Times has learned reliably that Malbak will acquire control of Fedfood and SA Druggists from Federale Volksbeleggings

HOW AFFECTED COMPANIES SHAPE UP

COMPANY	YR END	MKT CAP	TOTAL ASSETS	SALES	TAXED PROFIT
		(Rmillions)			
MALBAK	Aug 90	2 376,3	3 995,0	8 374,0	127,0
M&R	Jun 91	1 742,8	1 901,5	4 603,9	180,2
FEDFOOD	Mar 91	535,5	177,5	1 285,2	34,3
SA DRUG	Mar 91	367,0	220,2	1 061,9	35,7
KANHYM	Aug 90	261,2	232,4	979,1	24,0
STD ENG	Aug 91	265,6	455,0	640,0	41,5
D&H	Aug 91	431,3	390,0	610,0	57,0
PREMIER	Mar 91	2 052,2	1 814,7	5 094,1	159,2
TIGER	Sep 90	4 832,2	1 487,3	6 779,9	255,1
ADCOCK	Sep 90	1 568,2	186,1	615,7	49,4

Clearer

It will sell 35% of Standard Engineering and 61% of Darling & Hodgson to Murray and Roberts

Richard Stuart, research director of stockbroker Martin & Co, says "The proposed transactions will be good for both Malbak and M&R In future, they will have clearer identities Malbak will be focused on consumers and M&R's fortunes will be linked to infrastructure development"

The market appears to agree, for the share price of Malbak has gained 8,4% in the past two weeks while that of M&R has leapt 12,1%

Akromed and Protea Pharmaceuticals, already in Malbak, turn over R400-million a year and SA Druggists will beat R1-billion this year Together their sales will exceed those of present profit leader, Tiger's Adcock Ingram

While Kanhym chairman Dirk Jacobs has said it is premature to speculate, Malbak is expected to merge Fedfood and Kanhym

Together the two food companies will be valued at more than R750-million Their combined turnover will be R2,2-billion, their total assets R400-million and taxed profit will approach R60-million

Kanhym's share price has gained 18,7% in the past two weeks

As the table shows, they will still be far smaller than both Tiger and Premier, but they will have critical mass, particularly in meat and snacks, where they are market leaders

They will vie for third spot in food with Anglovaal's foods division and HLH's Rainbow

Murray & Roberts will be more dependent than ever on gross domestic fixed investment

Analysts predict strong growth in the consumer sector in a new SA following policies of income redistribution They also forecast heavy spending on upgrading black living areas to underpin GDFI and thus M&R

Malbak will sell for cash and pay for its new acquisitions with shares and thus emerge only 20% geared with up to R400-million of cash in its balance sheet Its rating should improve markedly after consummation of the deal

Murray & Roberts' funding arrangements are not known The terms will be announced after the due diligence process has been completed at the end of the week

After the deal, Federale will become purely a services firm Services companies such as Avis were the only part of the old Federale which performed consistently Sankorp is considering relisting Federale

Refused

M&R wanted to buy Malbak's entire stake in Standard Engineering, holding company for Union Carriage, Hall Longmore, Astas and other interests, but Malbak refused to part with it all — according to analysts, because it is at the bottom of its cycle and still pregnant with potential

Union Carriage has been successful exporting train sets to Taiwan, but like Hall Longmore, which makes steel pipes, and Astas, which is operating in a depressed motor market, it has huge potential in a better domestic economy

Relocated

The balance of 35% is expected to go to M&R later Malbak retains an exposure to engineering via its 35% stake in Haggie This, too, is expected to be relocated once market prices permit

It is still a moot point whether the minor shareholders in Fedfood, SA Druggists and D&H will receive an offer

Control is changing, but the change is occurring within the ultimate control of Sankorp Prices may well be set at pre-deal levels, in which case standby offers may be made

While all the parties to these transactions refuse to comment, market sources say they were initiated by Sankorp in an attempt to maximise the value of its various holdings

With Bankorp's problems reportedly under control and the Checkers sale all but clinched, Sankorp should be free of headaches by the end of the year

Royal shows it has right recipe

Star 20/10/91

183

THE Royal Corporation food and chemical group is on course to meet its forecasts for the 12 months to February 1992 — to judge from results for the 18 months to August 1991

With the group a lot larger now than 18 months ago, comparisons are not relevant

The two recent listings — Royfood and Roychem, in which parent Roycorp holds 65,2 percent and 57,8 percent respectively — do not have directly comparable previous results but both are expected to at least match their pro forma forecasts.

SA Preserving Co and Ferro Industrial Products have only contributed to the results over the last six months

The preliminary report, which reviews results for the six months to August 1991, reveals that Roycorp earned 18,6c a share during this period — a figure almost 47 percent of the 39,8c achieved for the full 18 months

The company forecasts "at least" a further 24,8c a share for the six months to February 1992, indicating it is well placed to reach the 43,4c for the year to February 1992 projected at the time of the Royfood and Roychem listings.

A dividend of 6,9c has been declared for the past six months.

At Roychem, earnings for the six months to August are 16,2c a share, or almost 63 percent of the 25,8c for the entire 18 months.

The forecast for the next six months of "no less than" 18,3c a share should ensure the achievement of the 34,5c forecast The dividend is 5,5c

Royfood reports earnings of 13,1c a share for the six months — 57,2 percent of the 22,9c for the 18 months Expectations of at least 18,1c for the next six months indicate the forecast of 31,2c for the 12 months will be comfortably achieved The dividend is 5c

Chairman Vivian Imerman says the group is continuing to pursue growth along both organic and acquisition paths He says past acquisitions stemmed largely from foreign disinvestments

While such opportunities will not be neglected, the group will seek joint ventures with international partners keen on entering local markets in line with changing overseas sentiment towards SA

Mr Imerman says the group's operating companies are "still performing ahead of expectations notwithstanding the current restrictive climate and continued growth is expected both locally and internationally", subject to the usual caveats

Gearing at all three companies is well below 20 percent

Based on projected earnings for the 12 months to February next, Roycorp yields 9 percent, Royfood 6,6 percent and Roychem 14,4 percent

Royal's in the purple

S/Times (Buss) 20/10/91

By JULIE WALKER (183)

RIGHT royal spoils were dished up by food and chemicals group Royal Corporation in the 18 months to August

Group chairman Vivian Imerman says "We can sell four times our current food production on the export market and are expanding to do so"

Acquisitions of disinvesting companies, such as Sapco and Ferro, effective for the last six months, have already made a big contribution to Royal's bottom line

Forecasts

Earlier this year, Roycorp listed separately its interests in Royal Foods and Royal Chemicals Proceeds of the listings paid for the acquisitions

To indicate the effects of structural changes, the group has given results for 18 months and for six months to August 1991

Roycorp's earnings in the six months of 18,6c a share account for 43% of the 39,8c made in 18 months A maiden interim dividend of 6,9c has been declared Turnover in the six months was almost R240-million

The six-month earnings of Roychem and Royfood respectively made up 63% and 57% of the 18-month totals All the companies should meet or beat their forecasts

Mr Imerman says the group's policy has swung to seeking joint ventures with international partners keen on entering SA markets as foreign sentiment about this country improves

Ferro's export prospects are growing in co-operation with its former foreign parent

Value-added branded and speciality products will be the main area of growth Royfood bought Fedfood's biscuits and breakfast cereals division, which should provide early returns

Among the group's leading food brand names are Del Monte, Beechies and Royal

All the shares are at or near their highs on the JSE

Oil companies set sights on Africa

SOUTH Africa's oil industry, headquartered in Cape Town, is setting its sights on capturing refined oil markets in Africa and has embarked on massive capital expenditure programmes to increase its refining capacity. B Day 21/10/91

Strong demand from the east coast of Africa and the Indian Ocean islands is expected.

Shell and BP are spending R450m to expand capacity at the jointly owned Sapref refinery in Durban, the largest refinery on the continent.

Its present capacity of 200 000 barrels per day (bpd) is to be expanded by 30%.

The project will start this year and is due to be completed by end-1993

Engen, which owns Mobil SA and Trek Petroleum, is planning a R2,2bn expansion to its Genref refinery in Durban, with the new capacity intended for the export market. (183)

Caltex SA is spending R240m to double its daily production of 55 000 barrels.

If all three groups are looking to expand their horizons into Africa, they are also looking inwards to their social responsibility programmes.

Shell has donated R5,8m so far this year to educational institutions and is also involved in job creation, art and culture, environment and socio-political programmes.

Caltex has contributed R75m to the corporate social investment programme over the last 15 years since the introduction of the Sullivan Code, with R14m being contributed in the last year.

As far as Engen is concerned, the Energos Foundation (previously Mobil Foundation) is involved in about 150 projects involving funding of over R9m a year

Beauty is a magnet for for the large corporates

Business Day 21/10/91

CAPE Town has all the qualities to become the corporate centre of South Africa, says Western Cape Growth Organisation executive director David Bridgman.

The beauty and charm of the city, which attracts droves of tourists annually, also provides a quality of life for executives which makes them wish to locate there.

Offering a wealth of recreational activities as well as all the amenities of a thriving metropolis, Cape Town is already home to large multinationals

183

Assurance

All the petrochemical companies, Shell, BP, Caltex and Engen (formerly Mobil SA) have their headquarters in the city, which also houses the head offices of the biggest life assurance companies in SA

Bridgman says 15% of all non-mining companies quoted on the Johannesburg Stock Exchange are headquartered in the Cape

Cape Town City Council economic development coordinator Philip Theron says there has been a flood of inquiries from Japanese, Taiwanese, German, French and British government representatives and companies wishing to establish head offices in the city.

The SA Parliament is located in the city and will probably continue to be so under a new government and is thus well suited for foreign offices and trade consuls.

Quality

"In age of electronic communications, corporate headquarters can be well located in Cape Town, which offers managers a better quality of life, a factor which has become a key ingredient in attracting and keeping good managers," says Theron

Wesgro considers it likely the normalisation of relations between SA and its international partners will see a large number of foreign corporations locating in Cape Town, which is well placed to capture more than its normal 18-20% share of such new offices

The city, with a population of about 3-million, has all the infrastructures, such as an excellent harbour and rail, road and air linkages with rest of the country and the world.

Organised medicine theft costs SA millions yearly

Star 21/10/91.

(183)

By Carina le Grange
Medical Reporter

Organised theft and illicit diversion of medicines from private and State medical institutions have assumed "alarming proportions", the National Wholesale Drug Association has reported.

In its newsletter last week, the NWDA reported this was costing the country millions of rands annually.

The report, based on an account by the police, said the consequences for individuals and corporate bodies who indulged in these practices could be disastrous

These indivicuals and groups could face serious civil and criminal liability

The police also warned of the worldwide manufacture and distribution of counterfeit drugs, including some of the best-known medicines on the international market

Value

This cost hundreds of lives in the Third World each year

The exact value of the stolen and diverted medicines is not known

Commenting on the report, NWDA executive director Wolf Furst said members of his association would distribute only medicines that were legally available in South Africa and procured directly by NWDA members from registered manufacturers or their accredited agents

He said his industry was governed by strict legislation and was bound by strong codes of ethics

However, due to the behaviour of a minority, the industry had become the target for adverse publicity

The Pharmacy Council was currently evaluating a draft Code of Practice and Minimum Standards for Pharmaceutical Wholesale and Distribution, he said

When introduced, the code would require pharmaceutical wholesalers to be licensed with the council

11. W

12. I

Pragmatism will prevail in nationalisation debate

183

Star 22/10/91

Star 22/10/91

By Sven Lunsche

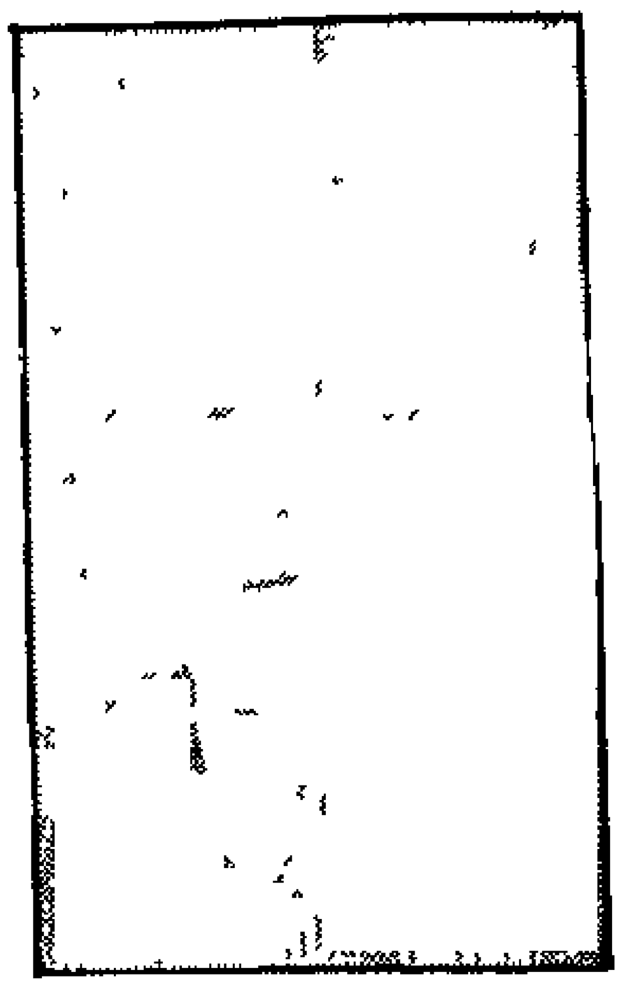
Nationalisation would obviously be a major disincentive for new investments in South Africa, the chief executive of Burmah Castrol Plc, Lawrence Urquhart, said yesterday

UK company Burmah Castrol, which last year had worldwide turnover of about R9 billion, is the controlling shareholder in Castrol SA

"Some of our subsidiaries have been nationalised before, all with lamentable results for the company and the government that took them over," Mr Urquhart said.

"It is self-evident that as businessmen we could hardly view a programme of nationalisation as favourable," he said, adding though that he believed economic pragmatism would prevail.

Mr Urquhart, on his first visit to SA since he took over as CE in July last year, will open Castrol's new R30 million upgraded filling plant near Durban tomorrow.



Lawrence Urquhart .. hoping to expand operations.

Burmah Castrol's interest in Africa are confined mainly to South Africa, with a smaller interest in Zimbabwe

In financial 1990, turnover of the African operations increased from £47,5 million to £52,1 million on which pre-tax profits of £6,8 million (1989 £5,6 million) were recorded

Capital expenditure was a mere £1,4 billion, comprising the last phase of the Durban plant

However, Mr Urquhart said the group was looking at expanding its local operations, although all projects would have to be evaluated on strict financial criteria

This was made possible when Castrol SA was earlier this year taken off its parent's list of unacceptable investments

The local subsidiary is also benefiting from Burmah Castrol's acquisition of Foseco, a UK manufacturer of metallurgical and construction chemicals, last year.

Following the re-organisation of the group Castrol has significantly expanded its interests in the local construction chemical market through Foseco's local subsidiary, Fosroc

13. I on the
a
i

Justine pays attention to benefits for staff

JUSTINE is a South African direct selling company that manufactures and markets a wide range of skin care, body care, sun care and beauty care products, as well as fragrances and products for men

It was founded in 1973 by Veronica Devine and has grown to become one of the largest skin-care houses in the country

It has around 10 000 consultant, 400 area managers, 82 regional managers and 16 controllers in the field.

There are two sales executives, two black market developers, 80 factory staff, 30 administration staff and 20 branch offices around the country.

All the key positions are held by women

Because of the company's focus on women — both in its product range and staff — particular attention has been paid to employment benefits and opportunities for women

In the case of maternity leave, for example, mothers-to-be are entitled to six months paid leave, while fathers have 10 days

In addition, the company allows staff 10 days compassionate leave, full flexitime, determined by staff (within reason), on-going free training in all aspects pertaining to their profession, free motivational and image building courses, free counselling regarding professional, career and personal life

The need to enhance and assist the development of black women in the new SA was recognised as far back as 1986 with the launch of the Secretary of the Year award and the Black Secretaries Forum, sponsored by Justine.

Glaxo is blind when it comes to gender

(183)

B/Day 23/10/91

GLAXO is an integrated research-based group of companies whose corporate purpose is the discovery, development, manufacture and marketing of safe, effective medicines

It is one of the world's largest and fastest growing pharmaceutical companies

Its international sales totalled £3,4bn last year and some 44 000 people work for the company in 75 countries

In South Africa, there are around 400 employees, of which 46,3% are women

Of these, two serve in executive positions Lyn Walsh and Vicki Freeman, both marketing executives appointed in January this year.

This equal opportunity company has for many years appointed, developed and promoted women who meet set criteria, says corporate affairs manager Martin Jenning

"Glaxo's readiness to preserve jobs until women return from three months maternity leave, equality of pension fund rules and equal pay structures indicate a blindness in sex status," he says

"The number of women involved in production at most levels and those active in sales and marketing, registration, and as regional managers, product managers and divisional heads refutes any minority perceptions," Jennings says.

Among the perks enjoyed by staff are study and exam leave, payment for studies, training courses, flexi-time and involvement in strategic planning.

VICKI FREEMAN

Big deals in Engen shares

Star 24/10/91 (185)

By Jabulani Sikhakhane

Gencor and its investment arm Genbel are believed to be the sellers of 2,2 million Engen shares in two deals worth close to R80 million this week, market sources said

Yesterday 1,2 million Engen shares were booked-over at R35,50 following a similar deal on Tuesday of one million shares at R35 each

Market speculation is that Gencor might use the proceeds to fund part of the cost of following its rights in Sappi's share issue of 32,6 million shares at R32 each

Gencor which holds 50 percent of Sappi is also underwriting the issue. It will need about R522 million to follow its rights

Genbel's managing director Anton Botha would neither deny nor confirm that Gencor and Genbel were behind this week's transactions

He would say only that Genbel and Gencor been major sellers of Engen shares in the past year, having brought down their combined shareholding from 92 percent to the current 74 percent

"I haven't said anywhere that the selling programme has stopped," he added

Gencor has been working on widening Engen's shareholding and improve the tradeability of the shares.

Early this year Genbel managed on behalf of Gencor and itself the placement of 18 million Engen shares with institutions, raising R522 million in the process The proceeds were used to subscribe for the new shares in Engen's R1,1 billion rights issue which Gencor also underwrote

FM 25|10|91 (183)

ENGEN FM 25|10|91

Not boring yet

(183)

MD Rob Angel says, with tongue in cheek, that his ambition is to see Engen become known for producing boring results But the "boring" he has in mind would be very interesting to investors — he would like to see earnings rise by a consistent 20% each year.

In that context, the figures for the 1991 financial year are right on target Both earnings and dividends per share are up by 20%, having gained a strong boost from the well-timed rights issue of R1,1bn earlier this year On both counts, this was an improvement on the 1990 year (the first after the injection of Mobil into Trek), when EPS rose by 10,4% and the dividend by 16,9%

Though the rights issue proceeds were only received during May, the resultant surge in financial income made all the difference to the year's performance A financial expense of R29m during the previous year was transformed into finance income of R42m for the 1991 year

This more than compensated for the fact that the 20% rise in turnover was accompanied by thinner operating margins, which saw the operating income rise by only 17,3%, while the effective tax rate rose from 27% to 32% Net income was 34,2% higher, at R286m

But these figures were again affected quite markedly by transfers to reserves At trading level, large inventory profits were generated when the Gulf crisis caused crude oil prices to rise beyond "long-term sustainable levels " To reflect management's view of a sustainable profit performance, R84m (pre-tax) was excluded from these results. The tax charge of R134m (1990 R80m) includes a transfer to the tax equalisation reserve of R16m (1990. R78m)

Accounting policies such as these, as well as Engen's financial strength, underline the fairly high level of flexibility that management has in trying to ensure that its growth remains consistent, rather than spectacular but volatile.

Financial activities have also become increasingly important Though the R670m first phase of the capital spending programme at Genref is well under way, this will be funded largely from cash flow Funds raised through the rights issue will remain on hand during most of the 1992 financial year Angel notes that the group has been active in the preference share market, for example

Flexibility of this sort could be needed this year Angel sees the short-term outlook as "tough, tough, tough." Engen has held its market share, but it has seen no growth in volumes, with demand for its products continuing to reflect bleak economic conditions Petrol and lubes maintained volumes, but other products were down The only area where growth was achieved was exports, which rose (off a low base) by about 250% and are now going to nine African countries. Exports accounted for about 5% of turnover

A resumption of growth in volumes is not expected until later this year, implying that Engen will have to rely more heavily on the expansion and rationalisation of its operations to maintain its own profit growth The rising trend in refining margins, which played a big part in the profit surge of the past few years, has levelled out After the Gulf War and the easing of growth in the international economy, management is expecting firm but static refining margins for a while

Angel says more rationalisation is likely over the next 12 months This will include, for example, an evaluation of whether it makes sense to retain Mobil and Trek as separate organisations The first phase of the Genref expansion is primarily a debottlenecking, but includes a 30% expansion of capacity When this comes on stream around mid-1992, it should bring an immediate boost to profit, though benefits will mainly be felt in the 1993 financial year

This year, Engen will have to steer its way through a trough It remains to be seen whether EPS will again rise by as much as 20% But the share price stands at R35,75, having gained 75c after release of the results, giving a yield of 3,3% on dividend The market will be disappointed with anything less than real growth

Andrew McNulty

ENGEN'S SURGE

Year to August 31	1990	1991
Turnover (Rbn)	5,08	6,10
Operating income (Rm)	323	379
Net income (Rm)	213	286
Earnings (c)	194	233
Dividends (c)	97	116

PVC importer joins tariff row

183

By Sven Lunsche Star 25/10/91

In a move which could prove to be a test case for the government's new approach to import tariffs, a large importer of PVC is making a concerted bid to prevent an increase in tariffs demanded by AECI

PVC (polymers of vinyl chloride) is used in the manufacture of footwear products, cabling, agricultural goods and vehicles

AECI is the largest local producer of PVC, but it claims that "predatory pricing" by importers had slashed prices and cut profit margins dramatically. Last month AECI approached the Department of Trade and Industry (DTI) to increase tariffs on PVC

Dave Kenney, MD of the largest private importer Cargo Trade, yesterday condemned the "indecent haste" with which the AECI application was being processed and the insufficient time allowed for objections

He alleges in a memorandum submitted to the Department that increased tariffs "will lift PVC prices by as much as R1 000/ton, halt PVC imports completely, boost inflation and provide unfair protection for an inefficient producer".

He said prices for AECI's PVC polymers were already "outrageously high" at around R2 800/ton compared with a world average of about R1 300/ton and that the net effect of increased protection would be to allow AECI to increase its prices further.

AECI denied earlier that a revised duty structure would lead to a general price increase, stating that its main reason for the application had been fear that the depressed world PVC industry could lead traders to over-invoice to avoid the duty

However, Mr Kenny says the Customs and Excise Act provided sufficient mechanisms to deal with over-invoicing

Shortage fear

He is also concerned that higher protection would lead to a serious shortage of PVC on the market, as the AECI plant could provide only about 80 percent of the market's needs

"Even if the imports are construed as dumping, GATT guidelines on anti-dumping protection are duties of around 20 percent of FOB value compared with the 57 percent duty already in place

"This could rise to 87 percent of FOB value if the DTI gives the go-ahead, a breach of the 1986 Uruguary Round of GATT, to which SA was a signatory," Mr Kenny says

The move by Cargo Trade will test the government's willingness to abide by the spirit of recent Industrial Development Corporation s proposals on lower tariffs

The IDC's proposals are set to form the nucleus of far-reaching government laws on protectionist policies and export promotion, to be tabled in Parliament next year

It is also mooted that the DTI will be fundamentally restructured as part of this legislation The DTI has been responsible for administering selective tariffs for various industrial sectors

Reshuffle pays off for Adcock Ingram

183

BDay 29/10/91

WILLIAM GILFILLAN

LEADING pharmaceutical group Adcock Ingram turned in a strong performance for the year to September, increasing earnings 30% to R64m (R49m) on the back of a 26% rise in turnover to R773m (R615m).

Earnings were up 29% to 235c (182c) a share on a slightly increased weighted average number of shares in issue

A final dividend of 60c a share was declared which, together with the interim dividend of 28c a share, gave a total dividend of 88c (68c) a share

The rise came on a 30% increase in attributable income to R64m (R49m), helped along by a reduced tax rate of 44,5%, which saw the tax charge at R51,5m (R41,7m)

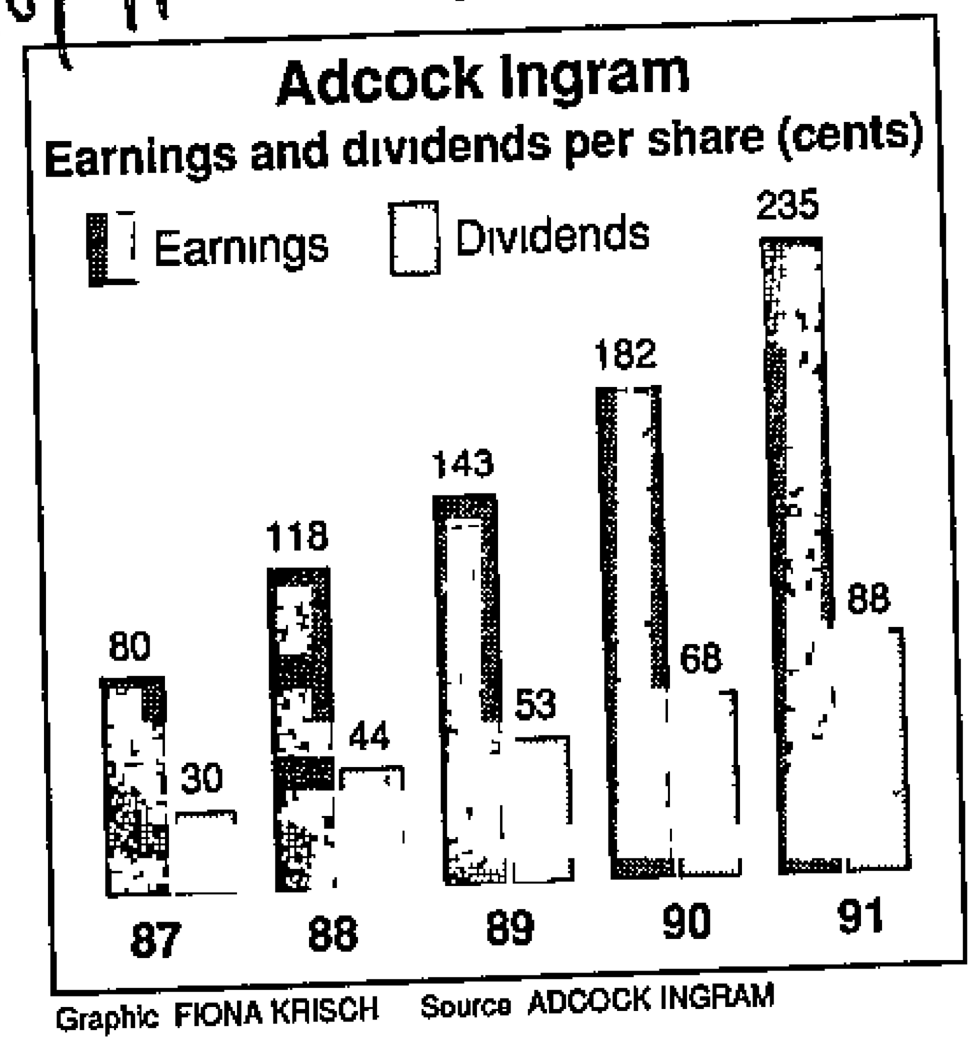
Cash generated increased by 24% to R120m from R97m while interest cover was improved to 20,2 (14,9) times.

