MANUFACTURING – GENERAL
1993

# The high price of business hunches

(180) S/Times (Buss) 2/5/93

MOST managers run their businesses on hunches.

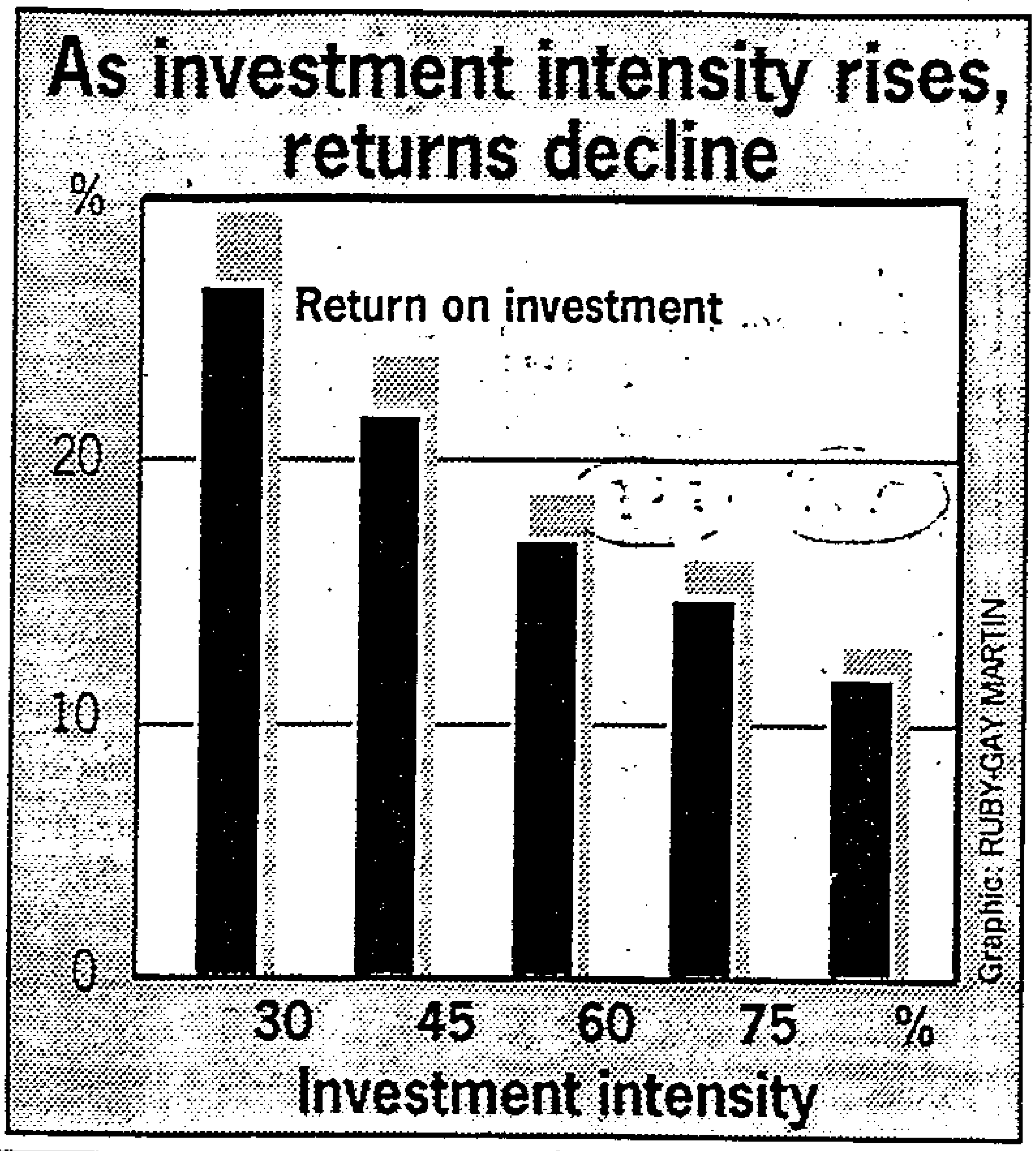
The average executive has rarely been exposed to more than a few different businesses and industries. Often decision makers or strategists know about only a single industry. Thus their key decisions are based on a small sample and their ideal of what works and what does not is limited.

This is especially true when the "game" is changing as rapidly as it is today.

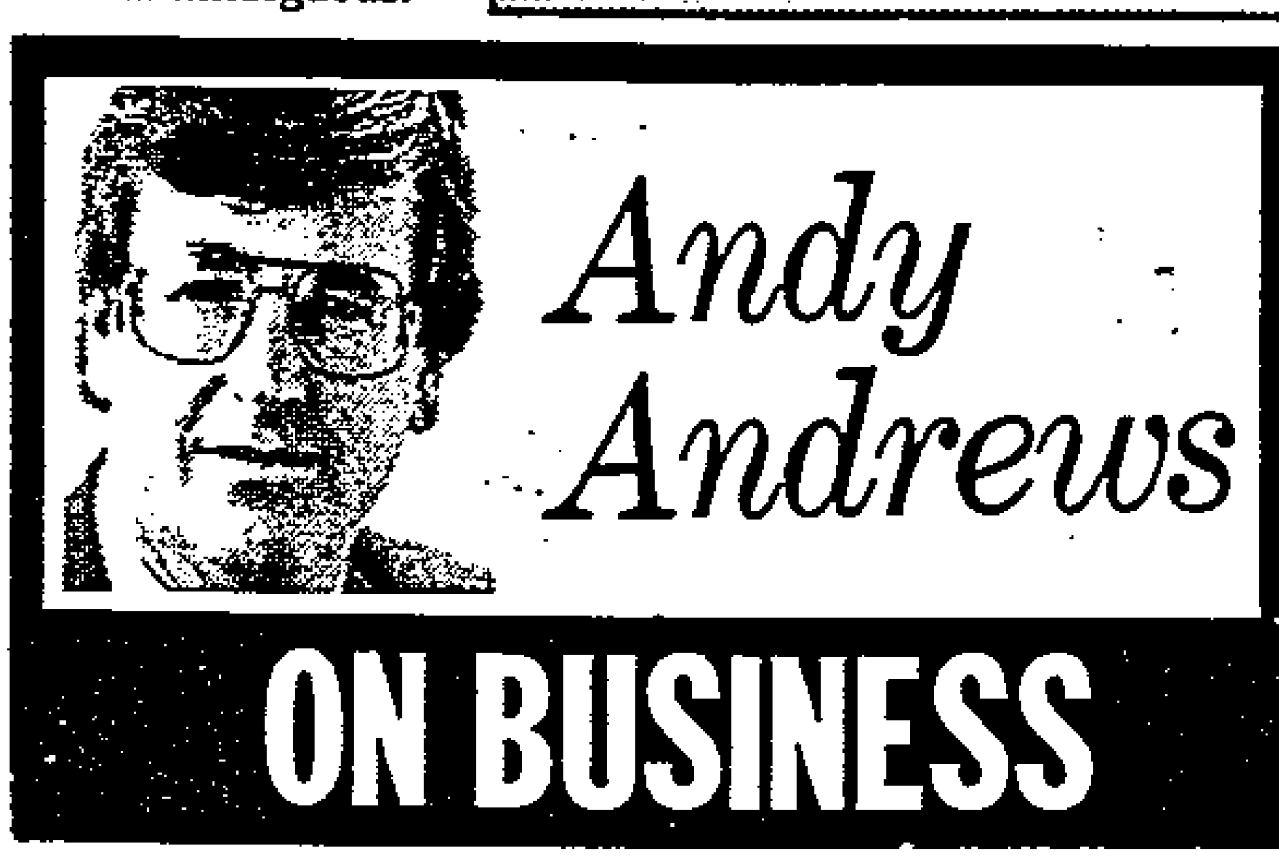
I often hear the statement, "I know this business and this is the best way to do the job."