Return on equity rose to 33,6% from 31,9% while return on net assets climbed to 30,3% from 27,2%

CE Don Bodley said that, while all divisions performed well, the pharmaceutical and Sabax divisions raised their turnover slightly more than the other divisions, while the consumer end of the business felt the recession more

Bodley said established brands and continued strong demand for prescription drugs brought into the market by the group in 1990 helped achieve the high growth in turnover

Results were favourably affected by the implementation of a new organisational structure at the beginning of the year, with the group now made up of six strategic business units



Graphic FIONA KRISCH Source ADCOCK INGRAM

Improved market focus and more effective use of resources had flowed from this, he said

Capital expenditure projects were focused on upgrading and expanding plant and facilities and on improving information systems.

Bodley said a computerised raw materials dispensary was commissioned during the year This represented the first phase of a R15m upgrading in the tablet manufacturing facility

He said that, on completion early next year, this facility would rank with the world's most advanced pharmaceutical manufacturing operations

"New products are vital to the future growth of our business Research and development is therefore an integral feature of the strategic long-range plan"

Bodley forecast real earnings growth for this year despite his expectation of tougher markets in the retail pharmacy and consumer products areas

Sentrachem buffeted in rough trading conditions

B/Day 1/11/91 (183)

BRENT VON MELVILLE

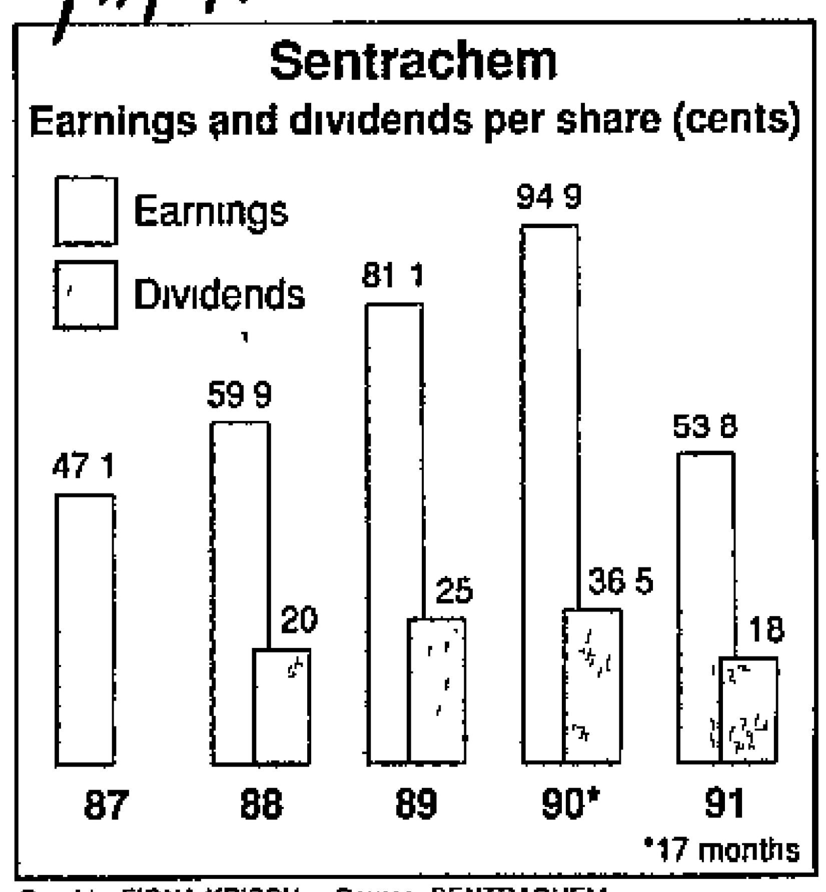
SENTRACHEM was buffeted by market conditions for the year to end-August to record a 19% drop in earnings to 53,8c (66,1c) a share, off attributable income of R62m (R76,4m).

The results were affected by drought in the agricultural sector, declining international petrochemical prices, and by labour instability in some of Sentrachem's major markets

Pressure on margins saw operating profits slip 4,5% to R214m (R224m) on a 5,5% rise in turnover to R2,3bn (R2,2bn) Finance charges lopped off a net R106,1m (R114m) on borrowings of R499m (R519m), although the tax charge came down to R30m (R53,6m) on assessed losses and capital investment incentives

MD John Job said the group had been giving considerable attention to strengthening the balance sheet and driving down gearing At year-end gearing stood at 63%, down from 73% at mid-year

This year also marks the end of the group's expansion and refurbishment programme, which saw it invest more than R830m over the past three years "While this substantial expenditure has affected our results in the short term, it has provided us with modern plants and with surplus capacity available for any upturn in local and export markets," Job said



Graphic FIONA KRISCH Source SENTRACHEM

Exports currently account for about 7% of turnover, and Job said the group was looking to exports of about 15%, although exports could probably only reach about 10% of sales with the current asset base

Divisionally, flagship National Chemical Products (NCP), which produces industrial and foodstuff chemicals, maintained its contribution to earnings, with industrial chemicals upping its contribution to pre-tax profits to 32% (22%), while foodstuffs chipped in 19% (18%) Recent expansions to the division represented a capital expenditure of more than R200m

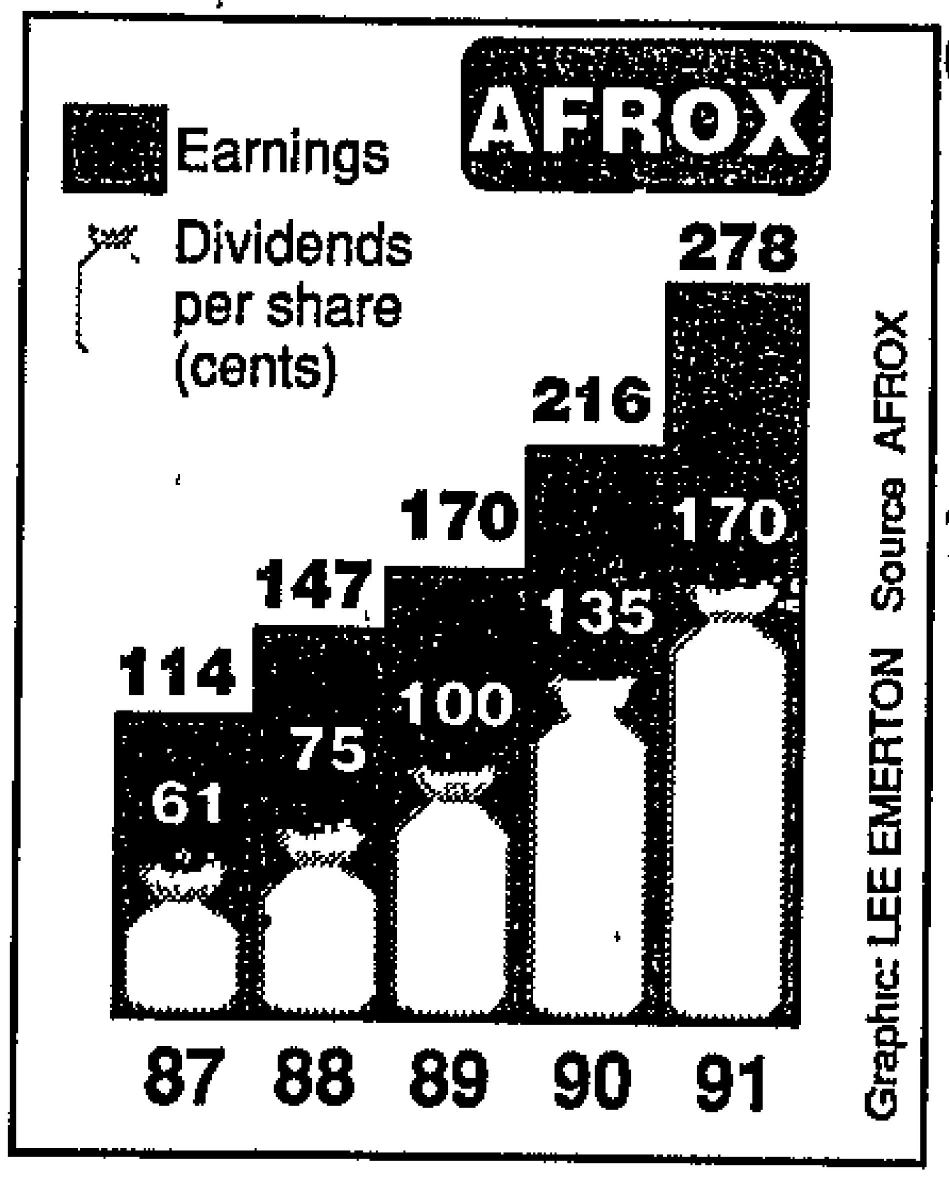
Plastics, under SA Polymer Holdings, Mega Plastics, and Specialities, maintained its contribution at 36% of pre-tax earnings, while the rubber division (Karbochem) upped its contribution to 10% (6%)

Following closure of the loss-making isoprene rubber plant at Newcastle last year, the division has announced that it is to adapt part of the plant to the production of alkyl amines, high value chemicals which are imported at present.

Agrihold, one of SA's largest producers of agricultural chemicals, saw the first full year of operation of Sanachem, which was established in 1990 Job said Sanachem's results had been disappointing, but were expected to pick up next year The division saw its contribution fall to 2% from 15% of profits

The group's expansions have made Sentrachem the second biggest chemical group in the industry Job is forecasting an improvement in earnings for the coming year, although he added that the extent of the improvement was dependent on SA's economic and social circumstances

Afrox defies the recession



(183)

MARC HASENFUSS

1/11/91

AFRICAN Oxygen (Afrox) continued to shrug off recessionary pressures, reporting a 29% rise in earnings to R83,4m (R64,8m) for the year to September

Inflation-adjusted earnings a share were lifted to 338c (269c), of which a dividend of 170c (135c) a share was declared, covered 1,6 times. Earnings a share have shown an annual compounded growth rate of 22% over the past seven years

Effective expense control and productivity improvements in all divisions offset a decline in demand for many of the group's products and services, chairman Peter Joubert said.

Afrox's gas, Healthcare, welding and specialised engineering divisions all increased earnings, he said.

Commenting on the operating divisions,

☐ To Page 2

Afrox

1/11/91 (183)

☐ From Page 1

Joubert said Healthcare's contribution to consolidated profits increased to 20% (15,5%) on the back of a substantial increase in hospital beds

The gas division maintained a wide variety of customers through its ability to find new applications for gas, he said

The divisions dependent on the engineering sector continued to perform sluggishly

Looking ahead, Joubert said that Afrox had a sound base for internally generated growth, based on improved efficiencies, the development of new applications and a wide diversity of customers

"The earnings for the company as a whole in the year ahead will continue to grow, albeit at a slower rate"

Operating margins improved, and a 15,5% increase in turnover to R1bn (R904m) was transformed into a 20% increase at operating level

Afrox was further aided by better contributions from associated companies — R3,6m (R2,8m) — and investments R5,6m (R4,4m) — in the period under review The interest bill showed a slender increase to R31,7m (R30,7m).

Joubert said a reduction in stock levels and number of debtors days outstanding resulted in net current assets remaining at virtually the same rand value as last year

The market anticipated the results and Afrox jumped 150c to R71 on the JSE yesterday The share peaked at R75 in August after bottoming at R37 almost a year ago

Sentrachem's heavy capex will pay off

8tar 5/11/91 (183)

By Jabulani Sikhakhane

After a heavy capital expenditure programme of some R830 million during the past 41 months, Sentrachem should start enjoying the benefits during the current financial year to August 1992

Group managing director John Job said yesterday that even without an upturn in the economy (but provided it does not deteriorate any further) Sentrachem will show improved earnings for financial 1992

He expects this to come mainly from the improved utilisation of the group's expanded asset base, increased productivity and considerable slowing down in capex

In the 12 months to August, Sentrachem's earnings declined by 13,6 percent to 53,8c and dividends by 25 percent to 18c (Due to change in year-end comparative figures for financial 1991 have not been published before)

The second six months of the year were considerable better than the first half when earnings fell 25,4 percent and dividends down 52 percent

Also boosting the second half performance was the change in accounting policy for the accrual of export incentive allowances This resulted in the effective tax rate dropping from 40 percent to 28 percent

Afrox diversity helps to weather recession

Star 1/11/91

By Ann Crotty (183)

Gases, welding, health care and specialised engineering all contributed to Afrox's 29 percent hike in earnings to 278c (216c) a share in the 12 months to September

A final dividend of 107c a share has been declared for a total of 170c (135c)

As with other companies trying to cope with tough trading conditions, Afrox has had to pay attention to operating efficiencies to achieve earnings growth.

MD Peter Joubert says the recession has led to a decline in demand for many products and services

Turnover rose 15,5 percent to R1 billion (R903 million) and trading profit 20 percent to R215,7 million (R180 million).

Interest payments were held at R31,7 million (R30,7 million) After tax of R89,4 million (R75,3 million), taxed profit was up 27,9 percent to R103,8 million (R81,2 million) Additional depreciation took up R17,8 million (R15,7 million previously)

Attributable profit was up 28,7 percent to R83,4 million (R64,8 million)

Borrowings were held at R221 million, which means gearing has eased to 23,6 percent from 25,8 percent.

B/Day 6/11/91

Wellcome planning to sell two divisions

PAUL ASH

BRITISH drug group Wellcome and France-based chemical company Roussel-Uclaf SA had entered into negotiations for Roussel Uclaf to acquire Wellcome's Environmental Health business, the company said in a statement yesterday

The operations are focused on insecticides Wellcome said the planned sale fitted into its plan to refocus on its core pharmaceutical operations

Wellcome Environmental Health SA GM Martin Bezuidenhout said business would continue as normal while negotiations were in progress Wellcome staff would become Roussel-Uclaf employees Financial details of the sale were not divulged

Canada-based International Murex Technologies is negotiating the purchase of Wellcome's diagnostic kit design and manufacture division

183

Wellcome said Murex sought to acquire Wellcome Diagnostics as an element of its overall corporate strategy to build a diversified diagnostics company capable of competing effectively in global markets

Wellcome SA GM Brian Stratton said yesterday the company's SA operation would not be affected by the sale.

Noristan's thrust into Africa pays dividends

(183)

By Roy Cokayne

Star 6/11/91

PRETORIA — Health care company Noristan's thrust into the African market is beginning to pay dividends, with export turnover expected to account for about 10 percent of group turnover by 1994

This is the confident prediction of Noristan export development manager Darryl Moss.

"The value of our exports to our traditional markets in Africa have doubled in the past two years," he says

"But with new markets such as Angola, Mozambique, Madagascar, Kenya and Zambia, we expect to achieve an export turnover exceeding R5 million a year over the next three years.

"We expect export turnover from Africa will then account for 10 percent of group turnover, whereas two years ago it accounted for two percent"

Noristan identified Africa as a major export opportunity about two years ago.

Cheaper

"In the past 12 months we've seen enormous renewed interest in Africa for South African products, largely because of the political changes that have made South Africa more acceptable and because these countries can get products cheaper from South Africa than from Europe and the US"

In terms of marketing manufactured goods, South Africa has strategic advantages — proximity, lower freight rates and knowledge of the people

"Companies not looking at Africa as an export market are doing themselves a great disservice

"Sub-Saharan Africa, with a total population of about 500 million, is a huge, untapped market"

Partners

Noristan's strategy has been to identify partners in Africa. These could be distributors, agents or small joint ventures

Exporting to Africa is not problem-free, "but in the long term it has to be worth it"

Noristan is looking specifically at increasing its exports to the Preferential Trade Area (PTA) of Southern and Eastern Africa, which has a total population of about 250 million.

(183) ARG 6/11/91

'Profits pumped up' — Sasol defended

ALAN DUNN Political Staff

THE MINISTER of Mineral and Energy Affairs, Mr George Bartlett, stoutly defended South Africa's synfuel projects today in the face of renewed criticism of the fuel-from-coal giant, Sasol

"When the history is written about our synfuel projects, the world will say we did an amazing job," he said

He was reacting to The Executive magazine which reported that government had been pumping up Sasol's profits and was prepared to give it, one of South Africa's most profitable companies, R540 million to ensure a 10 percent return on investment

It noted in editorial comment that this contrasted sharply with the R220 million earmarked for poverty relief because of VAT

Sasol was one of the country's most profitable companies, generating more than R1 billion in net profits in 1989/90

But, according to the magazine, this was achieved on the back of a R1,1 billion package of protectionist measures and subsidies

"Sasol is not the private-sector success story it appears to be.

"These levels of protection may have made sense in the sanctions age, but post-sanctions they will only be a terrible burden."

Mr Bartlett said he wanted to study the allegations and figures before responding

The Executive also reported that government falsely claimed market prices were used to determine petrol price

'Taxpayers kept Sasol in profits'

183

CT 6/11/91

Own Correspondent

JOHANNESBURG — The veil of secrecy over Sasol's fuel operations has been lifted with a full disclosure of the oil-and-chemical giant's production volumes and the extent to which its profits have benefited from government protection and taxpayers' money

The latest edition of The Executive magazine, which is released today, discloses that Sasol provides about 30% (5 400 megalitres) of SA's total annual fuel requirements If its 64% stake in the Sasolburg refinery, Natref, is taken into account Sasol provides about 55% (9 700Mℓ) of the total requirement of 17 000Mℓ

The disclosure of the production volumes, which have been classified under the Petroleum Products Act, makes it possible to analyse Sasol's financial position.

Using the volumes and analysts' estimates, The Executive calculates that the R1,04bn net profit which made Sasol one of the JSE's biggest performers last year, was achieved on the back of protection measures valued at R1,1bn a year

The package of protection measures included R539m from a synfuel subsidy, R324m from the transport levy and R237m from the differential between the in-bond landed cost (IBLC) — which Sasol and other local oil companies use as their selling price — and the benchmark northwest European contract price, according to the report

The Executive says the government falsely claims that the IBLC, a basket of posted or contract prices obtained from four oil refineries east of Suez, is a market-related price

It says government's figures show that IBLC prices used have been an average $21 a ton more than benchmark northwest European prices

Sasol also benefits from a support system which comes into effect when the oil price falls below $23 a barrel It is based on a formula that guarantees Sasol will be profitable Sasol and the NEC deny this is a subsidy, preferring "tariff protection".

SA Drug ready to write down stocks

Star 7/11/91. (183)

By Jabulani Sikhakhane

SA Druggists, whose control has changed from Federake Volksbeleggings to Malbak, is considering writing down stocks and debtors in line with Malbak's more stringent accounting policies

This could affect its earnings performance for financial 1992

Executive chairman Johan van der Walt could not yesterday quantify the figures involved as the situation was still being analysed

Once the price had been determined, a decision would be made on how to fund the purchase of Malbak's pharmaceutical interests

For the six months to September, SA Druggists managed to hold the decline in earnings to only 4,2 percent at 12,73c (13,29c). The dividend is unchanged at 4,75c

Mr van der Walt said the chemical division did well, but more difficult trading conditions lay because of the worldwide recession

The pharmaceutical division, which has been affected by the mild winter and state hospital cutbacks, was a little behind budget, although it was now picking up

Competition was strong in the wholesale division, resulting in reduced prices and margins

It would appear that the shrinkage problem was now under control, he added

Group turnover rose 13,3 percent to R585,25 million, but operating income declined 4,8 percent to R40,88 million

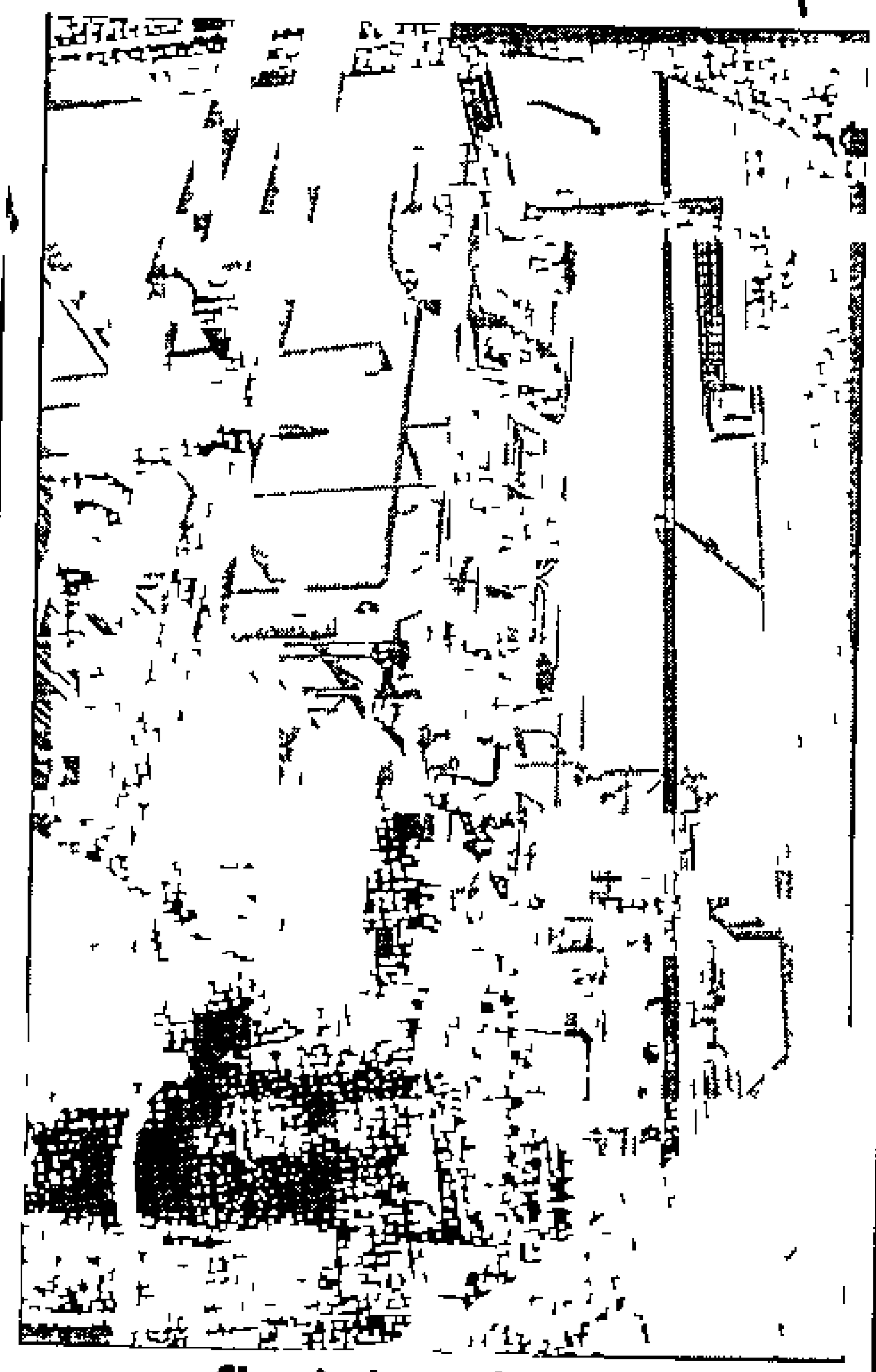
FM 8/11/91 (183)

CHEMICALS (183)

Sasol's ambitious plan

FM 8/11/91

With its announcement last week of plans to build a R250m plant to produce alpha olefins, Sasol signalled its intention to take on Shell, the US-based Ethyl Corp and other international chemical giants in the R5bn world market



Chemical attack *on world giants*

The plant, to be built at Secunda and expected to be completed at the end of 1993, will be capable of producing 750 000 t of alpha olefins a year, nearly three-quarters of the current world demand This means Sasol must dislodge the current market leaders But Sasol MD Paul Kruger says he believes that a low-cost process which the company developed over the past four years to produce alpha olefins will give it the advantage

Alpha olefins have various uses They improve the flexibility, strength and temperature resistance of plastics and they are important chemical building blocks in the manufacture of high-grade synthetic lubricants and biodegradable detergents — detergents that are broken down chemically by micro-organisms and do not accumulate in rivers and dams

The first type of alpha olefins to be produced will be highly purified 1-hexene — the preferred intermediate substance for making superior grades of polyethylene, which is used to make plastics

Sasol's pilot plants have produced small amounts of 1-hexene that have been tested successfully overseas in manufacturing processes Testing will continue as the construction proceeds

There is a shortage of 1-hexene in certain markets because the demand for hexene-based plastics has increased sharply SA is well-located for supplying the rapidly growing demand in Africa, Asia and the Middle East

With plans for producing 1-hexene — a substance with a six-carbon chain — well under way, Sasol is pressing ahead with plans to extract and sell the five-carbon analogue 1-pentene

Though 1-pentene has been produced before, Sasol will be the first to offer high-grade 1-pentene in commercial quantities at competitive prices But the manufacture of 1-pentene would be phased in to allow the market for pentene co-polymers to develop

Sasol would potentially be able to produce 250 000 t a year of 1-pentene The substance has important advantages over other alpha olefins in various applications, including ultra-low density polyethylene and elastomeric (stretchable) polyethylene It also has advantages in making plastics that meet new, higher US standards for food packaging

Sasol, founded with State money, has been sharply criticised by the local chemical industry for its moves downstream in chemical manufacture But Kruger notes that the industry is now totally dependent on imports of 1-butene, 1-hexene, available locally, could help the industry become more competitive internationally ■

SA and Zambia 'to trade in the open'

B Day 8/11/91

LUSAKA — Zambia will trade openly with SA in future, the country's new president, Frederick Chiluba, said in Lusaka yesterday.

Chiluba, who was addressing his first Press conference as president of Zambia, said: "We don't want to operate like the (former) United National Independence Party government, which conducted business with Pretoria by night but said the opposite by day"

He said the two countries would exchange trade missions as soon as possible, probably within months if not weeks.

The flood of SA goods in Zambian shops was "something tangible you cannot hide", Chiluba said, adding, "Let us trade with them openly"

He said South Africans would no longer have to apply in advance for visas to visit Zambia.

They would be issued the document at the point of entry and would only have to state how long they intended staying in the country

He said this would encourage tourism from SA.

Chiluba said his administration would re-establish diplomatic relations with Israel, as reasons for ostracising the country were no longer valid.

Chiluba said illegal immigrants, particularly from West Africa, would have "to explain their presence in Zambia" or they should "just leave".

He promised to rid Zambia of all illegal aliens and accused them of contributing to the high rate of crime and "economic sabotage".

He added that his administration would honour all international agreements concluded by former President Kenneth Kaunda's government. — Sapa

Offshore rig starts drilling

B Day 8/11/91 (183)

LAGOS — Mobil Oil's $830m condensate rig officially began drilling yesterday, 26 years after the discovery of one of Nigeria's largest offshore reserves

The operation is expected to produce and process 100 000 barrels of condensate a day while reinjecting 15-million m³ of gas into the reservoir to stem environmentally damaging and wasteful flaring

The state-owned Nigerian National Petroleum Co last month sold the expected produce of a liquified natural gas scheme to international buyers in a 22 year purchase agreement valued at $3,3bn

The rig was constructed under a joint operating agreement between the state petroleum company and Mobil Reflecting the 60 40 split of profits, the Nigerians were scheduled to contribute $500m and Mobil $330m towards operations

Sources have indicated that the Nigerian government may end paying about $180m with the balance provided by international lenders

Part of a $42,3m loan from the Japanese Export-Import Bank to the Nigerian petroleum company is expected to fund the purchase of Japanese goods and services for the project

It is expected to yield 84 000 barrels of condensate a day when production begins in 1993, rising to 100 000 barrels a day between 1994 and 1998

Production is then expected to diminish to 70 000 barrels a day between 1998 and 2003, 50,000 barrels a day until 2008, and then 20 000 barrels a day

Joint operating agreements are considered to be the prototype for future oil exploration in Nigeria as the government moves towards the privatisation of the Nigerian National Petroleum Co — Sapa-AP

Mobil says it is back in the lead

MOBIL, trading as the Southern Africa Energy Company Ltd since the disinvestment of the Mobil Corporation from South Africa, says it has re-established its leadership in super high-performance synthesised-base lubricants with the adoption of leading-edge technology from Germany

This includes the establishment of a new range of synthetic lubricans (synlubes), it was explained at the Cape Town launch of the products

The development promises to be a cost-effective factor for industrial lube applications in which it is critical to minimise maintenance interruptions and costs, and to sustain low wear-rate performance over extreme temperature ranges

The synlubes are used in refridgeration compressors, power transmissions, electricity generation machinery, heavy duty machine tools and mining equipment, and the manufacturer of paper and plastics

The South African company's German connection is the lubricants division of the Hüls AG chemical organisation known internationally for its Anderol branded oils

Sanachem expected to reap benefits of seasonal upturn

(183)

ANDREW GILL

FARM-AG and Sentrachem joint venture, Sanachem, is expected to achieve earnings in excess of R25m for the year ended February 1992, Farm-Ag directors said in the comapny's latest interim statement

Sanachem, split equally between Sentrachem and Farm-Ag, reported profits of only R4,4m for the six-month period to end-August but the business is seasonal and heavily biased towards the second half of the year.

This was shown by profits to the end of November of R20,5m for the nine months, reflecting earnings of R16,1m for the past three months

Directors said the performance of Sanachem demonstrated the benefit of merging the two parties' respective businesses

Farm-Ag reported a net loss of R4m for the six-month period However a comparison with figures for the previous period are meaningless as a result of the disposal of the majority of the company's operating businesses.

Farm-Ag is to change its year end to August in 1992 because, it says, better evaluation of figures is possible due to the seasonal character of the business which saw most of the income entering the accounts in the September to February figures Also, it would reflect the funds received in 1995 from the sale of Farm-Ag's 50% interest in Sanachem, based on current estimates of receipt of the funds

Farm-Ag holding company Rale reported a net loss of R4,8m, AFROX FM 6/12/91 (183)

High quality earnings

Activities: *Manufactures and markets gases, welding products, fluid-handling systems and other industrial products The health care division operates 10 hospitals and day-care clinics*
Control: *BOC Group Plc 57,7%*
Chairman: *P G Joubert*
Capital structure: *30m ords Market capitalisation R2,31bn*
Share market: *Price R77 Yields 2,2% on dividend, 3,6% on earnings, p e ratio, 23, cover, 1,6 12-month high, R78, low, 4 100c Trading volume last quarter, 223 923 shares*

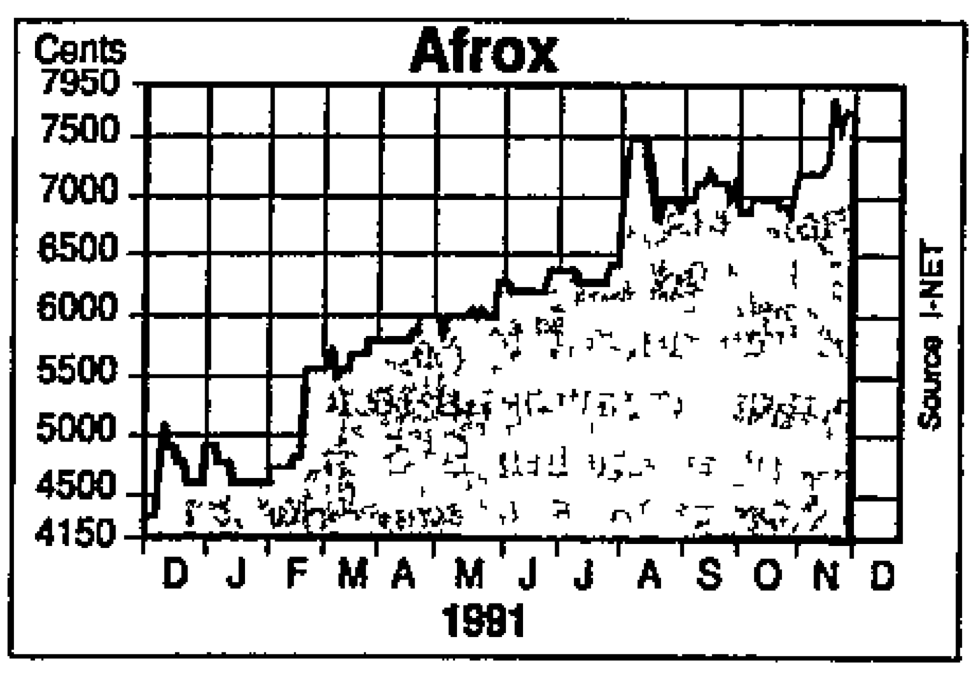
Year to Sep 30	**'88**	**'89**	**'90**	**'91**
ST debt (Rm)	44 4	88,3	81 2	16,1
LT debt (Rm)	60,4	100,3	137	185,6
Debt equity ratio	0,25	0,30	0,35	0,32
Shareholders interest	0,56	0,52	0,54	0,55
Int & leasing cover	36,9	8,9	6,1	7,1
Return on cap (%)	16,4	17	17	19
Turnover (Rm)	567	728	904	1 044
Pre-int profit (Rm)	113,4	149	187	225
Pre-int margin (%)	20,0	20,5	20,7	21,5
Earnings (c)	147	170	216	278
Dividends (c)	75	100	135	170
Net worth (c)	1 304	1 478	1 872	2 061

Afrox's blue-chip status was again reinforced by its performance for the 1991 financial year Operating margins improved and trading profit rose by 20%, with turnover up 16% Chairman Peter Joubert says much attention was paid to operating efficiencies and, partly because of improvements in stock levels, net current assets in rand terms were almost the same as at the end of the previous year

Expenses were well controlled and productivity improvements were achieved in all businesses The balance sheet remained strong, with gearing improving to 23,6% (25,8%) The interest charge, at R31,7m, was only slightly higher than the year-ago figure

Afrox remains one of the few groups which compile current cost accounts On this basis, EPS increased by a real 28,7% The dividend was 26% higher, with the cover at 1,66, but the payout is covered by earnings of particularly high quality

While most of the 1991 year's profit — before additional depreciation but after interest and tax — was again derived from gases and welding, the percentage from this source has slipped over the past four years



Afrox's Joubert *still a fragile economy*

from 81,8% to 70,8% At the same time, the contribution from healthcare has been rising steadily, climbing last year from 15,8% to 19,5%

Capital spending totalled R123m, of which the major portion went into the gas division This brings group expenditure over the past four years to R400m Available operating cash flow, plus proceeds from the sale of fixed assets, funded the expansion activities without raising additional borrowings Spending will continue at a similar level this year, with the bulk of the capex again planned to upgrade plant and facilities in the gases division

Demand for welding products, in particular, will be affected when the Mossgas and Mossref projects come to an end in mid-1992 However, this demand is expected to be replaced by demand from other markets

Since Afrox entered healthcare in 1983, it has benefited from constantly upgrading its hospital facilities In anticipation of "fundamental changes" expected to occur in the provision of healthcare, the division has moved into managed healthcare, through Medimo, a company established in partnership with Medicaid Administrators and Mediclinic Group It will provide facilities to reduce costs of private healthcare to various sectors of the population The division has also expanded into management contracts, by providing expertise to staff and managed hospitals

Joubert does not hold out much prospect for an imminent recovery in trading conditions Any progress next year, he says, must be viewed against a background of a continuing fragile economy with a shortage of investment and low productivity

However, the plan is to continue giving high priority to cost containment, productivity and industrial relations, while remaining flexible enough to react swiftly to any upturn in economic conditions "As the inventory base in business generally is low," he says, "the upturn may be quite rapid"

Joubert is predicting continued growth in earnings, but at a "somewhat lower" rate Though not cheap at R77, the share should continue to show capital appreciation Unfortunately, from an institutional standpoint, tradeability is limited *Basil Barber*

ELLERINE HOLDINGS FM 6/12/91

Past the peak

Activities: *Retails furniture and appliances predominantly on HP, through the Ellerines, Town Talk, Royal Furnishers, Oxford, Rhein Gold and Furn City chains in RSA, the homelands, Swaziland, Botswana, Lesotho and Namibia*
Control: *Malbak 59,5%*
Chairman and MD: *E Ellerine*
Capital structure: *7,2m ords Market capitalisation R381m*
Share market: *Price 5 300c Yields 4,8% on dividend, 14,6% on earnings, p e ratio, 6,8, cover, 3,0 12-month high, 7 200c, low, 4 000c Trading volume last quarter, 15 000 shares*

Year to August 31	**'88***	**'89**	**'90**	**'91**
ST debt (Rm)	23,5	—	—	22,9
LT debt (Rm)	—	—	—	—
Debt equity ratio	0,17	—	—	0,10
Shareholders interest	0,49	0 57	0,54	0,53
Int & leasing cover	19,8	n/a	n/a	n/a
Return on cap (%)	14,3†	21,0	25,5	24,6
Turnover (Rm)	206	389	483	592
Pre-int profit (Rm)	16,0	58,9	87 1	104,8
Pre-int margin (%)	12,6	15,1	18,0	17,7
Earnings (c)	305†	513	669	774
Dividends (c)	134†	166	221	257
Net worth (c)	1 966	2 304	2 583	3 128

*eight months to August 1988 †annualised

The year's trading falls neatly into two parts. Furniture sales continued to boom during the first half but fell sharply in the second.

Chairman Eric Ellerine says trading since year-end has been exceptionally poor, which is confirmed by results from competitors such as Morkels and Amrel

Ellerines has the strongest balance sheet of the retail furniture chains It was ungeared in 1989 and 1990 and, because of the present expansion programme, gearing rose last year to just 10%

Ellerines opened 26 stores last year and

continued

FM 6/12/91 (183)

STRONGER MARGINS

Six months to	Sep 30 '90	Mar 31 '91	Oct 31* '91
Turnover (Rm)	259	235	262
Operating income (Rm)	45	37	63
Attributable (Rm)	21	17	34
Earnings (c)	21,8	17,4	34,6
Dividends (c)	7	9	12

*Seven month period

TWINS FM 6/12/91

Right track (183)

Pharmaceutical companies have been viewed as strong defensive counters in a recession but, apart from Adcock Ingram, they have formed an underperforming part of most holding company portfolios The merger of SA Druggists with Malbak's pharmaceutical interests is an attempt to improve the performance of the largest company

Premier's pharmaceutical subsidiary, Twins, showed flat results It was largely shunned by investors, as it was associated with the skin lightener business and the entrepreneurial but erratic management style of the Krok brothers But it has always had a strong pharmaceutical division, with Restan, and the former multinational Mer-National as the main operating companies It has a 45% share of the pharmacy analgesic market, and makes market leader Syndol

The consumer division, which included the skin care products, had not performed as well It was troubled by industrial action and the Krok brothers believed in acquiring companies, often to find that management resources were not available to run them

Phil Nortier, appointed CE in October 1990, set about reducing borrowings and the payroll His actions have paid off in the interim results for the seven months to October 31 Twins showed borrowings of R97m in September 1990 By March 1991 they were down 28% to R70m, and by October they had fallen a further three-quarters, to R18m. Borrowing costs were halved to R4,2m, and gearing has fallen from 44% to 10%

Nortier describes his management style as unemotional; he has no difficulty disposing of businesses, as he proved when he disposed of most of the Safimed subsidiary He says he ran a lean structure as CE of the pharmaceutical division, which he has transferred to the group as a whole Retrenchments in the group are almost complete, staff numbers have been reduced by about a third, to 2 000 As a top priority, management would like to change the name of the group because it has negative connotations

Twins has changed its year-end from March to April, in line with the rest of Premier Group Compared with the same six-month period of last year, however, EPS increased by 36%, to 29,6c Operating margins increased from 17% to 24%

At 440c, Twins offers an earnings yield of 10,6% and a dividend yield of 4,3% — about double the Pharmaceutical index yields of 5,5% and 2,2% Adcock Ingram, the main component of the index, offers a multiple almost three times that of Twins Twins has a comparable portfolio of over-the-counter and consumer brand names, though it has less exposure to the high-value ethical market But Adcock has years of real growth behind it Twins is on the right track but will need to show that this result was not a one-off

Stephen Cranston

Engen has R1,4-bn for Mossgas

STAR 6/12/91

By Sven Lunsche (183)

Engen is set to invest R1,4 billion in Mossgas soon after the oil-from-gas project reaches full production in mid-1993

Mossgas MD and Engen chairman Bernard Smith disclosed this at a press conference yesterday, saying total funding requirements would be R12 billion — R5,5 billion ahead of original estimates

The R12 billion is the final sum required to bring Mossgas to full production by the third quarter of 1993

Engen, which manages Mossgas through its 30 percent holding, will then have six months to decide whether to take up its options and secure its interests in the refunded project

If Engen did not follow its rights, the Government would consider converting Mossgas to a public utility, Minister for Mineral and Energy Affairs George Bartlett said at the conference in Wilderness

Mr Bartlett said Engen would not receive a guaranteed return on its initial R30 million investment

Engen had said previously its decision depended on the commercial viability of the project.

Mr Smith said yesterday Mossgas was set to provide satisfactory returns without additional state subsidies for its capital programme

Mossgas general manager, finance, Frank Reuvers said the project would be funded on a basis of 40 percent shareholders' equity, 20 percent commercial loans and a 40 percent soft loan by the parastatal Central Energy Fund (CEF)

The CEF is a 70 percent shareholder in Mossgas and will have to provide about R3 billion of equity capital If Engen takes up its rights, its share will be about R1,4 billion

Mr Reuvers said the commercial loans amounted to about R2,3 billion and comprised state-subsidised foreign loans linked to the supply of imports for the project.

The average annual interest charge on these loans was about 14,3 percent and the first repayment of R350 million was due next June, he said

Mr Smith said that based on an international oil price of $19 per barrel in 1989 and an annual inflation rate of 15 percent, the project should give a nominal rate of return of 10,5 percent per annum over the next few years

Should the price fall below $23 per barrel, the Government will make up the shortfall as per existing synfuel producers

As its major target market is the Southern and Eastern Cape, Mossgas is not likely to receive the transport subsidy applicable to Sasol

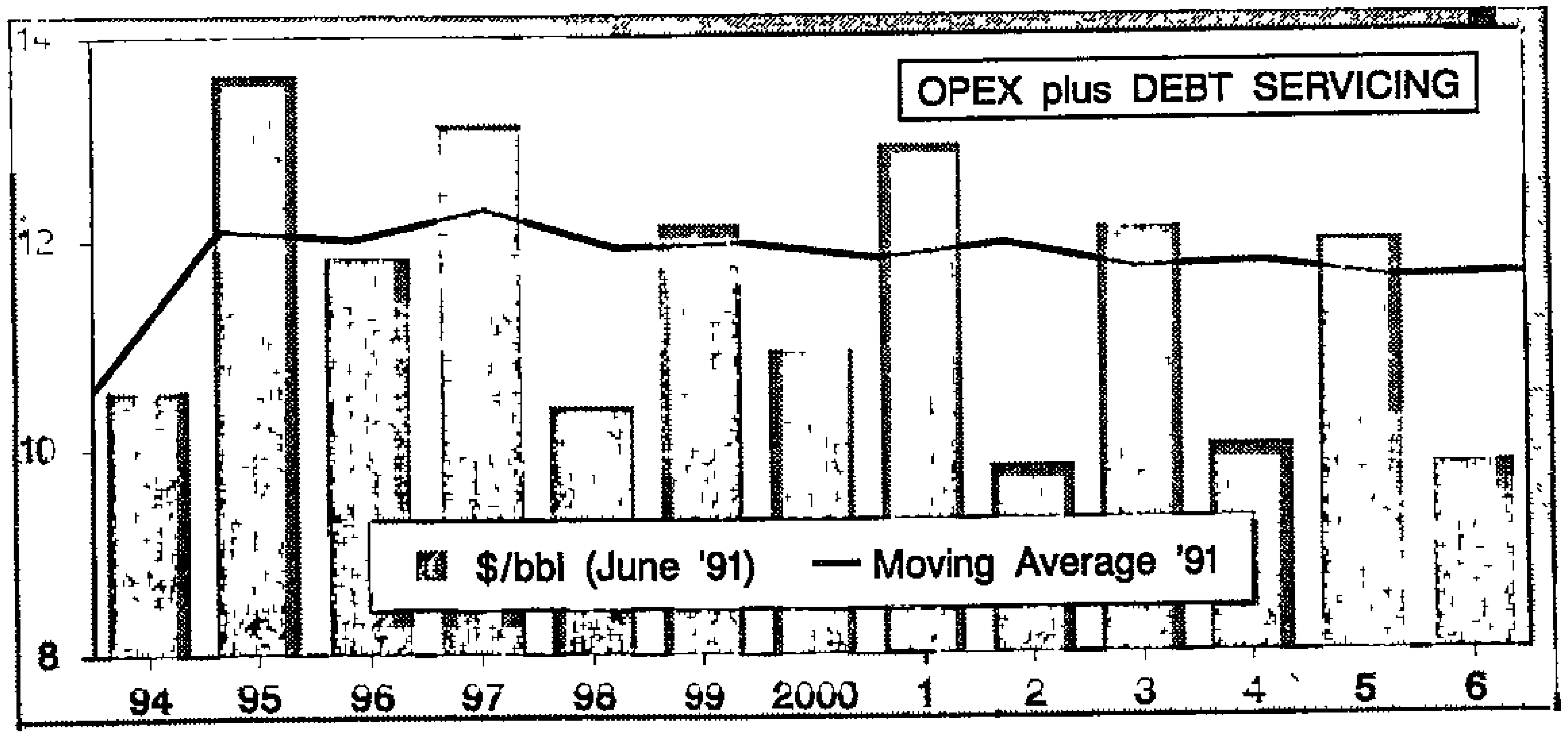
To achieve cash flows which merely balanced operating expenditure and debt servicing for the first ten years of operation, Mr Smith said an average price of only $12 per barrel was required (see graph)

A price of $19 would provide a rate of return in line with inflation

At that level Mr Smith also forecast that net revenue would rise steadily from about R400 million in 1994 to just over R2 billion by the end of the decade

The net position — after deducting capital and interest costs — would remain positive until about 1998, when Mossgas planned to start construction of a R2 billion platform to develop its second major gasfield

Mr Smith said the discovery of new gas and oil fields near the existing areas would extend the life of the project well beyond its currently estimated 25 to 30 years



Mossgas's cash break-even oil prices (US$ per barrel) from 1994 to 2006.

Expanding Afrox geared up for continued growth

(183)

B/Day 22/11/91

MARC HASENFUSS

ENGINEERING-listed Afrox is set to maintain its strong growth record in the year ahead

Chairman Peter Joubert said in his annual review "The strength of our products and diversity of our customer base enables us to predict with some confidence that our earnings next year will continue to grow although at a somewhat slower rate"

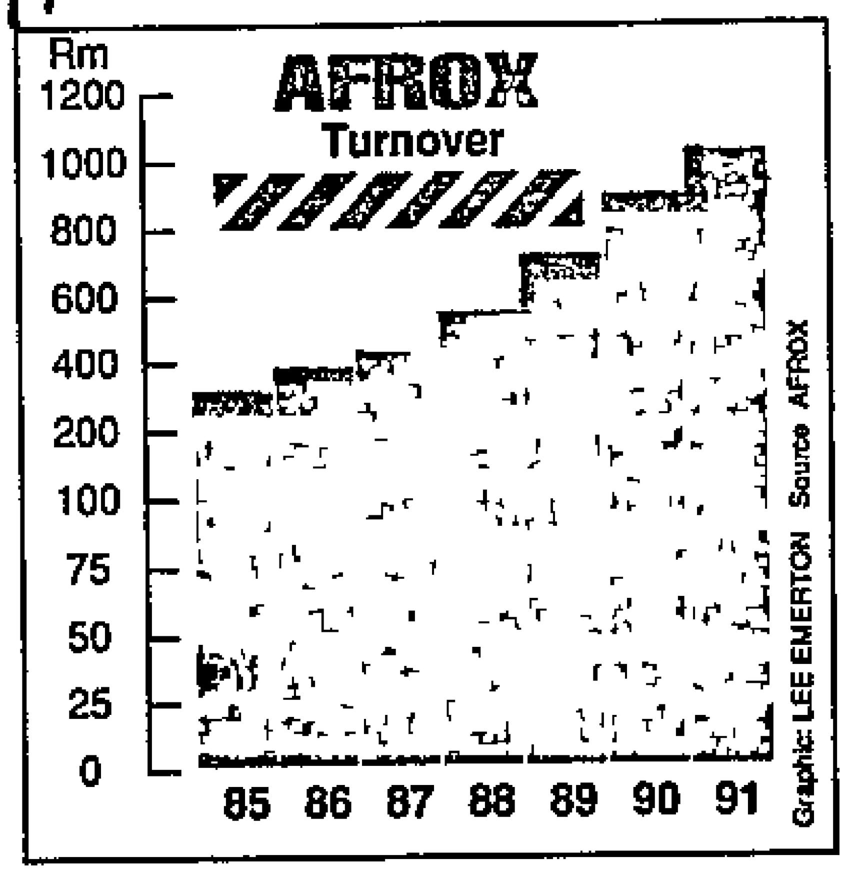
He said Afrox would continue to give a high priority to cost containment, productivity and industrial relations in 1992

Last year, R123m was invested in the group's planned investment programme bringing capex over the last four years to R400m

Joubert said the expansion phase would continue in the year ahead with the bulk of next year's expenditure planned to upgrade plant and facilities in the gases business

In 1992 Afrox's gas capacity will be enhanced by carbon dioxide supplied from Mossgas for the Cape region and by AECI on the Reef Additional products will also be available in Natal

These developments would also allow the company to develop new carbon dioxide applications, Joubert said



Afrox's healthcare division had made a significant contribution to group profits on the back of the completion of major projects at various hospitals and the addition of beds

Joubert said further refurbishment and building programmes would be initiated in the healthcare division in the new year.

The division increased the scope of its activities into the field of managed healthcare via Medimo, a company established in partnership with the Mediclinic Group and Medicaid Administrators

Medimo, by reducing the costs associated with healthcare, would extend the advantages of the private healthcare system to income groups previously unable to make use of private facilities, he said

Joubert welcomed the proposed Medical Schemes Amendment Act If promulgated, it would bring a degree of deregulation to the healthcare field and enable medical scheme suppliers to negotiate price structures in a free market, he said

The welding division, which suffered a decline in volumes for the second consecutive year, would remain focused on cost cutting, developing export opportunities and new product development in the new year

Joubert said accessories continued to form an important part of welding's portfolio and a range of abrasives was introduced to take advantage of the areas allied to the traditional welding business

Afrox reported a 29% rise in inflation-adjusted earnings to 278c (216c) a share on the back of a 16% increase in turnover to R1bn (R904m) in the year to end-September 1991.

Battle over PVC imports flares up

BDay 26/11/91 (183)

BRENT VON MELVILLE

REFERENCE price formula tariffs are at the heart of a renewed battle between PVC importers and AECI, the only producer of PVC in SA.

It is understood that Customs and Excise is looking into the issue, prompted by AECI complaints that there are loopholes in the duty system and that importers are underpaying on duty

Industry sources believe this is an attempt to force companies to buy AECI's more expensive product, and at least one major importer has threatened to suspend imports of PVC polymers to SA

David Kenny, MD of Cargo Trade, which imports 15% to 20% of SA's total PVC market requirements, says at issue is an interpretation of the customs and excise "reference price", a formula unique to SA which effectively will make it impossible to import PVC at less than R3 000/ton

In comparison, says Kenny, the ruling duty-paid delivered prices to customers in countries such as the US, UK and Germany are between R1 600/ton and R1 800/ton.

In addition, the recent AECI application to the Board of Trade and Industry would raise current levels of protection for AECI's polymer plant to nearly 100% of the free-on-board value of the material (the cost of shipping it overseas) and boost the landed cost of PVC to about R3 300/ton AECI currently markets it at about R2 850/ton

But AECI spokesman Mike Blizzard points out that AECI has not applied for an increase in duty "AECI has applied for a conversion of the formulated duty into a specific duty The effect of this will not lead to any increase in price"

Blizzard says the reason for the application is to prevent irregularities, such as overinvoicing PVC imports, and to prevent disruption in the local market.

Kenny says AECI is selling its PVC to South East Asia at R1 450/ton

AECI PVC marketing director Kim Fraser says the group only exports to net importers of PVC and does not disrupt local producers

Kenny says there are serious doubts about the ability of AECI to meet local needs, currently running at about 120 000 tons a year. Fraser admits that while there have been processing problems at the chlor alkali plastics plant at Sasolburg, such problems are now behind the group

He says the plant has capacity for 150 000 to 160 000 tons of PVC annually, and this year expects exports of about 40 000 tons

A letter from the Department of Trade and Industry (DTI) to Cargo Trade's attorney says the basis of AECI's application for increased protection is "simply that with the present very depressed world PVC industry, the incentive for traders to avoid duty by overinvoicing is considerable and the practice is widespread". Kenny argues that if overinvoicing is taking place there are appropriate procedures and mechanisms in the Customs and Excise Act to deal with it.

Unacceptable

"Also we believe AECI's case is that dumping of PVC products is taking place. The fact is that R1 300/ton to R1 400/ton is the ruling world price due to recession and overcapacity and cannot be construed as dumping"

"This is unacceptable and we have now taken our case to GATT in the belief that the latest round of GATT agreements to which SA is a signatory, have been broken not only by the proposed increased tariff, but by the already high existing tariff"

Industry sources point out that as PVC accounts for about 7% of the building costs of low budget houses, price increases will have a large bearing on the pricing of these houses and on inflation

But Fraser says closing the loophole will affect less than 10% of PVC consumed in SA — and then with a price adjustment of 15% to 20%.