Perhaps that way was best then — but it may not work well today. Circumstances are different. There may be more or fewer competitors today, the technology may have changed, the customers may have become more sophisticated and the risks may have changed.

The investment decision is one where the intuition of most managers is extremely dangerous. Analysis of the PIMS database which contains information about many thousands of businesses, shows that highly intensive firms are much less profitable than businesses with lower levels of investment.




The facts are clear and unambiguous. Those firms that use higher levels of investment for each rand of sales revenue — for example, airlines, bulk chemicals or distribution of consumer goods that require large inventories — have lower profits and returns.




Investment which includes both fixed and working capital when related to sales produces a measure of investment intensity which reflects the percentage of investment required to produce a rand of sales. The pre-tax return on investment (ROI) figures is calculated by relating earnings before interest and tax (EBIT) to investment and are all four-year averages.

Most managers do not like this finding. They have been brought up to believe that investment means progress and that firms should spend more and more money on shiny new equipment.

PIMS researchers say that the "findings are controversial not because this phenomenon is rare, or uncertain or weak — it is common, quite clear and extremely powerful — but because it is so unexpected."

Conventional wisdom has always been that the opposite is true and best. Everyone accepts that heavy investment in automated plants produces higher labour productivity, especially in heavy industry and that consumer goods companies should invest heavily in inventory to provide product availability.

Many managers believe that technology and the resulting high labour productivity and readily available consumer goods are highly desirable, and hence are expected to improve profitability rather than reduce it.

Well, the findings suggest that the public benefits do in fact occur. The customers often get lower prices and products of higher quality. Higher wages for skilled workers do occur.

But the benefits to the private sector do not occur in all cases. Companies find that their profitability, as measured by pre-tax return on investment, is usually poor and certainly less than expected.

The reasons for these startling findings, which I will deal with in subsequent articles, are fairly obvious once they are pointed out.

Of course, investment intensity is not always bad. Under certain conditions and circumstances it is highly beneficial. It does provide higher entry barriers and improve the quality of certain products. The tough questions that managers need to ask are:

- Under what circumstances is increased investment intensity likely to be harmful to my business?
- Would increased investment in fixed capital help my ROI?
- Would increased investment in working capital be a better idea?
- How important is the industry growth rate in investment-intensive firms?
- Is high market share beneficial to ROI in investment environments?

These questions can be answered, but those managers who rely only on their somewhat limited experience and who do not really understand the dynamics and interaction between such variables as investment intensity, product quality, share of market and growth rate, may find that they are investing in businesses that are not suitable for investment-intensive type spending.

They may be dooming their businesses to long-term economic misery. There are strategies, which I will also deal with later, that will minimise the damage of intensifying investment and make it more attractive.

Your intuition is often suspect. Hunch is not enough these days.

■ *Dr Andy Andrews is director of the Graduate Institute of Management and Technology, which offers the Henley Executive MBA in SA, and consults on strategy using the PIMS database.*

TOMMY EDMOND: SA Druggists has begun to advertise its generics in a way that will make people more cost conscious

NCEMENT

O IT.

| | |
|---|---|
| | 30 September 1992 |
| | 83 667 |
| | 78 359 |
| | 611,2 |
| | 611,2 |
| | 200,0 |
| | 19,1 |
| | 1,16 |
| | 2,7 |
| | 2 994,4 |

# Gilbertson and Gencor on the Keys' success trail

S Times (Buss) 2/5/93 (180)

WHEN Brian Gilbertson succeeded Derek Keys at the helm of Gencor 16 months ago his first task was to inveigle financial institutions to follow a R2-billion rights issue.

Mr Keys' departure came at short notice and the story is that there were five contenders for the top spot. Whoever took over had a hard act to follow and a tough task to undertake in a receding economy.

It is with some relief, therefore, that the plus points outweigh the negatives at Gencor and that the latest results are a credit to management.

Mr Gilbertson says: "We adhered to two fundamentals in the past year. Executives were asked to try to maintain earnings as best they could and we tried to keep a cash cushion."

This has not been to the detriment of new projects. In the past year, Gencor has invested, seeking partners where necessary, in projects such as Alusaf, Columbus Stainless Steel, Engen's Genref, Sappi's Hanover and Salccor and the Richards Bay Minerals deal.

All these moves give rise to a critical issue: if Gencor had been unbundled, would its components alone have been big enough and credit-worthy enough to pledge the kind of money required for such investments?

"It is the very issue we will discuss at board level," says Mr Gilbertson.

Gencor has aired the most views on unbundling itself and Mr Gilbertson says he will not meet analysts and shareholders again while the matter is unresolved.

He told them this week that the group was poised to make a decision.

Mr Gilbertson says the value of Gencor is at a R3-billion (about 15%) discount to net asset value. Although shareholders would like to bring that to book and have increased flexibility, they still need the managerial skills of such groups as Gencor to act for them in investing in large projects.

Practically, the groups run autonomously day to day.

"But there are certain advantages for them to have an interested mother hen looking out for them," says Mr Gilbertson.

Mr Keys made sweeping changes to the way in which Gencor was run when he took over from Ted Pavitt in 1986.