"So the total cost would be up by about 2%"

Adcock Ingram keeps up healthy earnings

B/Day 28/11/91

(183)

MARCIA KLEIN

HEALTHCARE group Adcock Ingram, restructured into six divisions, seems set to continue producing earnings growth well above the rate of inflation

Chairman Robbie Williams says in the annual review that satisfactory earnings can be expected in financial 1992 on the back of "a reasonable level of organic growth" and the introduction of a number of new products

The Tiger Oats subsidiary reported a 30% earnings increase to R64m and a 26% turnover rise to R773m in the year to September It reported a 29,4% compound earnings growth since 1985

The group's six divisions comprise pharmaceuticals, critical care products, self-medication products, consumer products, generic products and wholesale, and retail — the major contributor to group turnover

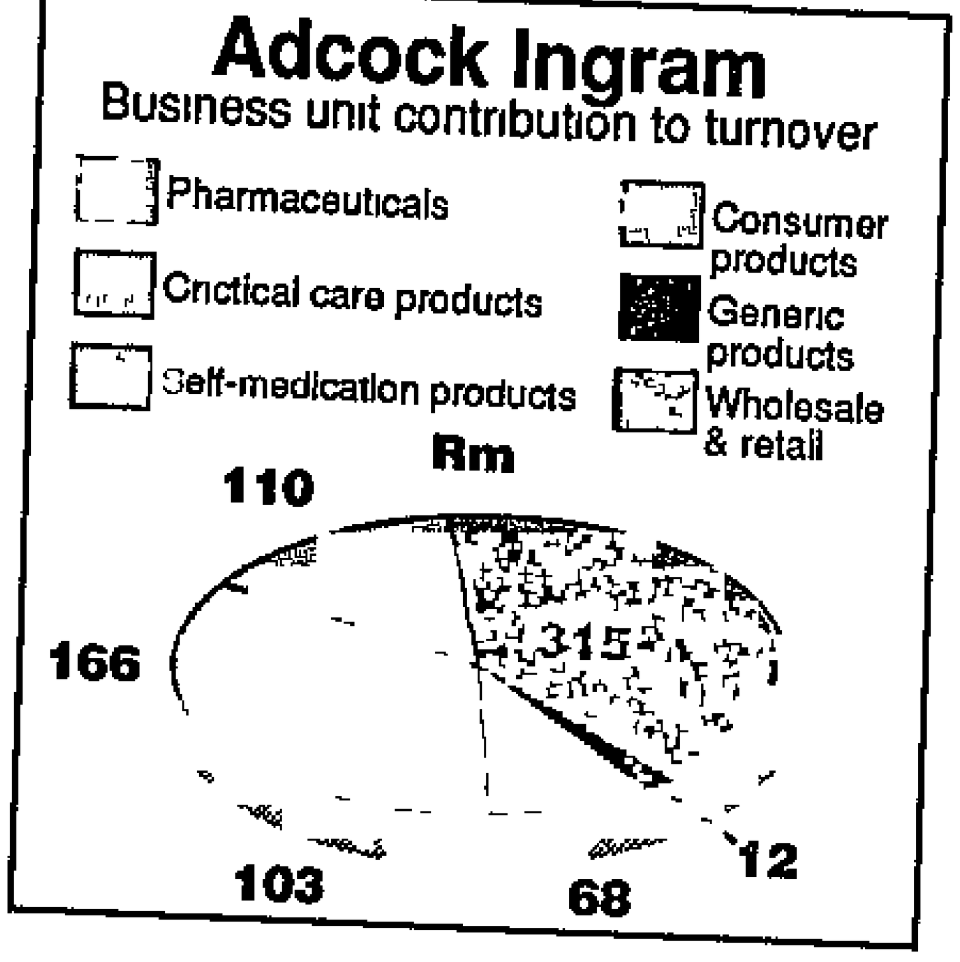
Williams attributes Adcock's good results to continued strong demand for its main product lines, successful introduction of new products, effective expenses control and tight asset management

He says the private sector and government should work together to form a national health policy

The state should continue to be responsible for healthcare to the indigent and the aged, as well as primary healthcare services

However, the private sector could help reduce the state's burden This could be achieved through combining its efforts with those of government with regard to under-utilised state hospitals, "where competitive services and facilities can be made available to consumers on a market-related basis"

While there is "an understandable concern regarding the ever-increasing cost of healthcare", he says there are ways to improve cost effectiveness These include responsible prescription and the deregulation of community pharmacies



Commenting on the newly formed divisions, group CE Donald Bodley said the pharmaceutical division increased turnover by 25% — ahead of market growth

Its major future strategies included "the acquisition, development and launch of new quality products" and the development of export markets

Critical care products division Sabax recorded a 20% growth in turnover and significantly improved cashflow

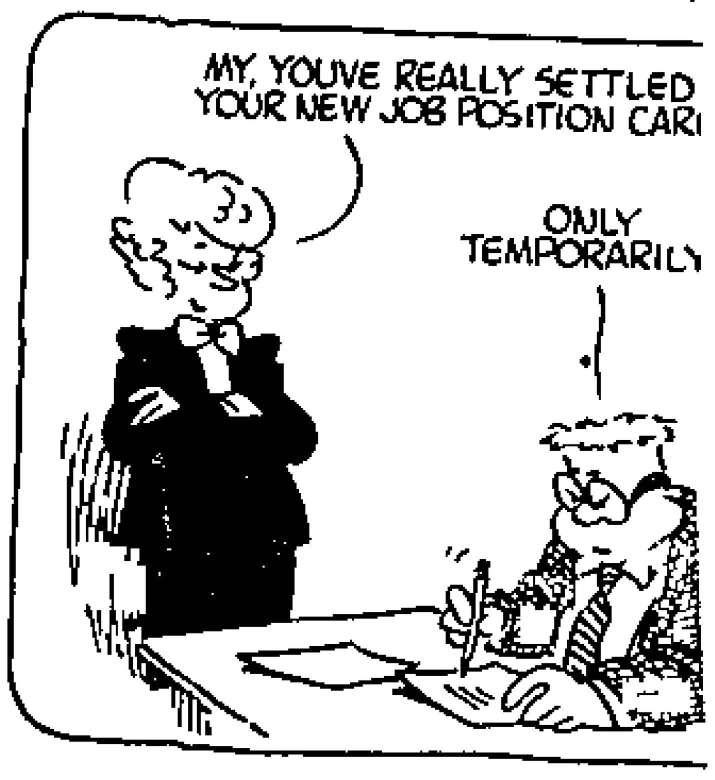
Following the increasing trend towards self medication, the self-medication products division grew its turnover by 15%, mainly through organic growth

Generic products showed a 41% turnover growth, as additional manpower resources saw the division expand coverage of dispensing doctors, as well as the institutional market

Adcock Ingram consumer products's 12% turnover growth was achieved despite a depressed consumer goods market, he said

The wholesale and retail division gained market share and increased turnover by 35%, but margins were under pressure

EXECUTIVE SUITE



Adcock's earnings growth should continue in 1992

STAR 28/11/91

By Ann Crotty (183)

Organic growth and the introduction of a number of new products is expected to result in a satisfactory increase in earnings for Adcock-Ingram in financial '92

In his chairman's statement Robbie Williams noted that strong demands for the group's product lines and the successful introduction of new products were major factors behind the strong sales and earnings growth achieved in financial '91

Much of Mr Williams' statement is concerned with issues surrounding the cost of healthcare in SA and he notes that "Both in this country and worldwide there is an understandable concern regarding the ever-increasing costs of healthcare "

"Whilst we acknowledge and support the State's priority of calling for an improved and affordable delivery of healthcare to all communities in a responsible and cost-effective manner, we believe that the private sector is integral to any sustainable economic system It is therefore essential that the private sector work with the State in formulating the national health policy of the country "

Mr Williams stresses that the local pharmaceutical manufacturing industry depends largely on a thriving private sector "This is essential to fund the investment required for research and development of new products and for ongoing technology for manufacturing and productivity improvements "

Mr Williams mentions a number of ways of improving the cost effectivenesss of healthcare without lowering important standards But he stresses that consumers must accept greater responsibility for their own health

"SA simply cannot afford a national health system based on the universal right to free healthcare irrespective of the economic status of the recipient Inevitably an unaffordable system will result in a deterioration in the quality of healthcare delivered to the population "

Notes to the group's accounts show that management had decided not to present supplementary inflation-adjusted financial statements "until such time as standard inflation accounting practice is generally accepted "

However, it recognises the need for some measure of the likely impact of inflation on business Because of this it restates, through application of the average consumer price index, a number of performance indicators

The restated figures show the dramatic effects of inflation

The compound annual earnings growth rate between 1985-1991 is 29,4 percent before adjusting for inflation After the adjustment is made, the growth rate is 12,4 percent.

The compound annual dividend growth rate over the same period of 30,3 percent reduces to 12,8 percent once the figures are inflation-adjusted

The compound annual real growth rate in cash available from operations is R26,6 million Before allowing for the ravages of inflation this figure was R45,9 million

This exercise by management shows that returns to shareholders have exceeded the average rate of inflation and, that dividends have not been paid out of capital In addition it shows that cash available for expansion and future growth remains positive

BUSINESS

WM Awards: Making SA a better place

What lies behind the Weekly Mail Investing in the Future Award? **REG RUMNEY** reports

AT A ceremony in Johannesburg this week *The Weekly Mail* formally handed over its Investing in the Future trophy to AECI managing director Mike Sander

Representatives of the following companies were also given special citations: BP SA, Anglo American (Chairman's Fund), Hunt Leuchars & Hepburn, the Premier Group, Standard Bank SA, Shell SA, Volkswagen SA

Amrel received an honourable mention

The award was the culmination of a process of evaluation which involved sending out more than 100 questionnaires to South Africa's top companies

It was accompanied by what we intend to be an annual survey — Investing in the Future

The title has been carefully chosen Social investment has to be aimed at bettering the society as a whole, not at short-term profits.

This precludes some of the things sometimes considered as social investment, such as sports sponsorship, which has considerable marketing spin-offs

There were two criteria we considered important. To qualify for consideration for our award the company had to have an all-round social investment set of programmes.

Take the winner, AECI. For starters it has a direct corporate giving programme which which made available R294 757 in 1989, R231 625 in 1990, and R191 809 this year. Under its "Quality of Life" programme it donated R4,6-million in 1989, R5,5-million in 1990 and R3,94-million this year In addition to this it has given R2-million to R2,4-million to the Urban Foundation and to universities and technikons over the last three years

It also makes non-cash contributions.

But actual donations were only part of the picture.

AECI also runs social responsibility programmes in conjunction with communities, ranging from individual projects and organised bodies at local and even national level.

It joins forces with major and minor corporations in South Africa to redress inequities, some projects mentioned being the Vaal Education Trust with Sasol and the Siza Centre with Iscor.

It has initiated education programmes, and this includes employee involvement

In monitoring employee attitudes, AECI was outstripped by at least one other company, but it had made a beginning It does make an attempt to quantify achievements, though this could perhaps be done more systematically.

AECI has a written environmental policy, to which we could refer to check its intentions on conservation, and it has a group environmental co-ordinator.

AECI has a non-discriminatory aids policy, a wide-ranging set of occupational safety programmes, and an apparently quite favourable maternity programme.

The percentage of blacks and women in senior and middle management was low

This could be a worrying minus in terms of overall racial profile, but it was somewhat balanced by the clear equal opportunity policy of the company

And AECI was completely open about the figures, as it was about all other aspects of its programmes, including unionisation and labour relations

Obviously a company's industrial relations history must be considered. AECI provided a full list of strikes for the year But we would have known anyway from the unions if it was considered a particularly intransigent employer

AECI's willingness to communicate was the deciding factor. Our access to further information was only limited by our own time Its response was speedy and to the point.

In the end we relied largely on the company to provide information

Crucially, the award is an award for reporting of social investment as well as comprehensiveness. This is what tipped the award in AECI's favour

The other companies which received citations were not far behind in many areas, and more advanced in some. Not only does it publish a separate social investment report, it replied speedily and fully to our questions.

We hope next time around to work towards judging effectiveness as well

We will take into account negatives — for instance, a company's involvement in munitions manufacture may prejudice its chances

It is all part of refining a survey we hope will become an important part of social investment in South Africa.

Top company ... Weekly Mail co-editor Anton Harber presents the Investing in the Future trophy to AECI managing director Mike Sander. Weekly Mail chairman Andy Andrews looks on Photograph: KEVIN CARTER

w\m ail 29|11| – 5|12|91 (183)

Adcock prescription for better health care

S Times (Buss) 1/12/91 (183)

By JULIE WALKER

COMBINED efforts from the State and private sectors are required to form a health care policy for South Africa

This is the view of Adcock Ingram chairman Robbie Williams

The pharmaceutical group's annual report was published this week.

Mr Williams says there is scope for joint efforts in under-used State hospitals where competitive services and facilities can be made available on a market-related approach

In this way, the private sector could help to reduce the State burden

Cost effectiveness in health care could be improved in many ways

Mr Williams suggests more responsible prescribing behaviour by medical practitioners

Deregulation would encourage price competition and the responsible use of medicines should be encouraged by a programme of education in self-medication

This would allow pharmacists to dispense certain scheduled medicines

Mr Williams says the community pharmacist would be able to provide a wider range of medicines and extend his professional advisory role in several areas to the greater benefit of the health-care delivery system.

Cost-effective new therapies should be included in the general purchase list for State institutions They could lead to considerable savings because they would reduce the time spent by patients in hospital

Finally, people should accept greater responsibility for their health.

"South Africa simply cannot afford a national health system based on the universal right to free health care irrespective of the economic status of the recipient

The availability of a choice of funding options in any medical-aid scheme and allowing the major health insurers to compete freely is a preferable route to cost control

Notwithstanding the problems challenging the pharmaceutical industry, Adcock Ingram expects reasonable organic growth Combined with new products, it should ensure satisfactory growth in the year to September 1992

Price wars, dumping hurting AECI profit

S Times (Buss) 1/12/91. (183)

By CIARAN RYAN

AECI is expected to report a drop in earnings of between 20% and 40% for the 12 months to December after last year's 24% decline.

But the good news is that a recovery may get under way next year as chemical prices bottom out

Worldwide surplus production capacity resulted in ruinous price cutting in the chemicals industry AECI has been particularly hard hit by low-priced PVC imports.

Earnings a share forecasts for the year to December vary between 90c and 120c compared with payments of 154c in 1990 and 203c in 1989

Knock

Explosives, chemicals and agricultural products used to contribute the lion's share of AECI's profits But last year's contribution to net trading income was about 30%

AECI Chlor-Alkali & Plastics contributed 38% of net trading income and Polymer Derivatives 23,4%

The explosives market has taken a knock as more mines move to mechanised mining and military demand falls

Fertiliser sales last year were their lowest in nearly a decade as a result of late summer rains.

There is some evidence to indicate PVC dumping and overinvoicing to circumvent anti-dumping legislation This has hit Chlor-Akali

SA Nylon Spinners, part of the polymer derivates division, was hit last year by falling demand for textiles It has entered the export market in an effort to improve sales.

Mid-year borrowings topped R1-billion, raising gearing to 73% from 57% in 1990 The interest bill continues to weigh it down and is likely to exceed R130-million for the year

Overall group performance will be significantly influenced by fertiliser sales up to December

But analysts agree the group's troubles are far from over, discounting the possibility of refinancing by a rights issue or further borrowing for the foreseeable future

The share traded at 925c this week, less than half its 1989 peak of 2 200c, scotching any hope of an early rights issue

Financial director Neal Axelson says "The company has previously made known that various potential major investments are being evaluated If all these investments are shown to offer attractive returns then a rights issue may need to be considered in two or three years' time to take full advantage of these rewarding investment opportunities"

The company needs to take part in major capital projects to prepare the ground for growth But AECI is fighting a rearguard action with profits in most divisions under pressure

Its Modderfontein plant requires an upgrade and retro-fitting Competitors Sasol, Engen and Sentrachem are embarking on major capital investment, AECI's capital base prevents it from looking at new ventures

Ventures

AECI's gearing of 73% before major capital expenditure is not too dissimilar from Sentrachem's 68% after capex Their interest bills are about R130-million apiece

Sentrachem recently completed its capex programme, spending more than R800-million in three years The second phase of its chlor-alkali plant was completed, a propylene plant upgraded and refurbished and a maleic hybrid plant commissioned

AECI in comparison has little to show for its hefty borrowings

AECI may be able to trade its way out of difficulties, provided economic conditions turn and commodity prices recover

Its critics have panned it for continuing to record a decline in earnings while clamouring for changes in tariff protection

Mr Axelson replies "AECI supports the intent of moving to lower levels of ad valorem tariff protection in pursuit of a more competitive, export-oriented economy

Cycle

"Prompt and effective action against disruptive and predatory pricing, as provided for in Gatt and applied by all South Africa's major trading partners, will remain essential to the orderly development and growth of the economy"

AECI's exposure to internationally traded commodities leaves it vulnerable to the vagaries of the business cycle As gold mining declines, so do ancillary industries

Mr Axelson says action has been taken to rationalise certain operations in accordance with lower business activity

But a recovery in the business cycle is overdue When this occurs, AECI will have to look at recapitalising the balance sheet and embarking on an expansion drive

Peroxide for export

S/Times(Buss) 183

ALLIANCE Peroxide, a R60-million venture between CG Smith Sugar and AECI, has won a contract to supply green chemical hydrogen peroxide to Zimbabwe 1/12/91

Durban-based Alliance Peroxide was established in May to make hydrogen peroxide for the first time in Africa

The peroxide will be marketed by Zimbabwe Petroleum, a member of the Ximex group

Hydrogen peroxide, which is environment friendly, is used as an oxidant in the textile, paper, chemical and water treatment industries.

WILLIAM GILFILLAN

Twins' sale of dud businesses pays dividends

B/Day 3/12/91

(183)

SELLING off "dud businesses" and improving productivity saw pharmaceutical group Twins improve operating margins to 24% (17%) and report earnings of R33m off turnover of R262m for the seven months to October

An interim dividend of 10c a share was declared on earnings a share of 34,6c

Twins had changed their financial year end to match the change in the year-end of holding company, the Premier Group

However, a restatement of this year's earnings for the six-month period showed earnings would have been R29m. This would have translated into a 36% rise in earnings a share to 29,6c

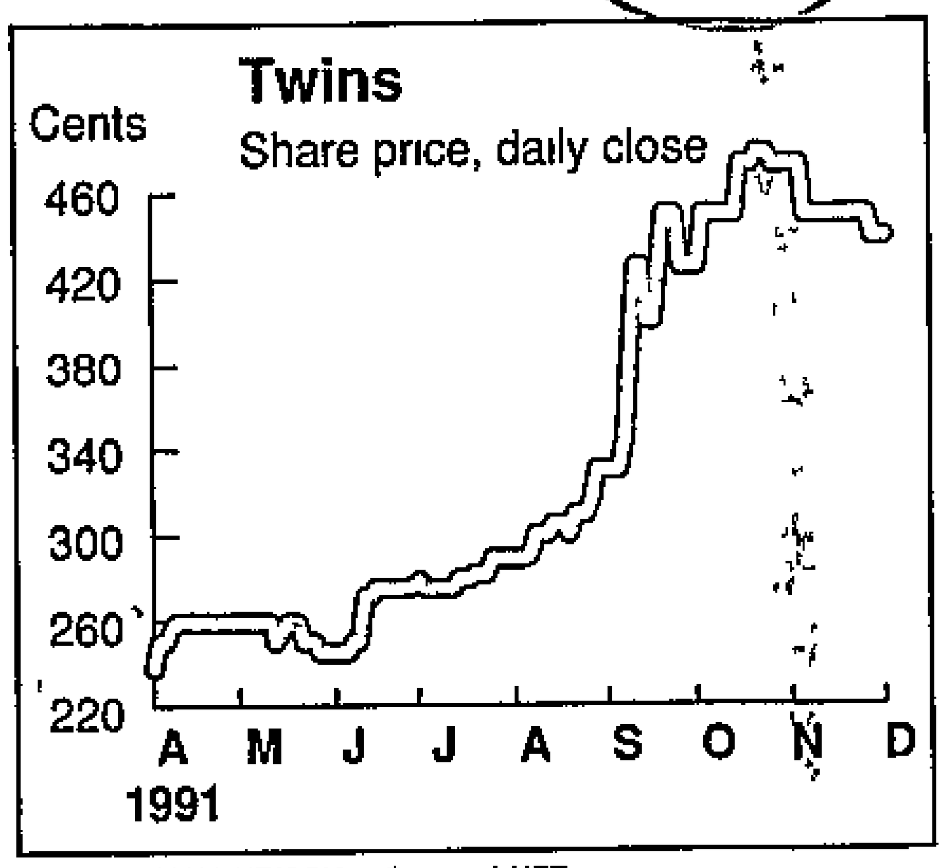
Turnover, at R262m for the seven-month period, was only marginally up on the R258m posted for the six months to September last year But CE Phil Nortier said turnover comparisons were not meaningful as Twins had disposed of a number of operations in the past year.

Although Nortier declined to give a breakdown of turnover contribution, he said the pharmaceutical division, one of the biggest pharmaceutical operations in the country, remained the major contributor Then came, in order, the consumer division, the Visioncare division and the animal health division

On the back of this slightly higher turnover, operating income surged to R63m from R45m Nortier said the disposal of the "dud businesses" and higher productivity from the remaining divisions were the major factors behind this

Interest charges halved to R4,2m from R8,3m on the back of borrowings which plummeted to R17m from R97m

Reviewing the divisions, Nortier said the pharmaceutical, the consumer and the



Graphic FIONA KRISCH Source I NET

Visioncare divisions had all recorded real growth in earnings The growth in the pharmaceutical division was significant.

Despite the entry of a major new competitor into Visioncare's market, he said the division had performed better than expected and continued to be a force in the optometric profession

But turnover was well down in the animal health division, largely because of the depressed agricultural industry. "However this division has been streamlined and is now well positioned for an upswing "

As Twins had concluded a number of licence agreements with certain multinational pharmaceutical companies, Nortier was bullish in the long term

Engen steps up refinery expansion programme

B Day 4/12/91 (183)

LINDA ENSOR

CAPE TOWN — Engen has actively embarked on the R2bn second phase of its expansion of the Genref refinery in Durban, committing R70m last week for initial projects

CE Rob Angel said at the AGM yesterday the funds allocated would be used to appoint technology licensers and to prepare both detailed engineering plans to enable orders to be placed for long-term delivery of equipment as well as cost estimates for the project

He said the engineering contract for Phase II would be awarded before the end of this year and the board would make a final decision on the project in mid-1992 The project, due to come on stream in the fourth quarter of 1994, will add about 40% additional capacity to the refinery

Angel said Engen, already three months into its current financial year, was on track to achieve a real increase in earnings this year The core businesses were performing on target in spite of the difficult economy Considerable income was being generated on funds raised by a rights issue

"Although the domestic economy remains flat, Engen's domestic fuel sales are approximately 2% above last year and the group is retaining its overall market share

"Export volumes continue to be encouraging and are more than three times higher than in the corresponding period in the last financial year Crude throughput at Genref has been at about the budget level and yields of high value products (petrol, distillates and lubes) have exceeded budget"

Angel said Engen's marketing and distribution companies — Mobil, Trek and Sonap — were well positioned to take advantage of a greater demand of petroleum products as the economy recovered

The Phase 1 expansion of Genref, which will add 30% additional capacity, was progressing well and within budget and would probably be brought on stream in August next year as scheduled Engineering was about 90% completed and construction 40% with progress of 2% each week

Angel said the design of Phase II would enable Genref to be further expanded in a proposed Phase III by 25% to 150 000 barrels a day and was flexible enough to allow this to be done either by means of a fuels or petrochemical-type expansion

Rebuilding of the lubricating oil blend plant was also within budget and would be commissioned during the first quarter of next year

Malbak gears up for less volatile sectors

(183)

MARCIA KLEIN

MALBAK's major acquisition and disposal transactions — valued at more than R1bn — will see the group refocused, with more than 30% of its earnings coming from consumer oriented businesses, chairman Grant Thomas said in the annual review

Malbak has acquired a 60% interest in Fedfood and 68% in SA Druggists through the issue of 46,9-million Malbak shares with a market value of R560m

It also sold its interest in Darling & Hodgson and half of its interest in Standard Engineering for about R400m cash

Thomas said the group's enlarged consumer oriented businesses would operate in less volatile sectors of the economy and in areas which would do well in the new SA

Although the acquisitions and disposals would result in the dilution of Malbak's earnings for the year to end-August 1991 by 5% to 117c a share, Thomas said there was a significant benefit in "the creation of a well balanced and more focused consumer oriented group with excellent growth potential"

Malbak's growth over the past decade had been based on its long term strategy to become a major player in its chosen markets Investment selection had given priority to industries with good profit potential and growth opportunities, and in sectors with above average ratings

During this time Malbak had remained convinced of the importance of its smaller divisions — food and healthcare, he said

He said the acquisition of SA Druggists "elevates Malbak's healthcare division to market leader, while the food division will become a major force in its market"

Food, which contributed to 12% of group turnover and to 11% of earnings in financial 1991, would now contribute 23% to group turnover and earnings

Healthcare would now comprise 15% of Malbak's turnover and 14% of its earnings Previously the development division, comprising healthcare, chemicals and electronics, contributed to 13% of turnover and 11% of earnings

Thomas said healthcare would receive more attention in a new SA society, and rapid urbanisation would result in more people becoming purchasers and consumers This would lead to a greater demand for the group's enlarged product range

The new acquisitions would also result in productivity improvements and expenditure reductions.

Engen gives go-ahead for R2-bn expansion

183

STAR 4/12/91.

By Tom Hood

CAPE TOWN — Engen is to go ahead with a R2 billion expansion of its Genref refinery at Durban, chief executive Rob Angel announced at the company's annual meeting in Cape Town yesterday

Mr Angel told shareholders that three months into the new financial year Engen was on track to achieve another real increase in earnings

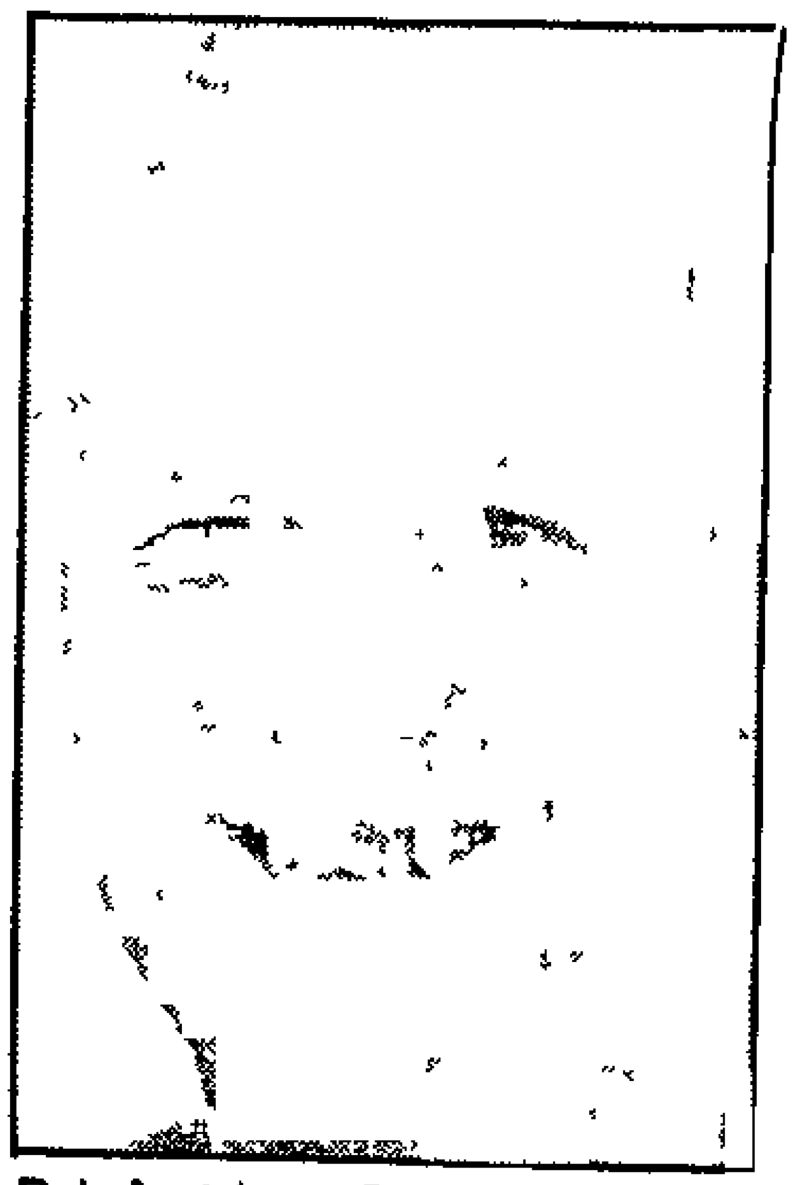
Although the domestic economy remained flat, Engen's domestic fuel sales were about two percent above last year's and the group was retaining its overall market share.

Export volumes continued to be encouraging. They were more than three times higher than for the corresponding period in the past financial year.

Crude throughput at the group's oil refinery in Durban, Genref, had been at about the budget level and yields of high value products (petrol, distillates and lubricants) exceeded budget

"Our core business, marketing and refining a full range of petroleum products, is holding its own in this difficult economy and as the economy recovers, our marketing and distribution companies — Mobil, Trek and Sonap — are well positioned to take advantage of a greater demand"

The Phase 1 expansion at the Genref refinery was progressing



Rob Angel .. On track to report real earnings growth in 1992

well, was within budget and was due to come on stream next August.

Engineering was about 90 percent complete and construction 40 percent, and progressing at two percent a week Phase 1 would add 30 percent capacity to the refinery

The Phase 2 expansion passed an important milestone last week when the board approved R70 million to appoint technology licensors, prepare detailed engineering plans to enable the placing of long delivery equipment items and prepare a detailed cost estimate for the project.

The engineering contract for Phase 2 would be awarded before December 31

The Phase 2 expansion, expected to cost R2 billion in today's money, was planned to be on stream in the fourth quarter of 1994 It would be submitted to the board for final approval in mid-1992.

Phase 2 would add about 40 percent additional capacity to that available The project would also provide major upgrading of high value products from each barrel of crude oil, substantially reduce energy consumption, provide facilities for the manufacture of unleaded petrol and low sulphur diesel oils and enable the refinery to meet projected tighter environmental regulations.

The design of Phase 2 would incorporate selective pre-investments to enable Genref to be further expanded in a proposed Phase 3 by 25 percent to 150 000 barrels a day, and retain the flexibility of Phase 3 being either a fuels (petrol/distillate) or petrochemical type expansion

"With our core businesses performing on target, and considerable income being generated on the funds raised in the rights issue, which are still at our disposal, we expect to be able to report real earnings growth to shareholders for the year ended August 1992," Mr Angel said

Engen steps up refinery expansion programme

B Day 4/12/91. (183)

LINDA ENSOR

CAPE TOWN — Engen has actively embarked on the R2bn second phase of its expansion of the Genref refinery in Durban, committing R70m last week for initial projects.

CE Rob Angel said at the AGM yesterday the funds allocated would be used to appoint technology licensers and to prepare both detailed engineering plans to enable orders to be placed for long-term delivery of equipment as well as cost estimates for the project

He said the engineering contract for Phase II would be awarded before the end of this year and the board would make a final decision on the project in mid-1992 The project, due to come on stream in the fourth quarter of 1994, will add about 40% additional capacity to the refinery

Angel said Engen, already three months into its current financial year, was on track to achieve a real increase in earnings this year The core businesses were performing on target in spite of the difficult economy Considerable income was being generated on funds raised by a rights issue

"Although the domestic economy remains flat, Engen's domestic fuel sales are approximately 2% above last year and the group is retaining its overall market share.

"Export volumes continue to be encouraging and are more than three times higher than in the corresponding period in the last financial year Crude throughput at Genref has been at about the budget level and yields of high value products (petrol, distillates and lubes) have exceeded budget "

Angel said Engen's marketing and distribution companies — Mobil, Trek and Sonap — were well positioned to take advantage of a greater demand of petroleum products as the economy recovered

The Phase 1 expansion of Genref, which will add 30% additional capacity, was progressing well and within budget and would probably be brought on stream in August next year as scheduled Engineering was about 90% completed and construction 40% with progress of 2% each week.

Angel said the design of Phase II would enable Genref to be further expanded in a proposed Phase III by 25% to 150 000 barrels a day and was flexible enough to allow this to be done either by means of a fuels or petrochemical-type expansion

Rebuilding of the lubricating oil blend plant was also within budget and would be commissioned during the first quarter of next year

Engen on the expansion trail

Business Editor (183) ARG 4/12/91

EXPORT volumes by Engen in the three months since August continued to be encouraging and were more than three times higher than for the same months last year, says chief executive Rob Angel

Mr Angel told shareholders at the annual meeting in Cape Town Engen was on track to achieve another real increase in earnings

Although the domestic economy remained flat, Engen's domestic fuel sales were about 2 percent above last year and the group was retaining its overall market share

Crude throughput at the group's oil refinery in Durban, Genref, had been at about the budget level and yields of high value products (petrol, distillates and lubes) exceeded budget

"Our core business, marketiong and refining a full range of petroleum products, is holding its own in this difficult economy and as the economy recovers, our marketing and distribution companies, — Mobil, Trek and Sonap — are well positioned to take advantage of a greater demand of petroleum products."

The Phase I expansion at the Genref refinery in Durban was due to come on stream next August

Engineering was about 90 percent complete, construction 40 percent and progressing at 2 percent a week

This phase would add 30 percent capacity to the refinery while the planned R2 billion Phase II would raise capacity by an additional 40 percent.

The Phase II expansion passed an important milestone last week when the board approved R70 million to appoint technology licensers, prepare detailed engineering to enable the placing of long delivery equipment items and to prepare a detailed cost estimate for the project

Mr Angel said Phase II will add about 40 percent additional capacity to that after commissioning Phase I

"With our core businesses performing on target, and considerable income being generated on the funds raised in the rights issue which are still at our disposal, we expect to be able to report real earnings growth to shareholders for the year ended August 1992," added Mr Angel.

Impressive turnaround for Gresham

BInday 4/12/91

MARCIA KLEIN

PREMIER Group company Gresham Industries has staged an impressive turnaround in the seven months to end-October, increasing its earnings nearly fourfold

Although off a low base, the pharmaceutical and hardware products wholesaler reported earnings of 8,1c a share compared with 2,1c in the six months to end-September 1990

It also declared an interim dividend of 1,5c a share, covered 5,4 times, after passing its interim dividend the previous year

Gresham has changed its year-end to April in line with Premier's, so results are not strictly comparable Chairman Gordon Utian said a comparable figure would see restated current earnings for six months at 7c a share

He said the "substantial improvement in earnings" was primarily due to the good performance of the Salters division Last year's rationalisation of Mega Tool & Hardware had also contributed to earnings

Gresham increased its turnover by 30,7% to R546,6m (R418,2m) and its trading profit by 69,5% to R13,7m (R8,1m)

Pre-tax profit doubled to R7,5m (R3,7m) After a 45,5% hike in taxation to R2,6m and minorities and preference dividends, attributable earnings were four times higher at R4,4m (R1,1m) (183)

PDC Holdings and Amalgamated Chemists Association maintained earnings during the period

Utian predicted satisfactory growth

Bad debts hit PDC Holdings

MARCIA KLEIN (183)

DIFFICULT trading and substantial write-offs for bad debts saw PDC Holdings turn in a static earnings growth in the seven months to end-October.

But the Gresham Industries subsidiary, which wholesales pharmaceutical and allied products, was now able to increase its earnings due to "successful operational changes", chairman Gordon Utian said yesterday.

Despite a 48,8% turnover increase to R337,4m (R266,7m), the harsh trading conditions and "the substantial amounts which have been written off in respect of bad debts of pharmacies" saw PDC report profit after tax of R1,6m (R1,4m) and earnings of 7,6c (6,5c) a share for the period.

The interim dividend was maintained at 1,5c a share, covered 5,1 (4,3) times. B|Day 4|12|91

While not strictly comparable because of a change of year-end, trading profit was R1,2m against R132 000 in the previous year After a decline in net interest received to R1,9m (R2,5m), pre-tax profit was at R3,1m (R2,6m)

Utian said it was encouraging that PDC had maintained earnings despite difficult times

PDC, which listed in September 1990, reported a 78% drop in earnings at the March 1991 year-end.

183

B 10.4 6/12/91

Oil rig homes cost R1m

ENGEN has provided R250 000 for the recycling of accommodation units or equipment from the Actinia oil rig which have been allocated to 38 community organisations in the western Cape. The final cost of recycling will be about R1m.

Karbochem expansion 'premature'

B Day 6/12/91 (183)

TALK of an expansion programme at Karbochem continues to buzz through Newcastle, but GM Quentin Ortlepp says any comment would be premature

The company last year slashed its workforce from 900 to 250 in response to economic pressures.

Launched to fill a "strategic industry" gap, it now produces only butadine and styrene-butadine rubber and millions of rands worth of plant is standing idle.

"Since the shut-down of some of our operations we have been looking at alternative ways of using our resources, but it's a long, slow process," says Ortlepp.

Karbochem came to Newcastle in the late '70s to take advantage of decentralisation benefits and the well established infrastructure of the town

Although it had for years been one of the bigger employers in the town, the decision to cut back has had little effect on the overall wellbeing of the town, Ortlepp says.

"The entire country has been suffering a recession and one can't expect Newcastle to have escaped.

"But the town is of a size and has such a diversity of business that it has its own momentum.

"We took some money out of the Newcastle economy and that had a short-term impact, but it has recovered far better than expected," he says.

and through exploration The upstream portfolio was broadened with the acquisition of 27% of Gencor's North Sea interests, which secured participation in the large Alba oilfield and Kilda gasfield (55) (183)

Though trading conditions this year will remain difficult, there should be help from other directions Finance income will increase "substantially" as benefits from placement of the funds from the rights issue — available for only three months of last year — into preference shares and other financial instruments flow through

Angel is targeting real earnings growth, which should enable EPS of roughly 270c, placing the share, at R39, on a prospective earnings multiple of 14,4 Engen should remain a favoured growth stock *Andrew McNulty*

Getting slice of petrochemical action

Star 20/11/91 (183)

The local petrochemical industry shows promise of booming, and the multinationals are undertaking extensive and ongoing projects to expand and upgrade their South African facilities

Watermeyer Legge Piésold & Uhlmann (WLPU) has recognised the potential of this highly specialised field and has formed a consortium with four other leading consulting engineering firms, specialising in this field

"The industry is starting to offer a lot of opportunities and we wanted to assure ourselves of a share of the action

"Forming Enercon has given the medium-sized firms involved enough muscle, and a broad enough spread of experience and expertise, to take on even major projects And it is a less disruptive way of doing business than hiring people just for the duration of a contract," explains WLPU associate Alan Clarkson, who has been designated the manager of the consortium

The other members of Enercon are BKS, Keeve Steyn, Liebenberg & Stander and CA du Toit & Partners

Its activities are not limited to the petrochemical industry In addition, through Enercon all the member firms will have the capacity to take on larger projects than they could normally handle alone

WLPU cut its teeth in the industry on the Mossgas Project, when in consortium with BKS and Keeve Steyn it took on the civil and structural design of some of the on-shore structure and the on-shore liquid effluent treatment system

The on-shore utility complex included what is believed to be the largest single contract awarded in the southern hemisphere of mechanical draught cooling towers

The consortium compiled the working engineering specifications and adjudicated the engineering sections of the design-and-construct tender Hamon-Sobelco, which supplied and constructed the towers, completed the project within the specified time

This partnership will be dissolved with the completion of the work at Mossgas, but with Enercon WLPU is looking to the future

"The petrochemical industries are taking a positive view of the future, and planning accordingly, there is potential for an offshore gas project in Namibia, and both Namibia and Mozambique are carrying out inland exploration," says Mr Clarkson

"South Africa has become far more acceptable to its neighbours than it was previously, and it would make sense for them to use a local firm which will charge them in rands and which knows local conditions"

Between them, Enercon's partners have also gained experience at Sasol 1, 2 and 3, on all the major overland fuel pipelines in South Africa, including pumping stations and tank farms, and in infrastructure and service work as well as coastal engineering and oceanographic work around the southern African coastline

It has access to a total of 1 250 engineering and technical staff, who will be seconded to work on Enercon projects as required

SA must aim focus on world markets

STAR 9/12/91 (183)

The South African chemical industry has to focus on becoming — together with foreign partners — a player in international markets, says Sentrachem managing director Dr John Job

Local markets are simply too small to justify capital required — and available, thanks to healthy cash flows

"A lot of people don't like joint ventures, but we've had a lot of success with them — as for instance in Safripol, a 50-50 venture with Hoechst," Dr Job said

Tax, interest and inflation rates far outweigh levels of tariff protection in viability calculations, he says

"We simply have to be able to match overseas production costs — in rand terms"

In general, he feels, the chemical industry enjoys only reasonable protection

"The ad valorem duty on polyethylene is 10 percent, compared with 12 percent in the European Community

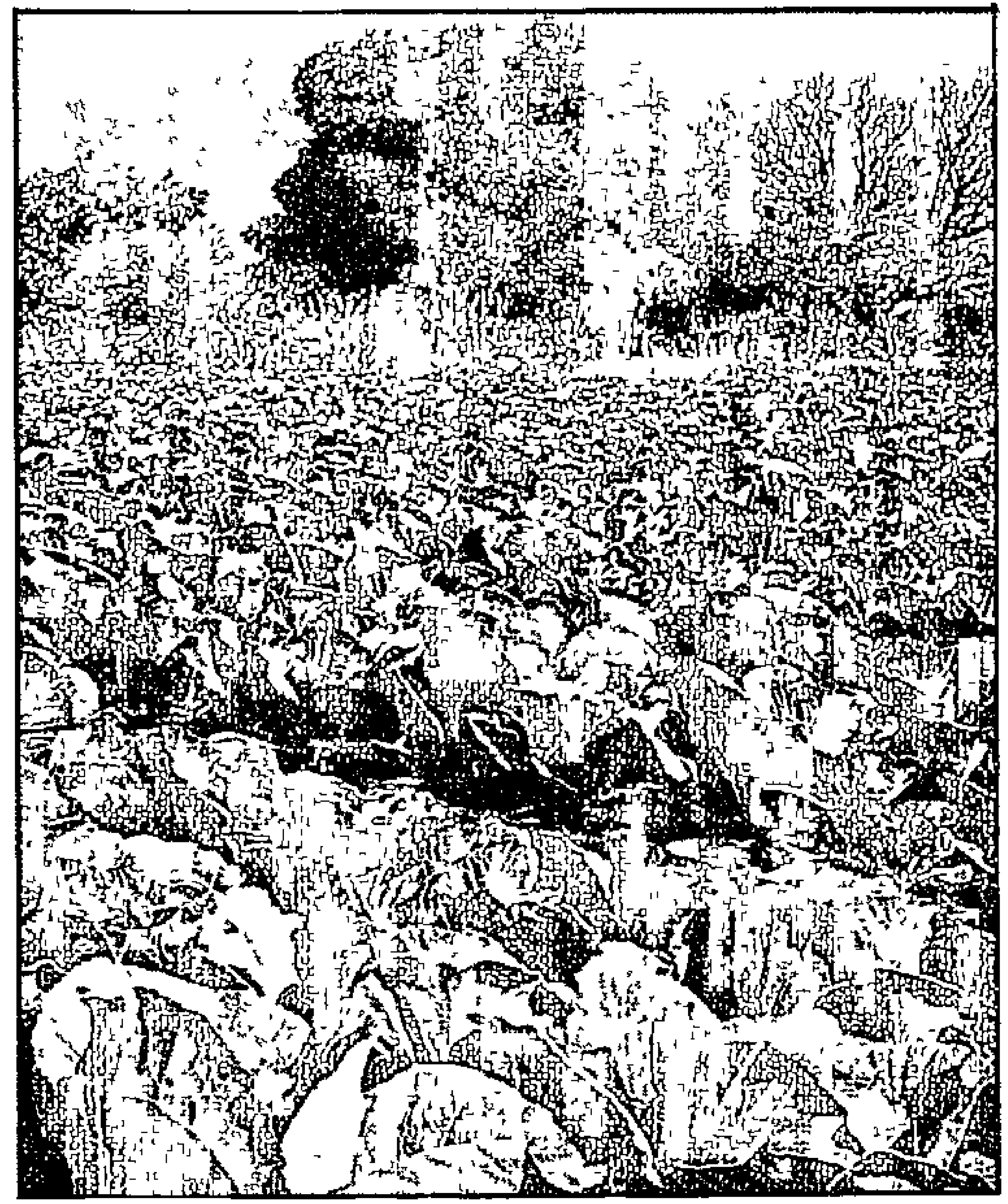
"Things are quite different to what they were in the Sixties, when anyone who wanted to put up a factory went to the Board of Trade & Industry and got the required tariff protection," Dr Job said

Sentrachem's journal, "Catalyst", records that the scrapping of all duties on high impact polystyrene (HIP) in August last year, together with a world surplus, meant an end to group production at Styrochem

This plant, at Germiston, is the country's largest producer of polystyrene

Divisional general manager Lammie de Beer says it will now concentrate on expandable polystyrene (EPS)

"Our EPS technology and plant rank with the best in the world and we are confident of developing the local market further and achieving significant export sales as well," he said



New technology has cut the use of pesticides and herbicides by half in 15 years, research shows

Chemicals: the industries' industry

STAR 9/12/91 (153)

One might say that the chemical industry is pre-eminently an "industries' industry", with particularly strong links to explosives, fertilisers and plastics

Production' of "manufacturing-industrial chemicals" in the narrow interpretation is closing in on R1 billion in value.

While the man in the street buys few of the products directly, "there is hardly an industry to which we do not supply some strategic need", according to an industry leader

To that element of being "out of view" to the public, the sanctions years appear to have added instinctive — and perhaps essential — secrecy

An attempt to track down a history of the industry through its own institutions, universities and elsewhere, yielded only — at AECI's research department — a paper delivered in mid-1962

Early in the momentous previous year, the Seventh Commonwealth Mining and Metallurgical Congress had been held in South Africa! Still valid are the closing words of the paper's author, the then-president of the SA Chemical Institute, Dr W S Rapson

He said "The particular contributions of the chemical industry to the national economy tend normally to be lost sight of in most surveys of our industrial structure today"

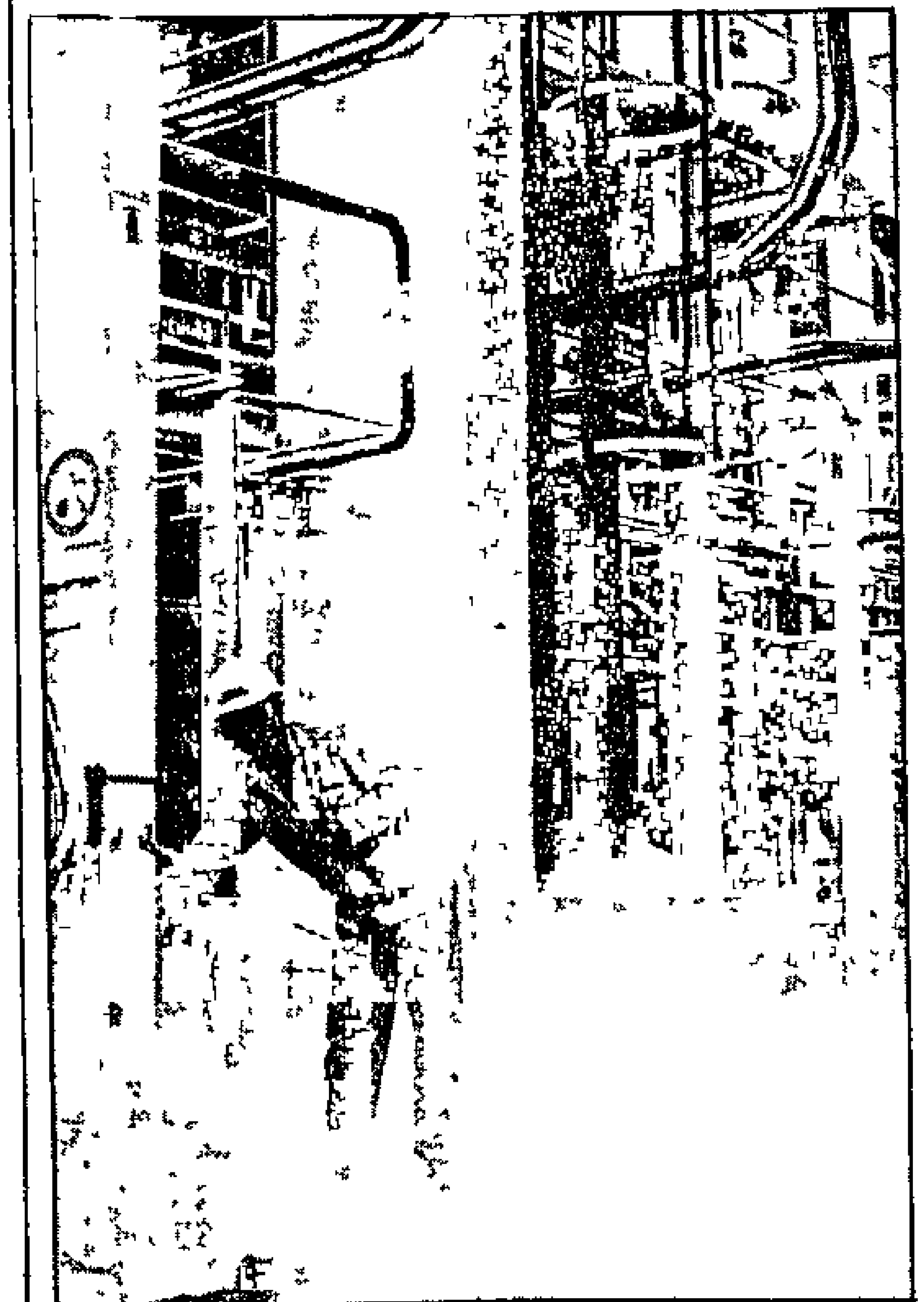
One wonders what he would feel about the scope today of an industry which "dates fairly definitely from the time of the discovery of diamonds in 1867 and of the opening up of gold deposits in 1886 Up to that time, scientific activity in South Africa had been confined almost exclusively to naturalists and astronomers"

Wide diversity and fierce competition are the reasons given for the lack of an encompassing organisation such as has developed in almost every other industry

However, the situation may be changing, as the Transvaal Chemical Manufacturers' Association has been converted into a national body, the Chemical Manufacturers Association, affiliated to Sacob Initially, said chairman Derek Knipe, a Hoechst executive, it was the industry's representative in issues concerning hazardous chemicals

THE POWER OF
Chemicals
A Star advertising feature

The man-in the street knows little about the chemicals industry, but there is hardly an sector to which it does not supply some strategic need. This feature was written by RON SCHURINK, with assistance from the industry.



Production of "manufacturing-industrial chemicals" in South Africa is closing in on R1 billion in value

Mossel Bay gas cracker possible

Mossgas claim boosts industry

STAR 9/12/91 (183)

The announcement at the end of last week that additional gas reserves may lie close to the FA field which Mossgas is tapping first, was welcomed by Sentrachem managing director John Job

"In addition to extending the life of the project as a whole, this means the chemical industry has a better chance of participating in a gas-cracker at Mossel Bay," he said

Imbalance

"And our products tend to add value massively — compare values per ton of around R800 for propylene in fuel, R1 500 for monomer propylene and R3 000 for polypropylene," Dr Job said

Such a cracker would help in repairing an imbalance in the chemical industry which had arisen in the years of "difficult access to the oil barrel"

"Virtually everywhere else chemical industries obtain their requirements most cost effectively from oil — you must just see the chemical plants round a place like Houston for instance

"In South Africa, coal is the basis of locally produced fuel, and that process does not deliver all the same chemicals," Dr Job said

One large chunk of the raw materials base" missing in South Africa were those known as aromatics — benzine, toluene, and styrene

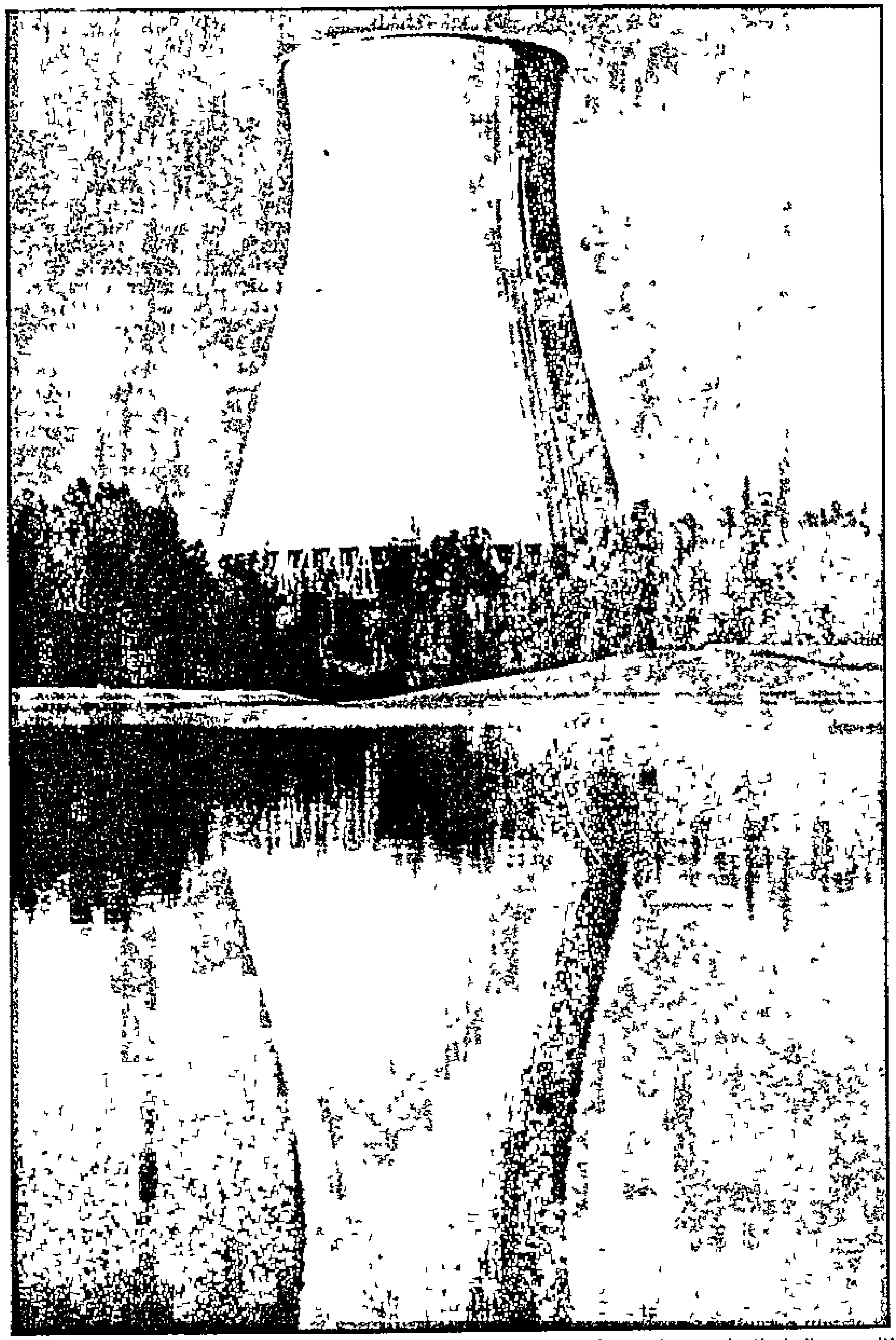
"As the country's largest user of styrene, Sentrachem imports some 30 000 tons a year said Dr Job

The country's bill for this and other aromatics easily runs into hundreds of millions of rand a year

While the prospects of obtaining aromatics from Moss gas remain uncertain Sentrachem is considering a joint venture with one of the refining companies as they expand capacity

Dr Job says that should adjacent finds enhance Mossgas's uptake sufficiently the chemical industry could tap directly into refinery sidestreams

Sentrachem managing director Dr John Job says a cracker at Mossel Bay would help in repairing the imbalances in the chemicval industry



Users of chemicals, farmers among them, should prepare for a change in their lives, with legislation envisaged to increase awareness of the need to protect the environment

● See Page 19

'Siza Moya' – a miner's lifesaver

STAR 9/12/91.