Mr Gilbertson believes he has strengthened the management team (and is pleased that no key executives have left during his tenure).

He appointed Engen's Rob Angel, Impala Platinum's Michael McMahon and Trans-Natal-Samancor's Mike Salamon to the Gencor board.

Director Bernard Smith leads a new-business opportunities division to pave the way for the next phase of growth.

Gencor maintained its dividend for the six months to February 1993 in spite of a 10% fall in earnings. Engen, Malbak and Genbel did well, but Sappi and Genmin struggled.

Mr Gilbertson says the lack of success in making foreign investment has been the biggest disappointment.

"We had two deals almost stitched up in Australia, but had to let them go because of exchange-control problems. Even Sappi's Hanover deal got through only by the skin of its teeth."

Genbel, which handles Gencor's investments, has shunned golds in recent years, but managing director Anton Botha re-entered the market shortly ahead of the latest bull run.

Gencor's share price has moved from below R9 last November to R11,60, although it was above R13 last June.

*Gencor's public relations machine must have wielded some influence in trotting out the chairman at results time: Mr Gilbertson was obliged to sacrifice his squash game to meet me — for only the second time. The other occasion was when his wife was involved in a car accident.

# SA's industrial powerhouse in decline, claims report

(180)

ARG 3/5/93

**The Argus Correspondent**

JOHANNESBURG. — The Central Witwatersrand has shown a "precipitous" decline in the production of manufactured goods and in employment in that sector over the last 20 years, according to a preliminary study commissioned by the Central Wits Metropolitan Chamber.

The Central Witwatersrand — comprising Johannesburg and Randburg — "declined more rapidly than other major urban centres" in relation to manufacturing, the report states.

Between 1980 and 1991, the loss of manufacturing jobs ran to 39,5 percent in the Central Wits, as against 27,5 percent for the entire PWV, 20,2 percent for Greater Durban and 16,1 percent for Greater Cape Town.

Financial and business services also grew more slowly in the Central Wits region than in other major cities. The Central Wits showed a gain of only 22 percent, as against the PWV's 44,3 percent, Greater Durban's 35,9 percent and Greater Cape Town's 43,5 percent.

Overall, there has been a steady decline in the importance of the Central Witwatersrand as a contributor to national employment and production.

The report's authors, Dr Richard Tomlinson of the Development Bank of Southern Africa and Roland Hunter of the consulting group, Planact, acknowledge that their findings sharply contradict widely held perceptions.

"It appears true that migrants from all over Southern Africa view the PWV as a preferred location. Politicians still see the Central Wits and the PWV as the 'golden goose' from which resources can be extracted for development elsewhere," they comment.

They argue that, to effect recovery in the Central Wits, it would be necessary to correct perceptions about its economic strength, lobby for a review of fiscal transfers, forge a new development partnership and formulate specific local development strategies.

These interventions should be part of a strategic plan to be prepared by the Economic Development Working Group of the Met Chamber, the authors suggest.

# Dual tax draws flak from foreign bank

BDM 3/5/93 (180) (149) (380)

KELVIN BROWN

THE new secondary tax on distributed profits could be criticised for being economically inefficient and encouraging a greater concentration of SA industry, the Bank of Lisbon said in its April Economic Focus.

In the 1993 Budget company tax was cut to 40% and a 15% secondary tax on distributed profit was introduced.

By encouraging retention of profits, the dual profits tax would weaken the influence of SA's capital market.

"Investment resources retained by companies would not be subject to the test of the market, creating the danger that funds would not be invested efficiently."

There was also the danger that directors would treat retained earnings with less care since these were viewed as cheap capital. BDM 3/5/93.

The economy would be better served if companies were encouraged to distribute profits which they could not use effectively themselves. There would then be the chance that profits would be invested more effectively by shareholders. Capital market supporters claimed that shareholders tended to invest resources in the most economically desirable channels, the bank said.

Under the dual tax system there was the risk that some firms would put retained income into ventures that yielded a lower rate of return than if the money had been distributed to shareholders. "Some analysts argue that the average director thinks he will lose more in prestige when a project fails than he would gain when extaordinary profits accrue by taking a special commercial risk."

The dual tax system could further reduce competitive elements in SA's economy and strengthen corporate control. By encouraging retained earnings the new tax system would strengthen the position of large firms, which could use accumulated reserves to take over other companies since stringent exchange controls ruled out new foreign investments.

# SA's best shot lies with govt, business and labour troika

JIM JONES

BDAY 3/5/93

(180)

IN its death throes, the De Klerk government's imperatives have increasingly become short-term. Worse, De Klerk can no longer attract appropriately competent people into his cabinet.

Meanwhile, as the economy slides, government pays lip service to solving the problems it has created and seeks salvation in macro-economic policies that are of limited use unless backed by micro-strategies. The situation is exacerbated by tinkering in response to special interest pleadings rather than as part of a policy designed to provide broader benefits.

Responsibility for defining strategies and policies which will have a chance of solving our economic conundrum has moved and must move away from the present government. That unstated view motivated last week's conference — SA's International Economic Relations in the 1990s — organised by Idasa and the Aspen Institute. It echoed Finance Minister Derek Keys's contention that economic success depends on co-operation between the government, business and labour triad.

The conference's common thread was that SA's best objective would be growth and employment creation through international trade. But that must take into account the fact that exports and international funding will not follow automatically from the introduction of majority government or formal ending of sanctions.

If we are to emulate other fast-developing economies, our policies, like theirs, should be co-ordinated and integrated as part of a national plan enjoying broad support. That does not imply an SA version of Gosplan — far from it. Government intervention will be crucial to facilitate our economic restructuring as it was crucial in the OECD countries.

If we are to attract foreign investment it will be through our own efforts which show SA to be an attractive base for multi-nationals.

SA has been ostracised for too many years and will need to ride a sharp learning curve if it and its neighbours are to emulate the economic performances of other fast-developing countries.

One common conception is that, with an internationally acceptable government in power, this country will benefit almost immediately from easier access to the sub-Saharan region. It will, and no-one disagreed with the idea that greater regional economic integration was something to be pursued as part of SA's economic strategy. But not necessarily as the most important part.

There are regional opportunities and mutual benefits: markets for SA goods technically too poor to be accepted elsewhere; openings for industries such as mining in which SA's skills are among the world's best; internationally funded projects for which SA firms could now tender and greater use of our infrastructure by our neighbours.