(183)

LIFESAVER . . . The world's most effective, belt-wearable oxygen self-rescuer.

The world's most effective belt-wearable and "oxygen" — as opposed to "filter" — self-rescuer for miners is owed to chemical ingenuity, which began at Protea Industrial Chemicals in Wadeville, Germiston

The firm is the country's leading distributor of industrial chemicals, with more than 2 000 stock items, supplying no fewer than 65 specialist sectors of industry

"After having to get hold of potassium tetroxide, or superoxide for a completely different purpose, we realised it could have an application in self-rescuers," said marketing director Tony Wetton

"The idea was turned over to another company in the Protea Chemicals Limited group, MICE (Mining and Industrial Chemical Equipment)"

MICE GM Ben Steyn says production of the Siza Moya (or "help with air") began in April at Laingsdale Engineering (LE) in Cape Town

This followed three-and-a-half years of technical development in which MICE, LE and the Laboratory for Advanced Engineering at Pretoria University all had roles.

"Moisture from exhalation through the mouth produces 40 to 50 minutes of oxygen from a store of superoxide," Mr Steyn said

"As the rescuer is completely different in operation to the older filter types, there is no menace in a shortage of oxygen in the surroundings (perhaps caused by fire) or presence of toxic gases," he said

("Filter" types of rescuer have generally relied on manganese dioxide compounds converting carbon monoxide to dioxide for inhalation)

"The chemical oxygen of the Siza Moya lasts longer than the compressed oxygen of other rescuers and it is one of only five approved by the Government Mining Engineer out of 40 submitted over the years," he said

Proto teams use larger rescuers which are not belt-wearable

Mr Steyn says the Siza Moya is already used on several goldmines and a contract with De Beers is being negotiated

Its price is below R600 a unit

Mr Wetton says there are many other instances in which PIC's familiarity with a large range of chemicals has played an important role

"The fascination of my job is that hardly a day passes without someone asking us about a particular chemical, or to find one for a particular job"

Apart from AECI, PIC is the only company able to bottle anhydrous ammonia under pressure for distribution to the refrigeration industry

About half of the chemicals it distributes are hazardous, "responsible product stewardship" and training therein has a large role.

This month PIC is completing a R1 million facility for the packaging of hydrofluoric acid, or "HF", which includes world-first engineering use of some plastics

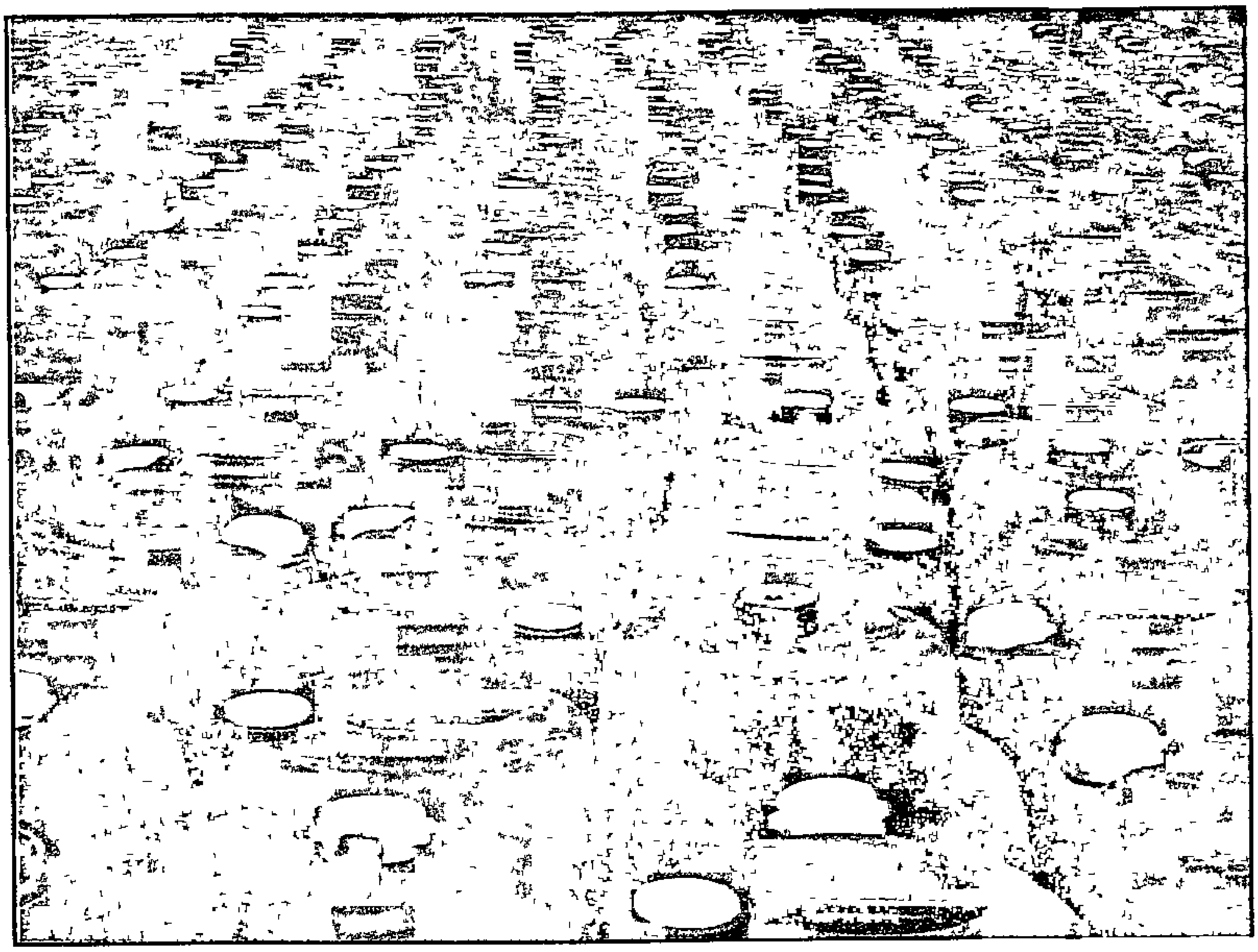
"A palm-size burn by the acid — used in recovery of minerals and cleaning of stainless steel — will be fatal, so imagine the care taken," says Mr Wetton

"Exotic"

Hydrochloric and sulphuric acid are the "workhorses" in the company's activities, which lean towards commodity rather than specialised chemicals

However, there are a number of "exotic" products which sell for over R100 a kilogram

Around half of what is sold is imported



TAKE CARE . . At least half of the chemicals Protea Industrial Chemicals distributes are hazardous and need special handling

Active chemicals mainly imports

STAR 9/12/91. (183)

Almost all the active ingredients of pharmaceutical, food and cosmetic chemicals are imported because the local market doesn't justify production, said Savannah Fine Chemicals (SFC) MD Steve Mitchell

Flying them in forms quite a large part of the business of his two-year-old Bedfordview and Steeldale, Johannesburg, company

"It's a difficult business to break into," was Mr Mitchell's smiling admission after seeing the company break into the black this year

"It's not easy to get established manufacturers to trust you with strategic supplies"

He added the company had deliberately targeted speciality chemicals, such as the actives, rather than commodity chemicals such as ammonia and hydrochloric, sulphuric and nitric acid — normally obtainable locally

Thus some 90 percent of business concerns imports, whereas for some other distributors the proportion is typically 50 percent

Stocks worth about R1,5 million are held in a warehouse in Steeldale

SFC is particularly concerned about offering expertise, and five out of 20 staff are graduates in chemistry, pharmacy and food technology

"We find people often want help with 'funnies' — little-known chemicals with unpronounceable names, or chemicals to fulfil a particular function"

He gives the example of SFC's very first import — a "funny" called Di-isopropanolamine, which a local cosmetics company needed in a hurry and could not track down

SFC air-freighted the product from Germany and now does the business on an ex-stock basis to the same satisfied customer along with a number of others

Germany is indeed the company's biggest source and it finds extremely favourable terms of business there

"Apart from Japan, the Far Eastern country offering the Germans their stiffest competition is Korea, where quality and presentation outstrip those of Taiwan and mainland China, and prices are often lower," Mr Mitchell said

"Japan has extremely high quality, but unfortunately, the Ministry of Trade and Industry still recommends that sales to SFC be on a letter-of-credit basis, owing to our short history"

Mixed bag of results from Darmag

STAR 18/12/91

(183)

Darmag, Anglo-American's rubber and plastics manufacturer and supplier, has turned in a mixed bag of results for the six months to September

Turnover was down slightly from R14,066 million in the corresponding period last year to R13,757 million

Income attributable to shareholders was, however, marginally higher at R1,135 million (R989 000)

Earnings per share amounted to 5,1c (4,5c)

No dividend is being paid

The company says the expected increase in sales in the first half of the year never materialised because of a decline in demand for its rubber and some plastic products

The company says the attention afforded to working capital provided a positive cash inflow, resulting in lower interest paid, which amounted to R226 000, compared with the R632 000 paid in the same period last year

Future plans include diversification, but this is not expected to make any contribution to earnings in the current year

The company says profits for the current financial year are expected to, at best, be the same as those achieved last year — Sapa.

Tighter controls keep Darmag earnings ahead of falling profits

(183)

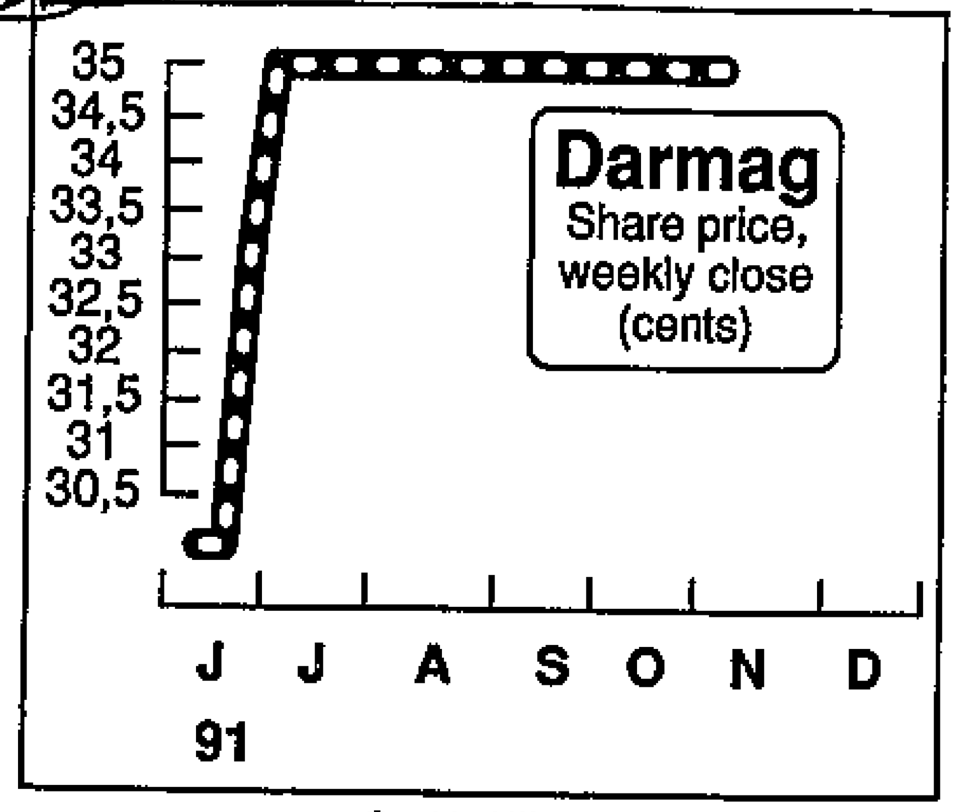
ROBERT LAING

TIGHTER control of working capital and reduced fixed overheads helped Ciskei-based rubber and plastics producer Darmag increase earnings 15% in the six months to end-September despite profits falling 18% B/Day 10/12/91.

Electronics-listed Darmag, which depends on the lead acid battery industry for most of its sales, experienced reduced demand for its rubber products and some plastic components Turnover fell 2% to R13,8m from R14m in the 1990 period

Directors said the market was weak and competitive, limiting the chances of recovering rising costs.

Margins slipped to 10% from 12%, resulting in operating profit falling 18% to R1,4m from 1990's R1,7m This was offset by 64% lower interest payments of R226 000 (R632 000) as short-term borrowing fell to R890 000 (R1,2m), cash rose to R2,6m (R16 000) and a bank overdraft of R2m was paid The reduction in interest and the Ciskei's lower tax rate boosted attributable earnings 15% to R1,1m from last year's R989 000.



Graphic LEE EMERTON Source I NET

Earnings were 5,1c (4,5c) a share but no interim dividend was paid Darmag has not paid an interim dividend since 1989

Investment planned for new machinery and entry into diversified markets would not contribute to final results Directors forecast profits for the full year would remain at 1990's level Last year's final dividend was 2c on earnings of 8,8c a share

Darmag's share price has not moved from 35c since July and is 35% under its net asset value of 54,4c a share

JSE stands firm on Crest delisting

183

ANDREW GILL

THE Keswick Trust could resubmit documents until it was "blue in the face", but as far as the JSE was concerned the listing of Crest Holdings had been terminated, JSE president Tony Norton said yesterday.

He was commenting on the interdict granted on Tuesday night restricting the JSE from terminating the listing of the suspended cash shell Crest Holdings pending the outcome of an inquiry, appeal or review of proceedings

Lawyers acting for the Keswick Trust, which holds 90% of Crest, said yesterday they would be resubmitting documentation to the JSE "relating to the proposed acquisition of certain mining rights" by Crest.

Included in the documentation would be an offer to minority shareholders of Crest of 108c a share, 13c above the share price on suspension in late July

Crest hopes to reverse-list Dergra Mining into the suspended cash shell Norton said the assets had to qualify for a listing in their own right, which they had not

Technically, he said, the JSE believed the listing had been terminated, but that termination had now been suspended by the court BDay 12/12/91.

JSE lawyer Peter Leon contends that the JSE was given no notification of an application for the interdict

However, Crest's attorneys Fluxman Rabinowitz, represented by Ivan Oshry, said the JSE was notified about 6pm on

☐ To Page 2

Crest BDay 12/12/91.

☐ From Page 1

Tuesday and that the exchange had said it would not be opposing the application.

Sapa and its PR Wire Service, which were interdicted from publishing the JSE decision, were also not represented at the application

A return date of January 28 was set, but Leon said this could be anticipated by the JSE and brought forward

Leon said the current dispute could "lead to investigation" in other areas.

Oshry said if the JSE approved the documentation, Crest would call a general meeting of shareholders to ratify acquisition of the assets

Crest to resubmit details of its acquisition plans

(183)

Finance Staff STAR

12/12/91

Crest Holdings Limited (Crest) said in a statement yesterday that it intended to resubmit documentation to the Johannesburg Stock Exchange in respect of certain mining assets which it proposes to acquire

If the JSE approves of such documentation, Crest will convene a general meeting of its shareholders for the purpose of ratifying the acquisition of these assets

Included in such documentation is an offer to the minority shareholders of Crest, inter alia, to acquire all or part of their shares in Crest for 108 cents per share — 13 cents above Crest's price before its suspension

This statement follows the interdict granted in the Rand Supreme Court on Tuesday preventing the JSE from terminating the listing of Crest

Medicos changes could create more jobs in new year

Sowetan 12/12/91

183

By JOSHUA RABOROKO

MEDICO Products SA (Pty) Ltd, the first black hair products manufacturing company in Soweto, is hoping to restructure its marketing strategies and thereby create more jobs next year

Managing Director Mr Manasse Shole said that the company performed "fairly well" this year and aimed to reach R2,5 million turnover target next year compared with R1,3 the previous year.

Medicos, manufacturers of high quality hair care and related products, were looking for suppliers of raw materials, he said, adding, "for that purpose, we intend opening in Johannesburg in the new year"

He said the escalating rate of violence had somewhat affected business in the townships and that was the reason why he intended opening in the city

The company was to embark on a "forceful business drive" in order to supply its nationwide market, with concentration on the PWV and northern Transvaal areas

"We currently have about 24 black skilled employees and hope to create more jobs when we move to new premises," he said

Medicos employed more than 10 matric students on temporary basis

"We do it every year during the school vacation We train them in packaging and mixing ingredients"

"We have undertaken to take in more students who are studying chemistry at school in order to create jobs for them," Shole said

Having been born in Sophiatown, he was well aware of the hard life students endured during holidays

"I am committed to help more as soon as my business grows"

Shole said he had also employed some students at his two saloons and liquor wholesale in Soweto

Medicos has participated in the Matchmaker Fairs here and in Botswana and has opened a branch in Botswana

Shole said he was hoping to trade in Lesotho, Swaziland, Zambia and Kenya

"We are already trading in Zimbabwe We are actually looking at other trade links with African states, but will wait until apartheid is completely abolished," he said

Richards Bay factory

8/Day/13/12/91

A R12m factory to produce basic chrome tanning salt is to be built at Richards Bay by Bay Chrome — a joint venture between Advanced Process Design and the KwaZulu Finance and Investment Corporation

(183)

Bay Chrome spokesman Dieter Roland said yesterday that aside from replacing imports of these salts the plant would be able to export part of its output

FM 13|12|91 (183)

MEDHOLD FM 13|12|91

More diversified

(183)

The nature of the group changed in the past financial year because of the takeover of four companies, Furnquip, Medex, SA Medical Supplies and Transkei Medical Supplies IEM Products changed its name to Medhold to reflect the more diversified nature of the business

The operating margin has been eroded, turnover increased by 600%, whereas pre-interest profit doubled But the companies which IEM acquired are marketing operations which distribute goods, whereas IEM is a manufacturer and works on a higher margin More important to shareholders, EPS rose 42%

MD Jack Marcelino says the merger was not easy, as the companies previously operated from five separate premises Consolidation has proved costly in management time

IEM produces a number of items required by the marketing companies The injection moulding operation, commissioned in the previous year, is expected to make a meaningful contribution to earnings this year

IEM had no debt until the previous year and now has net borrowings — though interest cover remains high at 32 times No cash was used for the purchases Instead, 5,2m shares were issued at 35c, the ruling price

Activities: *Manufactures disposable medical and surgical products*
Control: *Directors 89%*
Chairman: *R B Dacomb, MD J G Marcelino*
Capital structure: *10m ords Market capitalisation R2m*
Share market: *Price 20c Yields 15% on dividend, 27% on earnings, p e ratio, 3,7, cover, 1,8 12-month high, 20c, low, 15c Trading volume last quarter, 95 000 shares*

Year to June 30	'88	'89	'90	'91
ST debt (R000)	—	—	—	849
LT debt (R000)	—	—	136	68
Debt equity ratio	—	—	—	0,11
Shareholders' interest	0,53	0,54	0,69	0,44
Int & leasing cover	113	48	29	32
Return on cap (%)	36,1	22,9	27,7	18,5
Turnover (% increase)	0,1	11,4	0,8	600
Pre-int profit (R000)	1 012	801	746	1 504
Earnings (c)	6	5	3,8	5,4
Dividends (c)	3,5	3	3	3
Net worth (c)	12,2	16,3	17,0	22,0

But working capital requirements are considerably more onerous Net working capital rose fivefold, from less than R600 000 to R2,9m Four-fifths of stocks now comprise finished goods

Main priority this year is to reduce stocks by elimination of slow-moving items and concentration on faster moving lines Since year-end, the directors have negotiated substantial group borrowing powers

The outlook depends on future spending by the State and by the private sector on health It is unlikely to get the same priority as education and housing, but population growth will put demands on the sector Medhold has important agencies for ambulances, life-support equipment and surgical instruments

Marcelino predicts a 25% rise in EPS and an increase in the dividend, which has remained at 3c for three years He may be over-optimistic, but the share, on an earnings multiple of less than four, offers value

Stephen Cranston

Sheikh takes control of Elangeni

By David Canning (183)

DURBAN — Elangeni Holdings will fall under Saudi Arabian control after last week's approval by shareholders of a scheme that includes delisting from the JSE

Joint MD Aboo Baker Mahomed said Elangeni would formally join the Dallah Group Jeddah, controlled by Sheikh Saleh Kamel

The billionaire sheikh, cited by Fortune magazine as one of the world's richest men, recently visited Durban in his private "flying boardroom" — a Boeing 727 — to tie up the deal

Elangeni chairman YM Paruk said the new links with Dallah Group should prove positive for Elangeni whose subsidiaries manufacture edible oils, soap and glycerine

He said synergy existed between Elangeni and Dallah Group. Dallah Group, which has created 55 000 new jobs in the past five years, includes in its interests real estate, chemicals, oil, steel and manufacturing

Mr Mahomed said markets in Southern Africa were to be investigated with a view, in due course, to Elangeni starting margarine manufacture.

29/11/85

Costs expected to exceed R3bn

(183)

Refineries to upgrade for unleaded fuel

B Day 18/12/91

ROBERT LAING

SA's six oil refineries are to be upgraded at a cost of about R3bn, say industry sources.

Sapref, Genref, Caltex, Natref, Sasol II and Sasol III will be upgraded to produce unleaded petrol at a cost of roughly between R250m and R500m per refinery

However, one industry spokesman said yesterday that these costs were in "today's terms" and would escalate over the duration of the project

He added that all service stations would also have to be adapted to serve the new fuel but costs for this project were still being worked on.

Oil companies welcomed Friday's Cabinet announcement that unleaded petrol would be made available in SA as soon as possible

Genref MD Errol Martin said the price of upgrading the plant to refine unleaded petrol could not easily be segregated from the overall R2,7bn cost of Genref's expansion project.

Genref, the Durban-based refinery which Gencor's energy subsidiary Engen took over from disinvesting Mobil, was the first SA refinery to plan unleaded production — embarking on the project about 18 months ago

"It did not take a high degree of clairvoyance to see government would legislate in favour of unleaded petrol We were looking 10 to 15 years ahead for our expansion project — during which time new engine technology and growing environmental concern would inevitably have favoured unleaded petrol," Martin said

Caltex's Mike Maxwell said "Caltex is undertaking various studies and analyses to determine the most cost-effective options of introducing unleaded petrol, making specific cost estimates impossible at present Nevertheless, it is estimated that upgrading the Caltex refinery to meet the requirements of unleaded petrol could be several hundred million rands in today's terms"

Sasol spokesman Jan Krynauw said studies were under way to establish the cost of upgrading Sasol and Total's refinery Natref Sasol II and Sasol III would also be upgraded, but not Sasol I because the plant was phasing out petrol production to concentrate on other chemicals.

Sapref MD Henri Joubert said an exact figure for the money required to upgrade the Durban-based refinery's expansion to unleaded capability was not readily available, but the amount was significant.

Sapref's joint owners Shell and BP recently gave the go-ahead for a R450m expansion project aimed at increasing the refinery's present capacity of about 200 000 barrels by 30% to 260 000 barrels a day

Joubert said Sapref would have the capability to produce unleaded petrol within

□ To Page 2

Refineries

B Day 18/12/91 (183)

□ From Page 1

four years — the time limit announced by Mineral and Energy Affairs Minister George Bartlett last week "Unleaded gasoline will cost 6c to 10c more per litre, but it must be introduced or SA will fall behind in new car technology," he said

Bartlett said fuel tax would be adjusted to enable unleaded petrol to sell initially for less than leaded petrol to promote its acceptance by the public

Bartlett's comment that leaded petrol would be gradually phased out sparked speculation that government planned to follow the introduction of unleaded petrol by legislating the compulsory fitting of autocatalysts to new cars

An industry spokesman said SA's two autocatalyst manufacturers — Johnson Matthey and Degussa — could easily meet local demand

A recent survey by Market Research Africa showed more than 2-million motorists were prepared to have their vehicles converted to use unleaded fuel and more than 1,7-million said they would pay R500 for the conversion

FM 20|12|91 (183)

JSE's Norton *a responsibility to investors*

CREST HOLDINGS FM 20|12|91

Trying again

(183)

A dispute over whether the JSE gave a proper hearing on the proposals to reverse Dergra Mining into the Crest Holdings cash shell, in reaching its decision to terminate Crest's listing, lies at the heart of last week's legal action preventing the JSE from delisting Crest

JSE president Tony Norton says it did The Keswick Trust, which controls Crest, says it did not A Supreme Court judge felt there was sufficient grounds to issue the temporary interdict preventing termination of the listing

Return date is January 28 Norton says the JSE will put its case to the court on or before that date He says the JSE was not represented at the application for the interdict and disputes whether the JSE was advised about it in time Crest attorney Ivan Oshry, a partner in Fluxman Rabinowitz Raphaely Weiner, contends the JSE was advised in time

Keswick bought 90% of Crest from previous owner Colfin Holdings for R6,6m with effect from January Dergra bought a number of mining assets from Keswick, also with effect from January, for R15,5m This was to be settled R6,65m in cash and the balance through issue of 8m Dergra shares

The Keswick Trust is a discretionary trust set up in 1989 A number of Dergra directors are beneficiaries including Derek Harris, Charles Graves and Susan Justice

Main asset is the Drylands opencast gold mine Dergra bought the mine from Anglo American Corp, which considered it no longer economically viable Other interests include a number of gold-bearing dumps around Klerksdorp, the Nyala Gold Mine claims adjacent the Osprey Mine in Gazankulu, and two other gold-bearing dumps in the north-eastern Transvaal

Norton says assets to be listed through cash shells have to be able to support a listing in their own right

"These are mainly mining exploration assets which are just promises at present," he says "We have a responsibility to investors who will deal in these shares and we have to be sure of the facts We have not seen documentation that meets our required standards"

Oshry claims the JSE refused to consider the latest document, which dealt with all the points it had complained about in the past He says this was the sixth draft document drawn up to meet the JSE's changing requirements

Norton says the JSE had commented on various sets of documents sent in by Crest He adds regulations stipulate cash shells may be listed for only six months but the JSE had kept Crest alive for a year longer than required since it became a shell in June 1990

Oshry says "We had no other remedy but to go to the court to keep the listing alive pending a decision by the Appeal Board or some kind of settlement with the JSE"

Brendan Ryan

Twins 'poised to replace Clinic in the JSE index'

(183)

BIDay 30/12/91

WILLIAM GILFILLAN

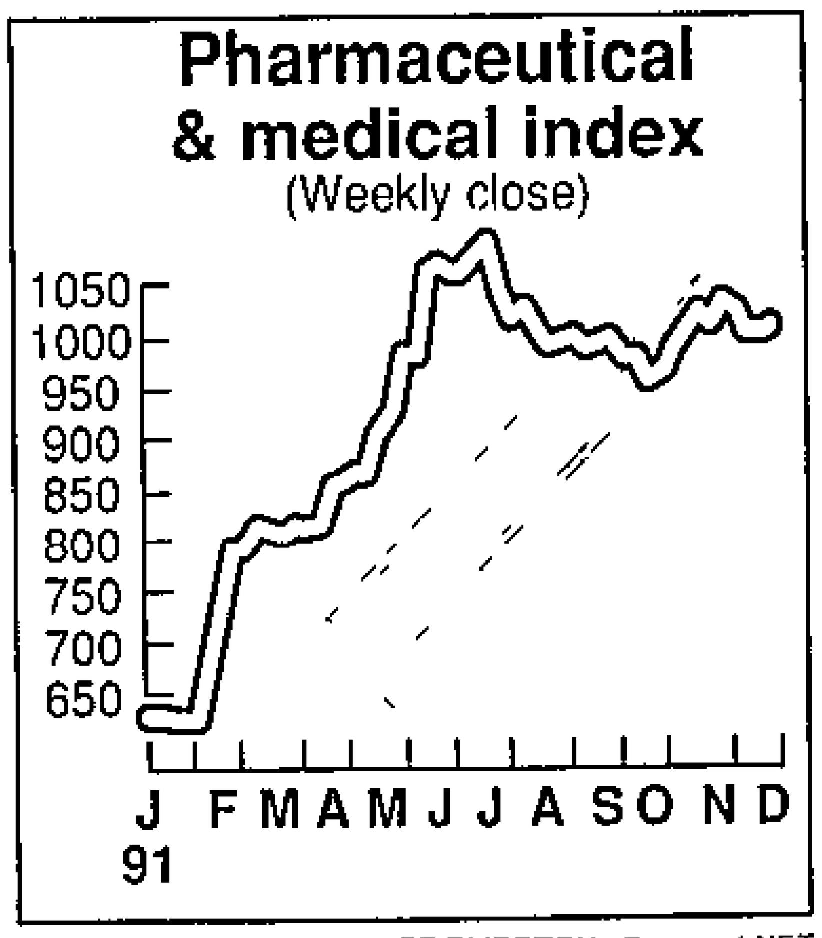
PHARMACEUTICAL group Twins is set to replace private hospital group Clinic Holdings in the pharmaceutical and medical index in January, JSE president Tony Norton said at the weekend

However the index, which would comprise Adcock Ingram, SA Druggists (SAD) and Twins, would continue to be monopolised by the blue chip Adcock with its market capitalisation of R1,6bn

As the total capitalisation of the index was currently about R2,2bn, its performance was closely alligned to the rise in Adcock's share price which increased from R32,50c in January to its current R58,50c

The two other companies included in the index this year were SAD, with its market capitalisation of R374m, and private hospital group Clinic Holdings which was capitalised on the market at R227m

During the year SAD's share price increased to 265c from 210c while Clinic recorded a rise from 195c a share to 230c



Graphic LEE EMERTON Source I NET

Despite the year-on-year rise, the index in fact dropped 10% in the second half of the year This followed concerns by analysts that the cost crisis facing the medical industry eventually would hurt pharmaceutical groups

But recent results from both Adcock and Twins showed strong profit growth Twins improved earnings about 36% to R29m for the six months to September while Adcock reported a 30% rise in earnings to R64m for the year to September

Twins results were achieved through selling off underperforming businesses and improving productivity, while Adcock's growth was achieved on the back of a 26% rise in turnover

SAD, hit by government cutbacks, reported a 4% decline in earnings to R17,9m for the six months to September

Analysts believed the cost crisis would hit the patented and branded drug market harder than the lower priced generic drugs

Ironically SAD, which had the highest exposure of the three in the generic drugs market, suffered because of its exposure

But SAD management is now giving more attention to the higher margin patented and branded drugs

South Africa's major producer of high density polyethyline (HDPE) and polypropylene Safripol's second HDPE plant in Sasolburg.