Access is unlikely to be unconditional, as UCT professor Francis Wilson and Laurence Cockroft of the UK's Oxford International Associates pointed out. Regional integration implied a willingness by SA to rely less on its own resources and, for example, to trade manufactured goods for maize from Zambia or electricity from Zaire.

And how would a government sensitive to domestic unemployment react to demands that migrants be free to work here in exchange for trade concessions?

Regional integration will be no simpler for sub-Saharan Africa than it has been for Europe. It might be more difficult for a protectionist SA than for countries which have already responded to IMF demands for reduced trade barriers.

Essentially, though, our export future lies in producing manufactured goods for sale to the OECD countries. That will involve broad restructuring to make our products internationally competitive. Decades of protectionism and encouragement of import replacement industries have left most SA manufacturers unprepared for the rigours of an export-driven economic environment. Decades of apartheid have left us with a mass of poorly skilled workers who will have to be trained.

Our clothing and textiles industries are cases in point. Neither is internationally competitive despite years of protection from imports. That would seem to confirm the contention that we need exposure to free international competition as part of the process of improving our technological capabilities. Investment in new plant and equipment and a stern bout of wage restraint are alone insufficient to make our goods competitive in export markets.

It may seem heretical to some SA manufacturers, but there is evidence that low wages can restrain development. Low wages provide little incentive to improve labour productivity. Exchange rate policies which concentrate simply on making basic products price competitive abroad can also impede development.

Nevertheless we have to move away from exchange rate policies designed to prevent capital flight towards policies which stimulate exports.

We have the most advanced manufacturing sector in Africa, with established competencies in many industries. And yet, according to Sanjaya Lall of Oxford University's Institute of Economics and Statistics, large parts of SA industry are neither competitive nor technologically dynamic. We are internationally uncompetitive in products ranging from high-tech electronics to labour-intensive garments.

Of course we have access to foreign technology, but transfers from abroad are generally accompanied by restrictions on making use of the technologies to export.

Competition from abroad, Lall believes, will accelerate our acquisition of technological capability. So, too, would be the development of mid-sized enterprises which our highly concentrated economy lacks. Conglomerates and industrial groups have a purpose if they provide for skills transfers. But it is difficult to see what apart from financial skills are transferred between gold mines and pulp mills lumped under one corporate umbrella. Our conglomerates require little by way of incentives; they have the resources to finance new plants and see them through initial years.

Incentives might be better directed to establishment of smaller, innovative firms which produce new, competitive export products.

Market-friendly intervention or intervention which does not interfere with resource allocation would be necessary to overcome competitive backwardness. Government intervention cannot be selective and intervention which provides protection for specific industries must be conditional on export performance.

Finally a future government is more likely to be able to count on the support of organised labour than the present one. The broad union movement realises that SA faces a crisis of expectations, but that instant gratification is neither possible nor wise. It has proposals for creating an industrial structure that can provide growing, long-term employment.

The days when unions and opposition parties might have believed in the possibility of a state-owned utopia are long gone. They, arguably, have adapted more rapidly to the new SA than have establishment groups. And that adaptation has been accompanied by a burst of creative economic thought. Tapping that and integrating it with the best from business and government will, as Keys never tires of saying, be essential if our economy is to succeed.

# Dual tax draws flak from foreign bank

BDM 3/5/93

KELVIN BROWN

180

THE new secondary tax on distributed profits could be criticised for being economically inefficient and encouraging a greater concentration of SA industry, the Bank of Lisbon said in its April Economic Focus.

In the 1993 Budget company tax was cut to 40% and a 15% secondary tax on distributed profit was introduced.

By encouraging retention of profits, the dual profits tax would weaken the influence of SA's capital market.

"Investment resources retained by companies would not be subject to the test of the market, creating the danger that funds would not be invested efficiently."

There was also the danger that directors would treat retained earnings with less care since these were viewed as cheap capital. BDAY 3/5/93.

The economy would be better served if companies were encouraged to distribute profits which they could not use effectively themselves. There would then be the chance that profits would be invested more effectively by shareholders. Capital market supporters claimed that shareholders tended to invest resources in the most economically desirable channels, the bank said.

Under the dual tax system there was the risk that some firms would put retained income into ventures that yielded a lower rate of return than if the money had been distributed to shareholders. "Some analysts argue that the average director thinks he will lose more in prestige when a project fails than he would gain when extaordinary profits accrue by taking a special commercial risk."

The dual tax system could further reduce competitive elements in SA's economy and strengthen corporate control. By encouraging retained earnings the new tax system would strengthen the position of large firms, which could use accumulated reserves to take over other companies since stringent exchange controls ruled out new foreign investments.

# Take-off for Nation Building through entrepreneurial skills

Sowetan 4/5/93

(180)

Sowetan 4/5/93.

■ **Popular annual contest now in its fourth year:**

NATION Building business projects got off to a good start in April with the launch of the Sanlam Entrepreneur of the Year Award.

The development of business activity and entrepreneurial skills have always been identified by *Sowetan*'s Nation Building Programme as a structure that needs to be encouraged and nurtured.

A strong community needs a healthy economy and projects such as the Sanlam Entrepreneur of the Year Award have been successful in recognising and rewarding efforts in this area.

The competition, which is now into its forth year, focuses on the success of local entrepreneurs.

Each week features an entrepreneur who automatically qualifies for the Entrepreneur of the Month prize.

Monthly winners go through to the final selection stage and the overall winner receives R15 000, while the runner-up gets R5 000.

This year more emphasis will be placed on entrepreneurs in the manufacturing industry but other business' categories — except retailers — are also eligible.

*Sowetan*'s business desk welcomes information on entrepreneurs who may qualify for the award. If you know someone who falls into this category, contact Mzimkulu Malunga at (011) 474-0128.



Amos Majola ... 1992 Sanlam Entrepreneur of the Year.

# Business 'important'

3/05/93

DIRK VAN EEDEN

POLITICIANS have to conclude negotiations soon so businessmen can develop the economy, says outgoing Johannesburg Chamber of Commerce and Industry president Stuart Morris.

Addressing the chamber's AGM last night Morris said the role of business in determining the future was just as important as that of politicians.

Business had to recognise backlogs, change the way it thought and ultimately improve the quality of life of SA citizens.

Social responsibility programmes should not only be started where necessary, but all actions should be guided by what the ideal SA should look like.

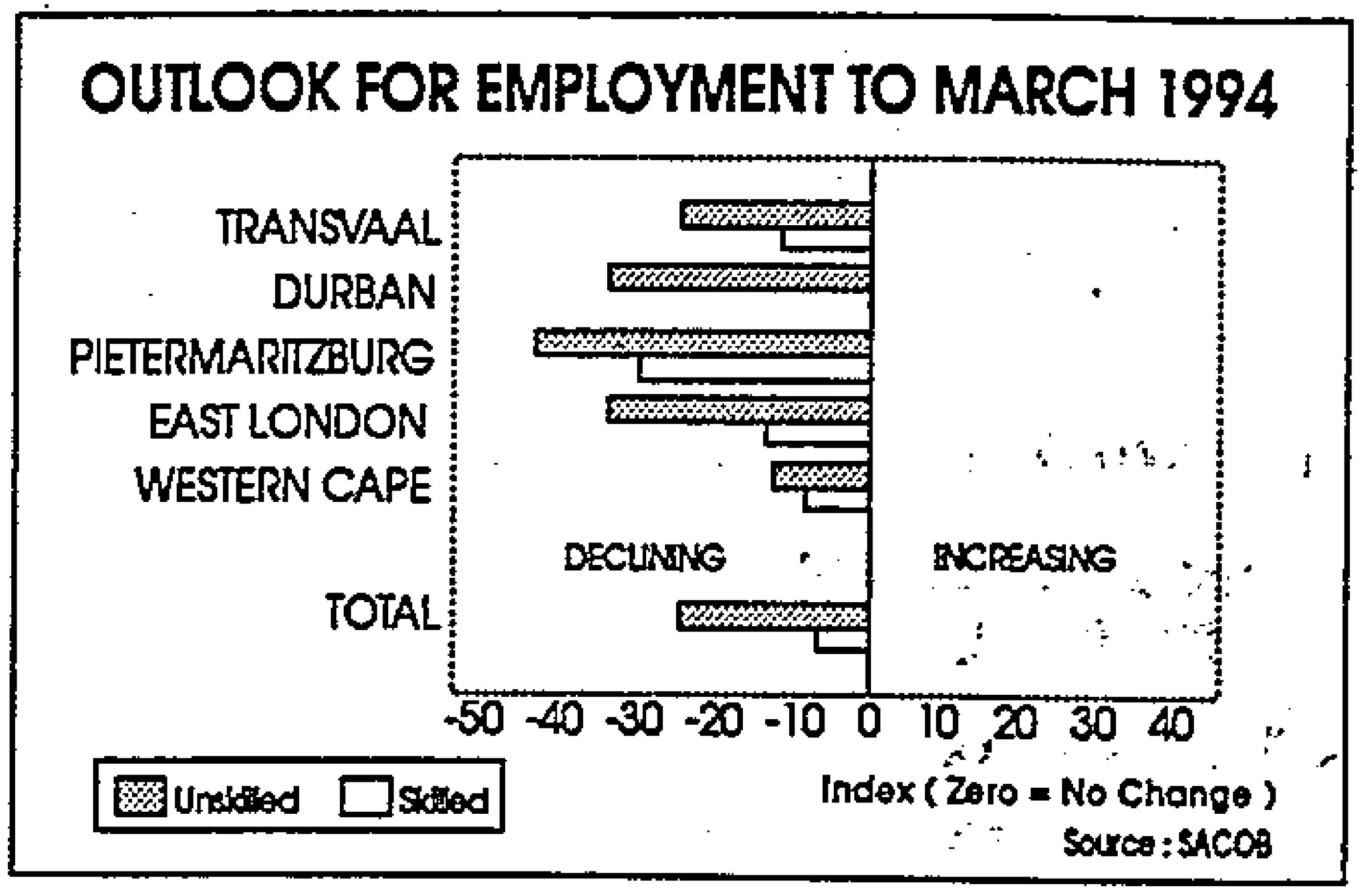
This included equal opportunities for those of equal talent, adequate housing and infrastructural facilities, employment opportunities for all and educational opportunities.

"Corporate social responsibility programmes should not be seen as cost factors, but as investments in the future," he said.

# Business sentiment severely bruised by last month's unrest

Star 6/5/93 180

By Sven Lünsche




Business confidence last month took a battering even more serious than after the Boipatong massacre and the subsequent breakdown of Codesa 2 negotiations, the SA Chamber of Business (Sacob) said yesterday.

It called for swift progress to be made in the current round of negotiations, "to prevent any further delay in the long-awaited upturn".

Sacob said the recent upward trend in its Business Confidence Index was arrested in April, as the economy "remained hostage to political developments, particularly events surrounding the funeral of slain SACP leader Chris Hani".

Director-general Raymond Parsons said business sentiment gradually recovered in the second half of last year, despite the collapse of negotiations at Codesa. "This time around, however, the impact on confidence is more serious."

Chief economist Dr Ben van Rensburg said: "The combined effects of recent political events, prospects of further mass action, and the still-to-be felt impact of the Budget could act as a constraint on a further rise in business sentiment over the next few months.

"The initial hope that the tragedy of Hani's assassination would result in renewed urgency and more rapid progress in the political negotiations has not yet been realised.

"It is essential that real progress is seen to be made if permanent damage to the growth potential of the economy is to be avoided," van Rensburg warned.

As an immediate result of the political turmoil, more professionals were emigrating and investment decisions were being put on hold, he said.

Van Rensburg said the Budget could impact negatively on retail sales, manufacturing production and the inflation rate in the short-to-medium term. April retail sales were well down on expectations.

While the recent gold price hike would help reduce pressure on foreign exchange reserves and marginal mines, "increased employment and new mining ventures will only arise if the higher price is sustained for a number of months".

The manufacturing sector was particularly hard hit by stayaways in April.