Industry's diversity covers many activities

STAR 9/12/91 (133)

The huge diversity of the chemicals industry is illustrated by the spread of activities in groups like AECI's Chemserve and Sentrachem-NCP's Aquamet

Micro-nutrients for agricultural products — "chelated" ones to those who know what that means — come from Chemserve Colloids, together with a range of synthetic polymers

Among the latter are flocculants coagulants, collectors and filtration aids for the mining and processing industries, and textile auxiliaries for fabric softening, dyeing and printing

Ranges

Chemserve Steinhall products include gangue depressants, flocculants and filtration aids for the metallurgical industry, thickeners and gelling aids for slurry explosives, drilling aids, friction loss additives, and chemically modified polysaccharides

Other ranges of specialised products are the preserves of Chemserve Technical Products, Chemserve Food Services, Chemserve Metal Sciences, Chemserve Systems and Chemserve Trio

NCP's Aquamet has in its range

- Acix, selling ion exchange resins, activated carbons and anti-scalants to the mining, water treatment, power generation, petroleum, food and chemical industries
- Minchem, selling flotation frothers, depressants, polyacrylamides and filter aids to the mining industry
- Ultrafloc, selling polyamines polyacrylamides, ferric chloride, polyaluminium chloride and ferric sulphate to the water treatment and pulp and paper industries
- Metchem, selling precious metal salts and catalysts to the electro-plating, chemical jewellery and electronics industries

Managing director Dr Gloria McDougall says "We have recognised that the marketing of high-tech, speciality performance chemicals — and especially the kind that sell by the gram or the kilo rather than the ton — require a different approach to that for commodity chemicals"

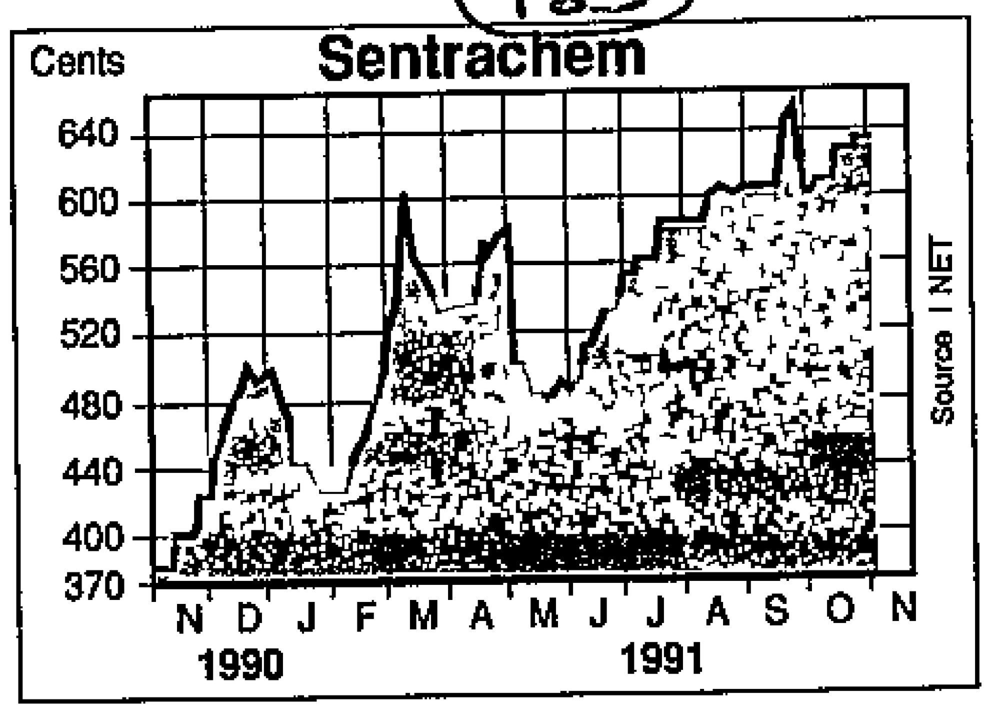
The newest of the marketing arms is Metchem, aimed at making PGM Chemicals in Pinetown — which is 85 percent owned by Aquamet — a substantial player in the international market for metal chemicals

Catalysts

Essentially, these are used in chemical and jewellery manufacture, electroplating of electronic components and production of coatings and catalysts

PGM developed its technology itself in conjunction with local universities and other institutions, and is therefore not bound by any international licensing agreements

FM 8/11/91 (183)



SENTRACHEM FM 8/11/91

A stronger base (183)

Activities: *Manufactures agricultural and industrial chemicals and veterinary products, animal feeds, foodstuffs, plastics and rubber products*
Control: *Sankorp 34%*
Chairman: *D N A Hunt-Davis, MD J L Job*
Capital structure: *115m ords Market capitalisation R719m*
Share market: *Price 625c Yields 2,9% on dividend, 8,6% on earnings, p e ratio, 11,6, cover, 3,0 12-month high, 650c, low, 380c Trading volume last quarter, 726 000 shares*

Year to August 31	'88	'89	'90	'91
ST debt (Rm)	95	154	114	109
LT debt (Rm)	329	305	497	475
Debt equity ratio	0 68	0 51	0 71	0,69
Shareholders' interest	0,40	0,40	0,34	0,34
Int & leasing cover	2 9	3,0	2,1	1,8
Return on cap (%)	9,5	13,7	12,3	11,6
Turnover (Rbn)	1,25	1,45	2,16	2,28
Pre-int profit (Rm)	159	222	245	235
Pre-int margin (%)	12,7	15,4	11,4	10,3
Earnings (c)	64,7	81,1	66,1	53,8
Dividends (c)	20	25	24	18
Net worth (c)	580	557	480	499

An ambitious capital expenditure programme has just been completed — at the nadir of a major recession in the chemical industry The programme, which cost R830m over three-and-a-half years, certainly hit the bottom line, finance charges increased by 14% to more than R127m and interest cover fell to fewer than two times

In the longer term, however, operations have been greatly strengthened The second phase of the NCP chlor-alkali expansion was completed and a new maleic hydride plant built Safripol's upgraded propylene purification plant was commissioned

Group MD John Job points out that the group now dominates many of its markets, including pool chemicals (70%), salt (70%) and resin raw materials (90%)

The best turnaround was at Karbochem, profitable for the first time since 1983, as the loss-making isoprene plant was closed. It still makes other forms of synthetic rubber Its latex and industrial chemicals did particularly well The former isoprene facilities at Newcastle are being converted to high-value chemicals, such as alkyl amines and sodium borohydride for the paper industry

Agricultural chemical interests held in Agrihold were being merged with those of Farm-Ag during the year Agrihold made a small attributable loss and was the only division not to trade profitably It is, however, significantly more export-orientated than the rest and export incentives helped to cut the effective tax rate from 41% to 28%

The balance sheet was strengthened, with gearing down from 71% to 68%, and net working capital up less than 1% Planned capex of R148m this year is largely covered by the depreciation flow back of R132m Job says the group aims to reduce gearing to 40% over the next three years and raise interest cover to at least three

Attributable earnings fell by 19% but this must be compared with a 26% decline in Sentrachem's first half, and a 56% plunge in AECI's earnings for the six months to June Sentrachem is far less exposed to commodities than AECI, it has never been in explosives and sold its Fedmis fertiliser interests more than two years ago

Sentrachem is well placed to lift earnings It has won a contract to make crates for SA Breweries, which is switching from corrugated to plastic, which will greatly improve prospects for the Mega Plastics division Sanachem is beginning to trade profitably

At current prices Sentrachem offers a dividend yield of 2,9%, more demanding than the rest of the chemical and oil sector A p e of 11,6 is well below Engen's 15,9, though ahead of the other chemical companies

Sentrachem has disappointed over the past two years EPS peaked at 81c in 1989 but it seems to have sorted out its portfolio Even the removal of protection will affect only a portion of its business It is worth holding for the long term *Stephen Cranston*

Sasol's viability 'not questioned'

(183) ARG 8/11/91

JOHANNESBURG — The editor-in-chief of The Executive magazine, Mr Nigel Bruce, is standing by an article in the publication in which it was alleged that Sasol's huge profits resulted from government protection and taxpayers' money

In its latest edition this week, The Executive calculated that Sasol's R1,04 billion net profit last year was achieved on the back of protection measures valued at R1,1 billion a year

The protection measures, according to the article, included R539 million from a synfuel subsidy, R324 million from the transport levy and R237 million from the differential between the in-bond landed cost — which Sasol and other local companies use as their selling price — and the benchmark north-west European contract price

The article angered Sasol which subsequently took out full-page advertisements, claiming it was malicious, distorted, superficial, sensational, highly misleading and that the author, The Executive editor Kevin Davie, had been manipulated

Mr Bruce said the article had relied on reason to make its point

"Great care was taken in its preparation to convey at length not only The Executive's interpretation of the highly regulated procurement, refining and distribution of petrol in this country, but those also of Sasol and the National Energy Council"

The article, he added, did not question Sasol's financial viability, either overtly or by implication

"On the contrary, it states that Sasol is a well-run and imaginative company The Executive believes that Sasol executives have shown exceptional technical and operating skills and the use of its financial resources are not questioned

"The criticism is of government," said Mr Bruce — Sapa

Sasol claims defended (183)

Staff Reporter

THE editor-in-chief of the Executive magazine, Mr Nigel Bruce, has defended a claim that Sasol's profits have been artificially boosted

In an advert yesterday Sasol's managing director Mr Paul Kruger said his company was to complain to the Media Council regarding the report

The editor of the Executive, Mr Kevin Davie, said yesterday he was standing by the story ET 9/11/91

The Minister of Mineral and Energy Affairs, Mr George Bartlett, said yesterday the Executive report "is construed in such a manner so as to discredit the government and the local synfuels industry"

Ferro strikes supply deal

Star 11/11/91

By Jabulani Sikhakhane (183)

Ferro Industrial Products, a subsidiary of listed Roychem, has reached an agreement to supply chemical products to former US parent Ferro Corporation's worldwide operations

The deal will add about 33 percent to Ferro's current turnover, Royal Corporation group managing director Doug Johnston said at the weekend

Roychem is a subsidiary of the Royal Corporation Group, which in turn is controlled by the Immerman family via pyramid Royal Holdings (Royhold)

Mr Johnston said the deal would require new investment and that negotiations were currently being held with the Industrial Development Corporation (IDC) to provide the required funding at preferential interest rates

Although he would not dilvuge more details, he said the deal would have a substantial impact on Ferro's business and was likely to add about 33 percent to its current turnover The new plant should be up and running within the next two to three years

Royal Corporation bought Ferro early this year from its US parent for R38 million Ferro manufactures and supplies a range of quality organic and inorganic speciality chemicals to a broad spectrum of industry

Ferro was merged with Royal's existing chemical businesses, Holpro-Lovasz, to form Roychem, which was listed separately in March At the same time the group listed its food interests grouped under Royfood

Mr Johnston said that Royfood had signed a biscuit licensing agreement with leading French food group BSN

Royfood subsidiary, Royal Beech-Nut (RBN), owns a biscuit operation, Fedbisco, which it acquired from Fedfood early this year

Mr Johnston said Fedbisco had integrated well within RBN and that the group was getting good support from former parent Nabisco, which is a major player in the biscuit market worldwide.

Mr Johnston added negotiations with BSN about the possibility of setting up a joint venture were continuing, but that there was still nothing concrete

Shares in the Royal group of companies have had a strong run recently on rumours of further acquisitions and possible joint ventures with overseas partners

Royfood touched a high of 535c before easing back to close at 500c on Friday, while Roychem has risen to 270c from 260c on listing Royal and Royhold have also risen sharply from about 350c six months ago to the current levels of 500c

188

CT 13/11/91

120 closures hit furniture industry

By MAGGIE ROWLEY
Deputy Business Editor

ABOUT 120 furniture manufacturers employing more than 1 350 workers were closed or liquidated in the first six months of this year, says Winston Smith executive director of the Federation of Furniture Manufacturers

In the Western Cape alone 431 workers were retrenched between January and June this year and a further 1 176 of the 5 574 workers employed in the region have been put on short-time

And Smith warned, further closures and retrenchments would be inevitable unless the authorities acted quickly to stimulate the economy

This call was echoed by Frans Jordaan, executive director of the Furniture Traders' Association, who said that figures released today for the three months to September showed a negative real growth in sales of furniture, appliances, TV and audio euqipment

According to the associations Retailer Liaison Committee, furniture sales for the quarter were up 8,3% on the same period a year ago, appliances by 11,2%, audio equipment by 7,4% and television and videos by 13,5%

Jordaan pointed out that sales of audio equipment, appliances, television and videos were particularly good in 1990 due to the relaxation of credit restrictions

"Therefore it means that this years figures in respect of these commodities are being measured off a fairly high base

"Sales of furniture on the other hand have been depressed for the past 12 months and this is causing grave concern in the industry

"If we annualise the figures, we are looking at a growth rate roughly the same as the inflation rate," he said

He said the current feeling in the industry was that the government had to act soon to stimulate the economy

"Failing this some sectors of our industry, particularly the manufacturing companies could be forced to make substantial retrenchments," he said

Smith said furniture sales had declined in real terms by 16,5% in the first six months of this year as a result of the downturn in the economy, high interest rates and pressure on disposable incomes

He said furniture sales peaked in August 1983 prior to the introduction of the last major HP restrictions

"At that time there were 28 950 workers employed in the industry — 2809 more than the number employed as of June 30 this year"

Figures to June 30 1991 showed a ttoal of 26 141 people employed in the industry, of which 3756 were working short-time

He said that the situation in the industry, at least in the Transvaal, appeared to have stabilised since July with no short-time being worked

"However this is due only to the fact we are now in the traditional seasonal peak for the industry Normally the industry works overtime from August through to end October which is not happening this year"

Smith warned that once the Christmas season was over, the industry would again be in dire straits

Packaging industry is in growth phase

PLASTIC packaging is making strides in overtaking alternative materials and the industry is in a growth phase despite the weak economy, says Nampak MD-designate Trevor Evans B/Day 18/11/91

"We are launching new products on an ongoing basis, while many of our established products still have growth potential.

"Because of this, we have done reasonably well during the past financial year and we expect to continue to do so

"The 2l milk bottle has proved a winner — it is cheaper than glass and more convenient than plastic bags.

"Another successful product for both the local and export markets is the one-ton bulk bag.

"The soft drinks industry, which is also converting fairly steadily to plastic, has experienced growth despite the economic downturn."

He says the most exciting new development in plastic packaging is the 1,5l returnable Coke bottle

This was launched in Upington on a trial basis 18 months ago and more recently in Windhoek.

Next year will see it in western Cape shops and by the end of 1992 it is expected to be on the shelves countrywide.

(199)

Technology

(183)

Although the concept was originally developed in Germany, the technology for the manufacture of the product is unique to SA.

The bottle is about the same size as the 1l glass bottle — but weighs only 1,6kg instead of 2kg.

"This product is an example of plastic packaging at its best.

"The consumer gets 50% more product in a more manageable, safer container — and the seller can cut transport costs through reduced mass and higher volumes," Evans says.

Recycling cuts down problem of pollution

183

B/Day 18/1/91

PLASTIC has long been slated by environmentalists as a contributor to pollution — but the ugly sister may turn out to be Cinderella.

Plastics Federation of SA executive director Bill Naude says "No one can deny plastic litter is more ubiquitous, more obvious and more unsightly than many other forms of pollution — but it is unfair to condemn a product when the problem is education.

"When compared with more 'natural' products such as paper, wood and glass, plastic wins hands down when it comes to saving energy and mineral resources, reducing carbon dioxide emissions and wastage and releasing forest areas for food production."

AECI spokesman Howard Parry says solid waste management must be integrated.

"Plastics represents only 7% of the municipal waste stream, but it helps reduce waste by reducing the amount of packaging material used.

"Waste management must also aim to re-use products if possible, recycle them when resource efficient, incinerate when economic and landfill as a final and safe means of disposal," he says

An estimated 19% of total virgin polymer consumption — amounting to some 95 000 tons a year — is recycled, compared with 6% in West Germany and less than 2% in the US

"We began recycling our plastic as a matter of economic necessity years before it became an environmental issue

"Today, around 80 companies are involved in the industry, many of them small businesses," he says.

"Recycling is a better option than developing photodegradable or biodegradable plastics.

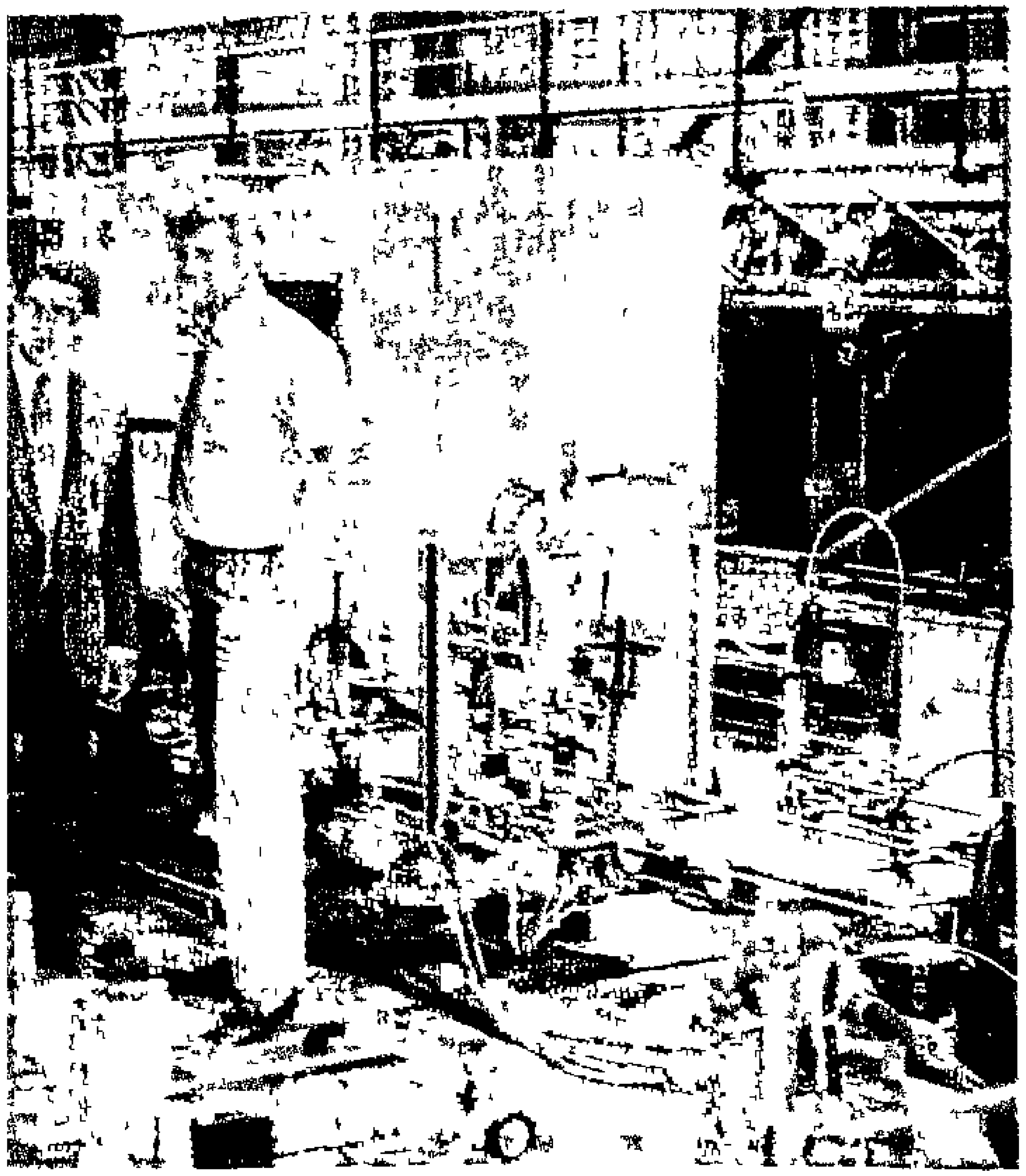
"Photodegradable plastics must lie in the sun, sometimes for up to four years, in order to break down — and this would aggravate the litter problem

"Biodegradable plastics disintegrate into small crumbs which do not degrade further and which add to invisible pollution"

Where recycling is not practical, Naude says incineration is an excellent method of disposing of plastic.

"Plastic burns at a far higher temperature than, for instance, paper In a well designed incinerator it can be used to ensure other waste materials burn more efficiently, cutting down the quantity of toxic emissions.

"In Japan, incineration is used to generate energy, although this is not yet financially viable in SA," he says



Turnover up R1bn as weak markets have little effect

BDay 18/11/91

(183)

THE weak markets experienced by most of its customers have had little effect on the plastics conversion industry, which continues to develop and diversify.

In all, 1 000 companies are involved in the processing of plastics, employing 41 000 people.

Turnover for the industry during 1990/91 was R7bn — 74% of the R9,5bn turnover achieved by the plastics industry as a whole, and R1bn up on the previous year.

Megaplastics MD Ralph Oxenham says "It has been a difficult year for us, but most suppliers to the major industries have managed to keep their heads above water."

His firm — the largest and most diversified plastics convertor in SA — processes over 30 000 tons a yeart of the 500 000 tons a year of polymer consumed by local manufacturers.

"The advantage to plastics is that there are continued opportunities to replace both imported components and components manufactured in other materials.

"For instance, although the automotive industry has seen its market drop 5% this year compared with last year, we are doing well.

"Export opportunities are opening up — we recently landed a big order for bumpers for BMW and have orders for Mercedes and Volkswagen."

Another fast mover is the beverage industry. Megaplastics is commissioning plant to manufacture crates for SA Breweries in a contract worth an estimated R70m a year.

The mining industry has taken a beating this year, but Oxenham says the process of replacing steel with plastic pipes continues.

"Business in this sector has been bad this year, especially with the cutbacks by the gold mines — but the platinum mines have done well and the coal mining industry has grown with the lifting of sanctions.

"Plastic pipes offer some major advantages over steel — they don't corrode, they are light to transport and easy to connect and they are more cost-effective."

In the insulation market, plastic is in competition with fibreglass, and Oxenham says business in this sector has been satisfactory.

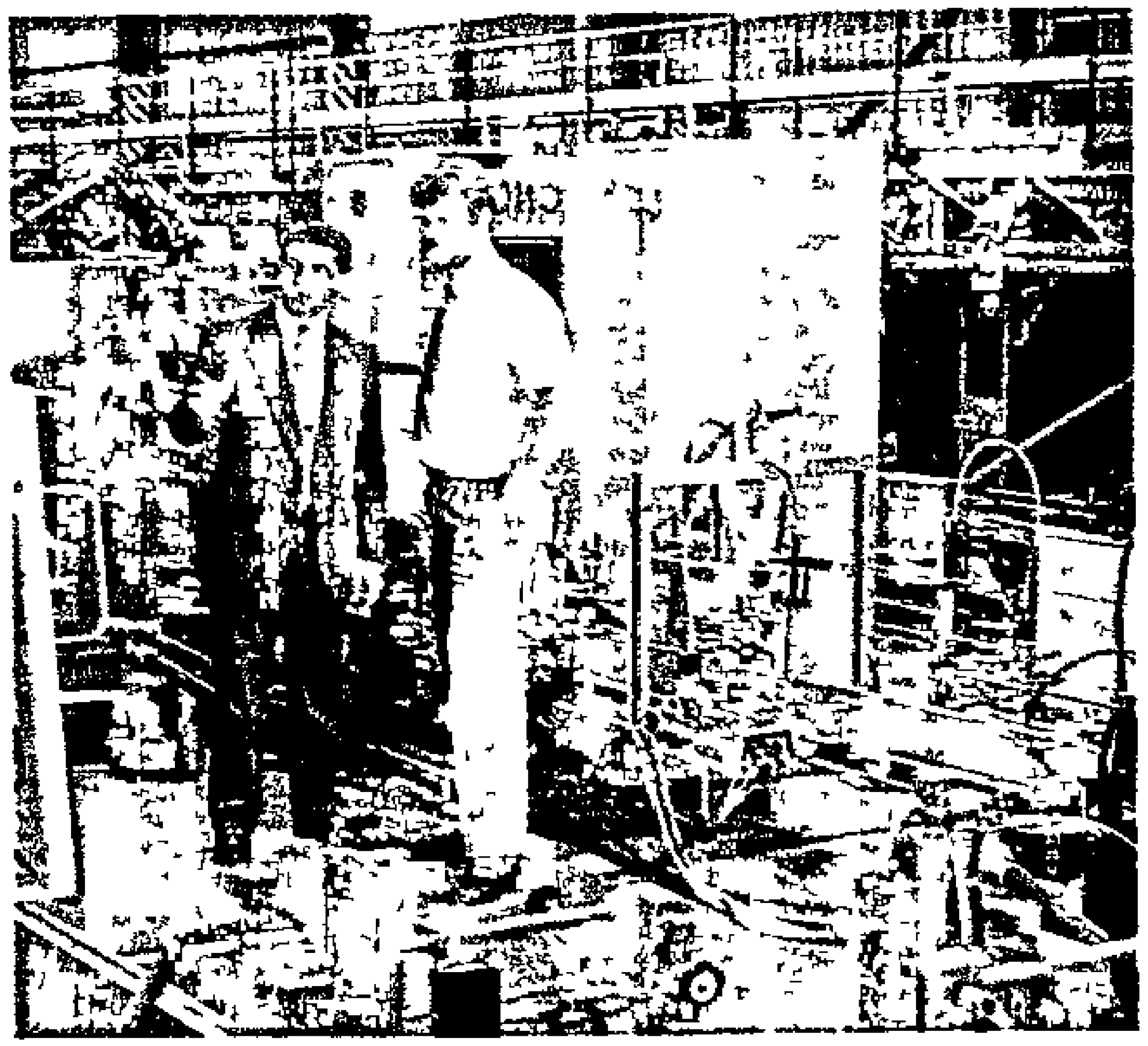
"With the lifting of sanctions, the deciduous fruit industry has been building a number of cold rooms.