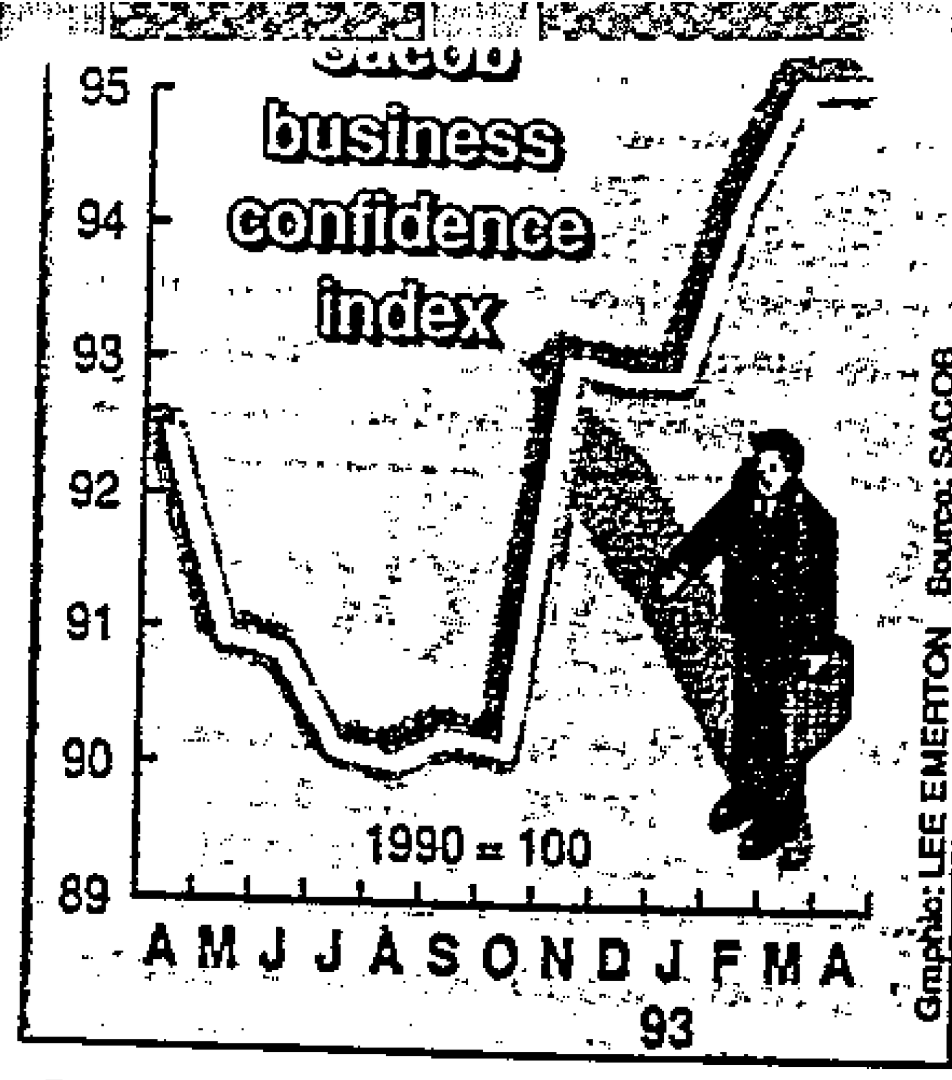
Sacob's survey shows that there was a sharp decline in activity levels, with 68 percent of respondents reporting a decline in sales, compared with March.

Economist Keith Lockwood said the drop in sales and new orders was not surprising because there were effectively six fewer working days in April than in March.

"Discussions with industrialists indicate that April was a big disappointment, as they had seen new order volumes rise steadily over previous months.

"If activity levels do not recover in May, a downward revision of prospects for the coming twelve months is likely," Lockwood said.

As an immediate consequence of poor sales conditions, industrialists are readying themselves for further layoffs, with 61 percent of survey respondents saying they will cut back on unskilled workers over the next 12 months. (see graph)




# Sacob warning on confidence index

(180)

**ANDY DUFFY**

THE assassination of SACP general secretary Chris Hani could have a more devastating effect on the economy than the Boipatong massacre and the collapse of Codesa, and delay the prospect of recovery until next year, the SA Chamber of Business warned yesterday.

Unveiling a downbeat survey of business confidence for April, Sacob said job losses could hit 240 000 this year — nearly three times the rate of average annual job losses for the past four years — to take Sacob's estimate of total unemployed to 3,6-million (30% of the working population).

Though the confidence index (BCI) was unchanged on its March level of 95,1, the full effect of the assassination and the prospect of mass action were likely to feed through only over the next three months. The full effect of the VAT hike had also still to be felt. BDAY 6/5/93.

More than 60% of manufacturing respondents expected to axe unskilled staff, and 53% skilled workers. More than two-thirds of respondents also expected orders to fall.

Activity for the steel and engineering industry plunged to its lowest level since the survey began five years ago. And despite the gloss given to the JSE by the recent gold price surge, industry — particularly retailing and manufacturing —

☐ To Page 2

# Sacob BDAY 6/5/93

(180)

☐ From Page 1

remained downtrodden.

Sacob director-general Raymond Parsons said that if Boipatong and the Codesa breakdown had "bruised" business confidence, April had seen a "fracture". "And when you have a fracture you have to put it in splints." The splints, he said, must be a rapid political settlement.

Sacob cut its economic growth forecast for 1993 from 0,5% to zero. In December Sacob had predicted a 1,5% growth rate. "Business confidence took a battering in April, more so than is reflected by the index," Sacob economic policy director Ben van Rensburg added.

A balancing act in the BCI showed firmer gold prices, and rising imports and exports. A tailing-off in insolvencies pushed the index forward, but it fell back with rising inflation, higher short-term interest rates and increased unemployment.

# Anglo appeals for relief from tax 'prejudice'

MATTHEW CURTIN (180)

ANGLO American has appealed to the Finance Department's Tax Advisory Committee to take action to counteract the unfavourable impact of the new company tax regime. The new dual tax system threatens to prejudice Anglo subsidiaries against those with different year-ends, adding millions of rands to their tax bills.

The reason for the anomaly is that Anglo companies will fall under both the old tax system and the new one proposed in March in the Budget. B/DAY 7/5/93.

Anglo believes that without special transitional measures, subsidiaries with year-ends on or before March 31 will be prejudiced by sharply higher total tax rates of 55% or 62%.

In contrast, companies with year-ends from April 1 fall only under the new system of a 40% company tax rate and 15% levy on distributable profit — the secondary tax on companies (STC) — which will equate to a maximum tax rate of 48% if a company distributes all its earnings.

An Anglo spokesman said yesterday this placed March year-end companies "at a considerable cost and cashflow disadvantage in relation to companies ... taxed under the old system and allowed to distribute their dividend unaffected by STC, as well as companies with year-ends after March 31, taxed at the lower rate".

He said the authorities had clarified the tax position of Anglo's investment holding companies Anamint, Amgold and New Central Wits. However, "the operating subsidiary companies of Anglo are affected by the inequitable transitional measures dealing with companies with financial years ending on or before March 31 1993".

The lower 40% company tax — reduced in the Budget from 48% — takes effect from April 1. Consequently, March year-end companies fall under the old rate.

However, Finance Minister Derek Keys said STC would be introduced from March 17, leaving March year-end companies paying the old higher tax rate and STC.

The Anglo spokesman said: "If the change from the old system to the new were to be implemented in this manner,

☐ To Page 2

## Anglo

BDAY 7/5/93

☐ From Page 1

the consequence would be that a full distribution on or after March 17 of earnings of companies taxed at the old 48% tax rate, would be subject to a total tax rate on those earnings of 54,78% compared with the above-mentioned rate of 47,83%. In the case of non-resident shareholders subject to the standard rate of non-resident shareholders' tax the total tax rate rises to 61,56%."

Suggestions that March year-end companies would be compensated by the benefit of improved cash flows ignored the fact that all companies benefited from this.

He said Anglo accepted there had to be a cut-off date for implementing the new tax, but it was possible to design a system, with safeguards against its abuse, which could compensate for the anomaly.

● See Page 9

FM 7/5/93 (180)

RISK MANAGEMENT FM 7/5/93 (180)

# Vested interest

**Companies are** obliged to publish total interest costs in their accounts but are not required to provide crucial additional information which would allow analysts to assess the quality of interest rate risk management. Disclosure of gross interest incurred, and interest saved through the use of derivatives, is not specifically addressed in SA's generally accepted accounting practices.

The issue is dealt with in an exposure draft on financial instruments, issued by the International Accounting Standards Committee last year. Says SA Institute of Chartered accountants technical director Monica Singer: "We are waiting for this document to become an international standard and then will attempt to get it adopted in SA."

Corporate treasurers have recently come under fire for not exploiting various instruments to manage interest rate risk more effectively.

Deloitte & Touche's Abigail Gammie says, though corporate treasurers have adopted sophisticated techniques to manage forex risk, they are less proactive in managing interest rate risk. She suggests this may be because forex profits and losses are measured in a company's accounts while "the interest cost is not yet an item on which management's performance is judged."

Gammie adds that there are three common methods to manage interest rate risk.

The first is to convert an overdraft or any other short-term debt with fluctuating interest rates into fixed-rate paper — either commercial paper or corporate bonds. Commercial paper has a maturity of up to one year while a corporate bond has a longer maturity. Both commercial paper and bonds reduce the exposure to fluctuations in short-term interest rates.

The second method involves interest rate swaps. Assume company A is exposed to floating interest rates whereas company B is exposed to fixed rates. These two companies can agree to swap interest payments, leaving the capital portion of the debt unaffected.

The third method involves forward rate agreements — made-to-measure interest rate futures. Through these instruments a company can fix the interest rate paid or earned from one point in the future to another point. Interest rate hedging can take place only when views on the direction of future interest rates differ. So liquidity in derivatives will drop during periods when there is general agreement.

Gammie says banks' corporate marketing officers have not been successful in persuading companies to use derivatives. Corporate treasurers say senior management is unwilling to commit funds to employ skilled people and acquire sophisticated equipment.

Association of Corporate Treasurers of Southern Africa council member Jon Lavies says expertise is scarce. In SA the corporate treasury function is often allocated to an accountant not trained in risk management and is one of a number of responsibilities.

Standard Merchant Bank's Mark Barnes says his staff are sent on local and international courses to enhance skills in the use of derivatives.

A two-year advanced certificate programme in corporate treasury management was started last year by the University of SA at the instigation of the association — 70 people registered then and 50 registered this year.

The council's Transvaal chairman, "JP" van der Walt, says corporate treasuries don't often have systems sophisticated enough to manage risk effectively. Barnes identifies another deterrent — management is often uncertain as to the regulatory framework, for example tax treatment, which applies to derivative dealing.

Van der Walt says many products make a significant difference only if there is big money involved. So they are not appropriate for companies with small cash flows.

There must be a market before corporate treasurers can use the various hedging instruments theoretically available. The problem is liquidity. For instance, the three-month BA future, which is popular abroad, has not taken off locally. "The institutions, the major investors, are not in the derivative market except for the gilts option market where liquidity is high. The trick is to make the other instruments attractive to them. The SA derivative market needs both institutional and corporate players to be successful," says Gammie. ■

BT 7/5/93 (180)

# W Cape manufacturers 'most optimistic in SA'

By AUDREY D'ANGELO
Business Editor

MANUFACTURERS in the Western Cape — who were the most pessimistic in the country in March — have now become the most optimistic, according to the SA Chamber of Business (Sacob) April survey.

They expect sales, production and stock to increase in the coming year. And, apart from those in the Durban area, they are the only ones expecting to invest in new capacity in the next few months.

Sacob economist Keith Lockwood says disparities in outlook between the different regions became more pronounced in April.

"This is clearly a response to factors such as the higher gold price, the Budget and political events which will not affect all regions to the same extent.

"Industrialists in the East London area are the most pessimistic about prospects, while those in the Western Cape are the most optimistic."

This swing in the Western Cape mood surprises Lockwood. He says in his survey report: "There is no clear reason why confidence levels in the Western Cape should have increased — especially given the fact that industry in the area is more orientated towards the manufacture of consumer goods, which should be more sensitive to an increase in the VAT rate.

"Although the greater optimism is spread across most subsectors, it is too early to say whether there has been a fundamental improvement in business conditions in the area."

The survey showed there had been a sharp decline in manufacturing activity in April, as a result of the number and spread of public holidays and disruption arising from the assassination of Chris Hani.

"However, industrialists are clearly hoping that the problems of the past month will not repeat themselves because the outlook for the next 12 months remains relatively optimistic.

"A majority expect their sales and production volumes, and the extent to which they use their production capacity, to rise next year."

In spite of this there is unlikely to be much improvement in the jobs situation. "Prospects for employment remain fairly bleak, with a large majority of respondents expecting to reduce their employment of unskilled workers over the next 12 months.

"The outlook for skilled workers is slightly less negative than it was a month ago.

"A slight majority of respondents expect to invest more in the coming year. But it is clear that no investment boom is expected — the emphasis will be on maintaining existing plant."

And, Lockwood warns: "Discussions with a number of industrialists indicate that April was a very large disappointment as they had seen new order volumes rise steadily over previous months.

"If activity levels do not recover in May a downwards revision of prospects for the coming 12 months is likely."

He says confidence levels in the Transvaal have not yet reacted to the higher gold price even though a significant portion of industry there has links with the mining sector.

"The manufacturing sector will probably only start to benefit once mines shift to mining lower grade ores, and that will probably only happen if the higher gold price is sustained for a number of months.

Apart from East London, a majority of respondents in all regions expect to increase their capital expenditure to maintain existing capacity.

"Industrialists in the Western Cape and Durban are the only ones expecting to invest in new capacity."