"At the same time, the housing market is using more insulation materials as people become energy conscious."

He says the conversion industry has for some years tended to grow at at least double the rate of the SA GDP — and this trend will continue and could accelerate.

Business Day SURVEY

Turnover for the plastics industry during 1990/91 was R9,5bn, R1bn up on the previous year. Export opportunities are opening up but with deregulation, the greatest challenge to the industry will be to hold its own against international competition. Local manufacturers are known to be innovative and have developed strongholds in niche markets. However, government commitment to deregulation is being tested in the current debate over tariff protection on PVC. VAL PIENAAR reports



Hennie Swanepoel left, Mega s operations manager for the SAB crate project, and Megapak MD Chris van Niekerk at the new plant being erected to produce these crates.

Turnover up R1bn as weak markets have little effect

BDay 18/11/91 (183)

THE weak markets experienced by most of its customers have had little effect on the plastics conversion industry, which continues to develop and diversify.

In all, 1 000 companies are involved in the processing of plastics, employing 41 000 people.

Turnover for the industry during 1990/91 was R7bn — 74% of the R9,5bn turnover achieved by the plastics industry as a whole and R1bn up on the previous year.

Megaplastics MD Ralph Oxenham says "It has been a difficult year for us, but most suppliers to the major industries have managed to keep their heads above water.

His firm — the largest and most diversified plastics convertor in SA — processes over 30 000 tons a yeart of the 500 000 tons a year of polymer consumed by local manufacturers.

"The advantage to plastics is that there are continued opportunities to replace both imported components and components manufactured in other materials.

"For instance, although the automotive industry has seen its market drop 5% this year compared with last year, we are doing well.

"Export opportunities are opening up — we recently landed a big order for bumpers for BMW and have orders for Mercedes and Volkswagen."

Another fast mover is the beverage industry. Megaplastics is commissioning plant to manufacture crates for SA Breweries in a contract worth an estimated R70m a year.

The mining industry has taken a beating this year, but Oxenham says the process of replacing steel with plastic pipes continues.

Business in this sector has been bad this year, especially with the cutbacks by the gold mines — but the platinum mines have done well and the coal mining industry has grown with the lifting of sanctions.

Plastic pipes offer some major advantages over steel — they don't corrode, they are light to transport and easy to connect and they are more cost-effective.

In the insulation market, plastic is in competition with fibreglass and Oxenham says business in this sector has been satisfactory.

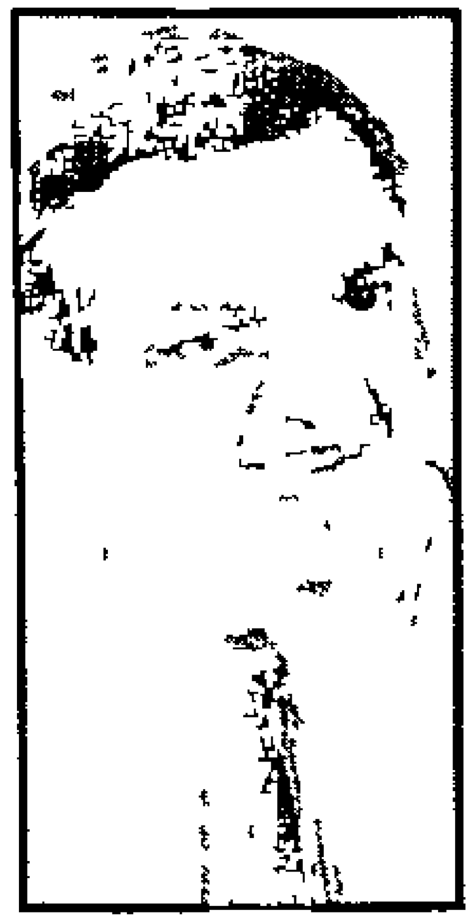
"With the lifting of sanctions the deciduous fruit industry has been building a number of cold rooms.

"At the same time, the housing market is using more insulation materials as people become energy conscious."

He says the conversion industry has for some years tended to grow at at least double the rate of the SA GDP — and this trend will continue and could accelerate.

Tariff protection is a challenge to deregulation

BDay 18/11/91. (183)



DAVID KENNY

GOVERNMENT S commitment to deregulation is being put to the test in the debate over tariff protection on PVC.

AECI has met accusations that it is building a state-subsidised monopoly with claims that local importers are over invoicing to keep costs at unrealistic levels.

In the furore, the recently gazetted adjustment in polypropylene duties has slipped by almost unnoticed — despite the fact that it serves as a clear indicator of government s attitude towards the issue.

The ad valorum duty on imported polypropylene has been cut from 20% to 10% while the reference price has been raced from 93c/kg to R2,30/kg.

Sasolchem MD Koos Brand says "These changes give local producers effective protection against dumping."

Department of Trade & Industry (DTI) spokesman Alwyn Kraamwinkel says measures to protect local industries against dumping must take into account 'normal' international prices.

'The normal price is that which exists when supply and demand worldwide is in balance.

When it is out of balance export prices are lower than domestic — and dumping can take place," he says.

Brand says alternative measures to counter dumping do exist — but these are inefficient and can threaten relations between buyers and sellers.

If I suspect one of my customers is importing dumped material I can report him to the DTI which will investigate his books.

"Months later they may confirm my suspicions and force him to pay an additional duty on the dumped material.

'But by that time the customer will have priced and sold his goods on the basis of the price he originally paid."

Meanwhile, at the time of going to press AECI was still awaiting a response from the Minister of Trade & Industry to its urgent application for adjustments in the tariff protection on PVC.

Cargo Trade, SA's largest privately owned importer of PVC products, is putting on a strong solo performance to resist the application.

MD David Kenny says prices for AECI's PVC polymers are already outrageously high, and the changes could "hike prices by as much as R1 000 a ton, halt PVC imports completely boost inflation and provide unfair protection for an inefficient producer".

AECI spokesman Kim Fraser denies that prices will increase, and says the adjustments are intended to close loopholes in the present import legislation that make over invoicing possible.

Company expands to meet Breweries' needs

BDay 18/11/91 (183)

IN WHAT is believed to be the world's largest conversion from corrugated cardboard to plastic, SA Breweries is to substitute plastic crates for the cardboard containers used to transport 750ml beer bottles.

Megapak, a division of Sentrachem's Mega Plastics operation has produced the first crates for its R70m contract with SAB which is to phase in the new containers over the next three years.

The company has embarked on a plant expansion programme to meet SAB s requirements.

Six of nine state-of-the-art injection moulding machines have been installed and commissioned and the plant is scheduled to be fully commissioned by the end of January.

Increasing

The crates will be manufactured from high density polyethylene which will increase Megapak's consumption of raw materials by 12 000 tons a year.

The company has ... by 12 000 tons a year. **DAVID KENNY** 93c/kg

Locals hold their own against international competition

183

B/Day 18/11/91

A KEY to South Africa's future on the world market is the development of its plastics industry

With progressive beneficiation as a primary goal, the country can develop its manufacturing sector at all levels — from small entrepreneurs to big business

Plastics Federation of SA executive director Bill Naude says "The local market uses more than 40 types of plastics raw materials, in around 600 different grades

"The big five commodity materials used in SA are PVC, high and low density polyethylene, polypropylene and, to a lesser extent, polystyrene

"All these are manufactured from locally-produced raw materials"

The domestic plastics industry was largely fuelled by perceived strategic necessity during the '60s and '70s

In the new era of decreasing regulation the industry is challenged to hold its own against international competitors and most local producers of raw materials claim to offer substantial benefits to manufacturers with export prospects

"Some companies have been exporting right through the sanctions period because in terms of cost, technology and efficiency they have been able to compete," he says

"The market for raw materials is growing — an indication of this is Sasol's decision to commission a 120 000 tons a year polypropylene plant recently — despite the fact that the production of raw materials from coal is more expensive than conversion from oil"

Growing

Sasol Polymers MD Koos Brand says the international polypropylene market is close to 14-million tons a year

It has been growing on average 10% a year since 1983 — almost double the rate of other plastics

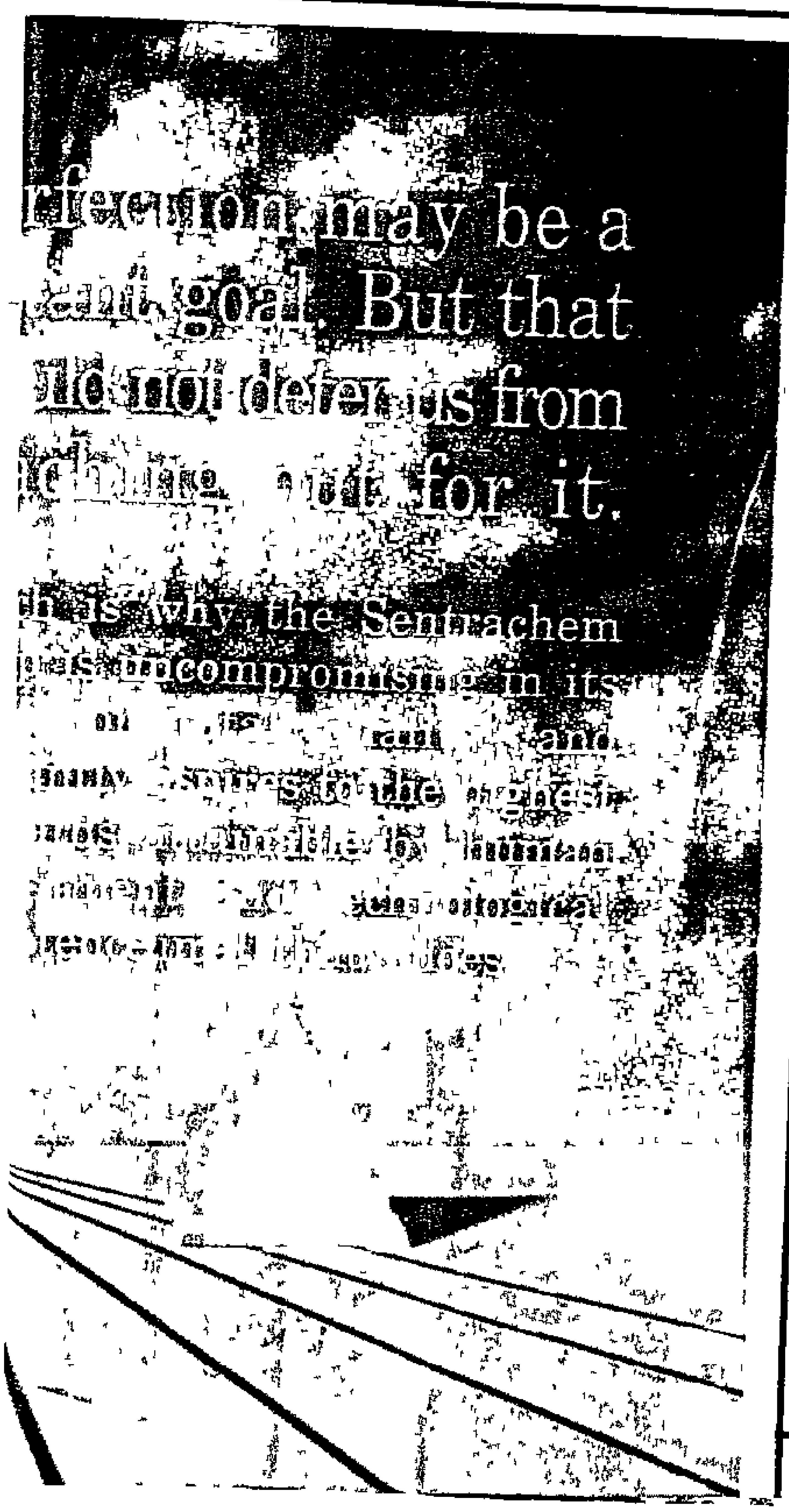
Megaplastics MD Ralph Oxenham says the prospects for local plastics converters are positive.

"The lifting of sanctions has improved attitudes towards SA on the part of potential customers

"We expect local polymer prices to hold steady over the next few years, which will enable manufacturers to develop a sound base for export-orientated businesses," he says

Naude says "Local manufacturers are also highly innovative and have developed strongholds in a wide variety of niche markets

"For instance, a SA manufacturer pioneered the use of polystyrene trays inside boxes of fruit and SA uses more plastic carrier bags per capita than any other country"



Local PVC industry highly developed

B/Day 18/11/91

THE local polyvinylchloride (PVC) industry can hold its head up in any country in the world, thanks to the entrepreneurial skills of South African businessmen, says AECI spokesman Kim Fraser (183)

"Government's policy in the past was to give the industry strong support, and we are highly developed for a Third World country and world leaders in the PVC packaging industry."

One reason for the success of the industry is the ready availability of raw materials, whereas other plastics tend to be more commonly used in Europe.

PVC has taken a beating in the economic downturn, however.

Fraser says about 50% of the industry, for instance piping, is tied to infrastructure development and construction.

But the 30%-40% of PVC that is converted locally for use in consumer goods is faring better and longer term prospects remain good

"Growth in the industry has averaged 5,2% a year for the past 13 years, while prices have risen on average around 9,6% a year

"This will level off slightly in the future to a growth rate of about 3%-4% a year."

The charm of PVC, from the point of view of the manufacturer, rests in its versatility and the diversity of its applications.

"Combined with the appropriate additives it can be used for almost anything, whether rigid or flexible," he says.

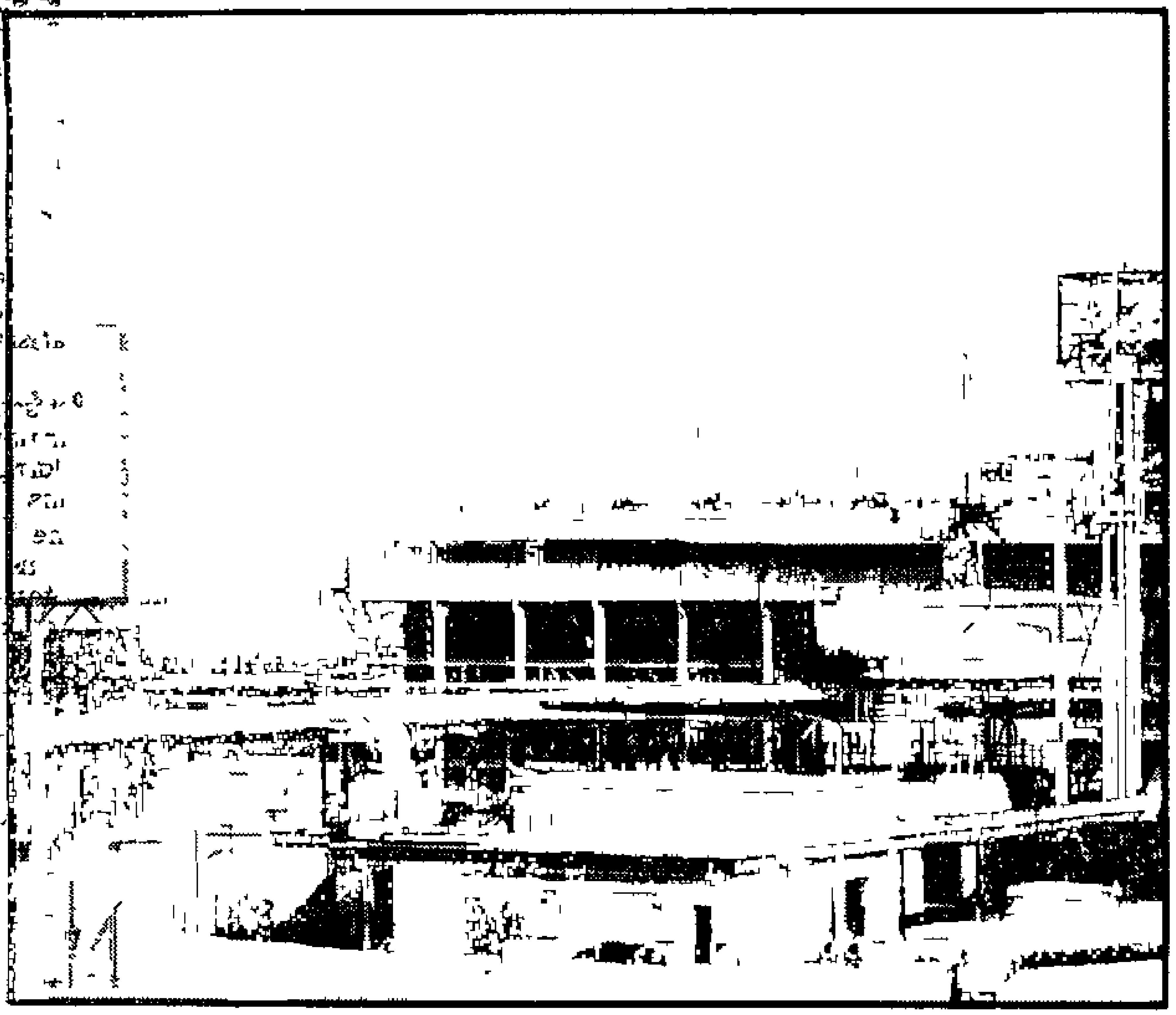
"At the same time, only 2% of the raw materials used in the manufacture of PVC polymer are imported, making it possible for SA to have weathered crises like the oil shortage

"The main ingredients in PVC are anthracite, salt and coal — making it one of the most sophisticated examples of adding value to low value resources."

But, Fraser says, the PVC producers are not content to let the beneficiation process stop with their product.

"We support customers manufacturing goods with export potential by offering them special deals," he says.

"We also support government's decision, with the latest changes in the incentive scheme, to divert subsidies away from producers like ourselves towards manufacturers downstream in the production line."



A section of AECI Chlor-Alkali and Plastics' Coalplex PVC plant in Sasolburg.

AECI plant runs at full capacity

BDay 18/11/91. (183)

THE market for low density polyethylene (LDPE) and linear low density polyethylene (LLDPE), used mainly in the manufacture of plastic film, is growing both locally and internationally, and sole local manufacturer AECI is well placed to take advantage of opportunities offered

The company's LDPE plant is operating at full capacity to produce an annual 90 000 tons, which is absorbed by the local market

Imported LDPE — mostly in cable grades which are not produced locally — can add a further 10 000 tons a year to the total consumed by SA converters.

Its newer LLDPE plant has a capacity of around 95 000 tons a year, but local demand is only around 50 000 topns a year

AECI spokesman Frank Baker says "The two products are more or less interchangeable, but are manufactured using different extruding machinery

"When LDPE was first manufactured the technology to produce the necessary high pressures — 1 500 atmospheres — was expensive.

"The newer technology, which produces LLDPE is safer, cheaper, works at lower pressures and is more energy efficient"

Despite the benefits of the new technology, however, Baker says it will be some time before SA completes the changeover from LDPE to LLDPE

"About 35% of the LDPE used in SA is linear There hasn't been much investment in this country over the past 10 years and many of our customers are still using old equipment

"Our LDPE plant should be able to keep supplying them for a further 15-20 years," he says

Turning to the import market, he says the reference price on LDPE is R2 550 a ton, bringing the prevailing import price to between R3 100 and R3 300 a ton

"The current international market price is $700 a ton — world prices have plummeted, especially in Europe

"Stocks are high, the world is in a recession, and a lot of new capacity has come on line, for instance in Korea," says Baker

He is confident of the longer term growth prospects for the industry, however

"Growth averages around 5% a year, with around 75% of the product being used in the expanding packaging industry

"The balance goes into a variety of applications.

"LDPE and LLDPE are cheap and strong Entry barriers to the manufacturing industry are low and it is ideal for small to medium-sized businesses"

Despite the slack overseas market, he says AECI exports 20-30 000 tons a year of LLDPE as a polymer

"We prefer local businessmen to add value prior to export and will back anyone who shows prospects of doing so

"It is in our own interests to benefit the local industry — as it develops and establishes a strong export base local capacity will grow," he says

Groups want new code on SA trade

Sowetan 18/11/91

THE South African Council of Churches, the South African Bishops Conference, Kagiso Trust and the Institute for Contextual Theology are planning a consultation to work out a code of investment for South Africa.

In a statement on Saturday, the SACC said the consultation - meeting under the theme "Towards a Code of Investment Ethics for South Africa's International Economic Relations" - would be held in February in Broederstroom

"This will bring together representatives of trade unions, business, political organisations, as well as experts on economics, into a reflective interaction with church leaders and theologians.

"The objective of this exercise is formulated against the background of the debates on sanctions and the reality that, despite calls for financial sanctions against South Africa to be maintained until some form of a transitional government is installed, more and more overseas companies are beginning to either invest in South Africa or are busy with preparations to do so." - *South African Press Association.*

Green export to Zim

183

Sowetan 18/11/91

A DURBAN company is to export what it says is an "environment-friendly" chemical to Zimbabwe

According to a statement released yesterday the chemical, hydrogen peroxide, was "rapidly gaining popularity as the preferred oxidant in the textile, paper, chemical and water treatment industries"

The chemical is to be distributed by Zimbabwe Petroleum - *Sapa*

DP's new plan for airwaves

THE Democratic Party has accepted a policy document on broadcasting based on the principles that freedom of speech should be enshrined in the new constitution and that the airwaves are public resources.

DP spokesman for broadcasting Mr Peter Soal said at the party's congress in Cape Town on Saturday that many proposals in the document had been accepted by the task group on broadcasting.

The document provides for the establishment of an independent communications authority to regulate the broadcasting spectrum and promote an efficient communications system Sowetan 18/11/91.

Provision is made for both public and private broadcasters, but restrictions are placed on the number of radio and television stations operated by any organisation

The DP said local radio stations, rather than television, were the means of broadcast communication best suited for the country's needs - *Sapa.*

Appeal refused

THE Appeal Court in Bloemfontein has refused an application by Thapelo Matthews Mokoena of Mofolo, Soweto, for leave to appeal against convictions for murder and attempted robbery

The victim was Mr Daniel Marthinus Joubert who was shot in Soweto on July 14 1988.

Mr Acting Justice D O Vermooten, in the Rand Supreme Court on November 21 1990, imprisoned Mokoena for 19 years. - Sapa.

Battered AECI 'will need R1bn lifejacket'

183

B Day 19/11/91

BRENT VON MELVILLE

EMBATTLED AECI, once the undisputed king of the chemical business, may be forced to go to the market for as much as R1bn, say analysts and industry observers

Analysts said yesterday factors such as spiralling debt, slumping international commodity prices and production problems, could prompt the group to undertake a rights issue in the near future — and are pegging it at about R1bn

But an issue at the current depressed levels could be an expensive exercise, and industry sources suggest the group may also consider hiving off some of its assets, largely to pay off debt

Almost two years of plunging profits and high levels of investment in fixed assets and working capital have taken a toll on the erstwhile giant, and debt has now soared to unprecedented levels At last count borrowings were at R900m, with gearing at 70%

Its market rating, too, has taken a hammering, plunging to the point where its market capitalisation represents barely half the R3bn it was worth a scarce 16 months ago

Its present R1,5bn capitalisation also prompted the JSE to strike AECI from its index ratings a few months ago, and the share price is still taking a beating It recently slipped below the R10 level, closing unchanged yesterday at R9,75

Analysts also give it little chance of a recovery

At a recent presentation of its interim results — which saw earnings slashed by 54% — MD Mike Sander said the group would look to a rights issue "when market conditions were right", and assuming major shareholders were amenable

Analysts now reckon AECI could go to the market as as early next year, with the bulk of proceeds going to pay off debt

Ed Hern, Rudolph analyst Peter Brown said AECI was not contemplating any significant project spending in the near future because of the lack of a proper tax regime Sander had also stated recently that AECI would review its inclusion in a joint venture with Sentrachem and Engen for the R9bn chemical "cracker" plant to be situated in Mossel Bay

One major stumbling block could be Imperial Chemical Industries Group (ICI), which, through its direct holding and through Afex Holdings, controls about 38% of AECI Analysts said ICI had traditionally not been keen to follow its rights in the past, and may not do so now

That means Amic, the majority shareholder with 40%, could be forced to increase its stake dramatically, and probably undertake its own rights issue to pay for it

Analysts said AECI might also sell off some of its underperforming assets, and there were a number of business units which could be considered Operations could also be trimmed, especially within the explosives, chemicals and agricultural products division, as well as in polymer derivatives

Last year the latter division was particularly hard hit by adverse trading conditions in AECI Converters and South African Nylon Spinners, which suffered from low demand for yarns from the local apparel and household textile sectors

Roychem close to deal with US group

183 186

B/Day 20/11/91 184 182

SEAN VAN ZYL

ROYAL Group's listed chemical subsidiary Roychem has struck a deal in principle with US chemical group Ferro for the local manufacture of chemicals to be distributed by the US group's worldwide network, group MD Doug Johnston said yesterday

Johnston would not disclose the value of the deal or the product concerned and noted that the venture still had to be finalised

Roychem was formed earlier this year when Royal acquired Ferro Industrial Products from Ferro US after the former parent company pulled out of SA The local Ferro operation manufactures speciality plastics, coatings and ceramics

The Ferro deal closely follows news that Royal — through its food operation Royal Foods — is negotiating a joint deal with French food multinational BSN

BSN manufactures and distributes world-class brand names in food and is apparently looking for a local partner to market its products in SA

Royal chairman Vivian Emerman admitted the group had a "close relationship" with BSN but said discussions were far from concluded

Market sources said Royal, possibly with BSN, was also set to acquire a major local distributor in the dairy field

Imperial Cold Storage and Supply Company (ICS) would appear to be the most likely candidate However, market analysts did not expect ICS's parent CG Smith Foods and ultimate controlling shareholder Barlow Rand to put the company on the bidding block

Johnston declined to comment on the food-related deals but said Royal was in contact with various parties worldwide and had openly expressed its intention to seek international partners