# Incentive pay for top performers in firms urged

ST Times (Buss) 9/5/93

(180) (128)

By TERRY BETTY

A GUARANTEED salary for a senior executive should be replaced by remuneration based on performance.

Compensation consultant RES International executive manager Ted Weare says a survey of SA executive salaries shows they seldom correspond with performance.

"Some top-performing executives earn the same as underperforming ones."

A survey by an American journal says some chief executive officers earn 150% more than they should.

Time-Warner's Steven Ross, who received \$117-million last year, got \$102-million more than he should have. Walt Disney's Michael Eisner, who earned \$30-million, was overpaid by \$22-million.

The survey bases what CEOs should have earned on industry peer salaries and sales by their companies. But the figures may have been distorted by the CEOs cashing in their share options.

Mr Weare says: "Some SA executives are overpaid, some underpaid. Pay is not related to performance.

"It is the function of CEOs to maximise shareholder wealth. Their remuneration should be based on how well they fulfil this function."

Mr Weare says a CEO would receive a smaller guaranteed salary. The bigger payment would comprise cash and equity incentives as well as other perks.

SA has started to move in this direction. A RES International survey shows that in 1980 only 5% of a general manager's package was variable. The average is now 27%.

In vogue are offering top management shares in the business, options to buy them later but at a predetermined price, or allocating phantom shares.

Mr Weare says: "In a high-performing company this incentive can be worth far more than the basic salary in rand terms."

The thinking behind performance-related pay packages is that the better the returns shareholders receive, the more the executive earns.

"After all, the shareholders might be a bit peeved if the company is not performing, but the executives are getting fat bonuses."

A policy of remunerating according to how well the share price performs would be inappropriate in certain circumstances. In those cases bonuses should be linked to a particular performance.

For example, a CEO might receive a bonus if he improved cash flow in a cash-strapped, debt-laden company.

Linking remuneration to performance should be done by an independent third party, says Mr Weare.

This is where a remuneration committees comes in. It should comprise people who are familiar with the industry in which the company operates.

Mr Weare says several SA companies have remuneration committees and more intend to set them up.

# Getting a franchise is a smart way to succeed

C/Press 7/5/93 (180)

FRANCHISING is the name of the new game if you want to get into business without the traditional and tested blood, sweat and tears route.

So says consultant Bendeta Gordon, who will be organising a high-powered June conference which will be addressed by, among other top speakers, famous north American businessman Stefan Breg of the Burger King empire.

"Black entrepreneurs can be empowered through franchising in SA," says Gordon. "It (franchising) facilitates the transfer of skills from established businessmen to inexperienced businessmen, thereby assisting in the creation of skills, jobs and wealth and earning its title of SA's biggest business opportunity".

He continues: "Over the past 20 years franchising has become the most successful single business mechanism to grow market share".

But all said and done, the simple question begs an answer: just what is franchising?

Franchising is a system through which a well-established company (franchisor) offers an individual the opportunity to do business under the corporate brand name and image of the franchisor and to use the business system developed by the franchisor.

A good franchisor generally also provide a comprehensive franchise package involving know-how, a marketing assistance programme, training, research and development facilities as well as bulk-buying and administrative assistance.

## Pitfalls

Through this support, accompanied by ongoing advice and guidance from the franchisor, the franchisee can leapfrog many of the pitfalls of inexperience associated with setting up a new business. Franchising is all about getting into business for yourself, but not all on your own.

Franchising is not an easy or guaranteed way to become rich. By drawing on the experience and support of the franchisor, franchising can reduce the risk of failure and can make it a safer investment for those who are prepared to work hard.

However, ultimate responsibility for presenting a quality product/service to the market, to sell effectively and to maintain a thorough administrative system always remains with the franchisee as is the case with any other entrepreneur.

Franchising is just as relevant to the family-established small business that may wish to consider expanding as franchisor.

Franchising offers the franchisee a "proven business formula". When you buy a franchise you buy something that has made profits for other people in similar circumstances and which should probably do the same for you, provided you work at it.

Some useful points to remember if you decide franchising may be for you.

■ Recognised brand name. By getting into through a franchise you start with a well-established brand name and reputation behind you. On your own it could have taken you years to establish a name for your business in the market place.

■ Know-how: Access to the accumulated experience and information of the franchisor provides you with know-how that you would have otherwise to obtain through trial and error.

■ Acquiring property: Location of premises is often a key element in business success. With the backing of a strong franchisor you will find it easier to buy or rent premises on favourable terms than a new business without an established name.

■ Correct specifications: If the franchisor does not himself supply the equipment you need, he will probably provide you with the applicable specifications. This service will probably also encompass instructions on design and lay-out of premises which have, over the years, proved to be the most effective.

■ Easier finance: When you apply to a bank or other institution for finance, the backing of a national or established company, with successful track records of co-franchisees will considerably strengthen your application.

For further information about franchising contact: The South African Franchise Association, Private Bag 34, Auckland Park, 2006. Telephone (011) 726-5300. On the other hand, a good bank manager, lawyer, accountant or your nearest Small Business Development Corporation (SBDC) branch can help.

**NEWS FEATURE** *What business should do to help establish the new dispensation*

# SA business must start taking risks

■ *An edited address by* **PRINCETON N LYMAN,** *US ambassador to South Africa, made in Johannesburg recently before an audience of mainly white South African businessmen:*

Sowetan 11/5/93

THE EVENTS of the past few weeks have been tumultuous and emotionally draining. Whenever a major political figure is assassinated, it is a traumatic blow to the psyche and political culture of a country. I know that from the terrible days of 1963 and 1968 in the United States when assassinations shocked our country to the core. It has taken perhaps all this time for us to recover from them.

Thus it is natural and indeed necessary that the shock of Chris Hani's assassination have means of expression and outlet. And it is equally important that the murder be thoroughly investigated, right away, so that doubts and webs of conspiracy theory do not poison the political atmosphere for years ahead. I commend the Government for inviting international experts to add to its investigative team.

### Deeply disturbing

It was of course deeply disturbing, and at times frightening, to see decent and disciplined occasions of mourning and protest used by some for violence and looting. But there is another side to these events that needs more emphasis than given in the media.

Hundreds of thousands of South Africans, torn by grief and shock, and many by anger, demonstrated their feelings in an orderly and disciplined way. Only a very small minority did otherwise and against the directions of the nation's leaders.

What this tells me, and it is important for the subject of the economic and investment prospects for the country, is that the overwhelming majority of South Africans, despite years — indeed in truth centuries — of discrimination and oppression, do not want to tear down this country, do not want to destroy the remarkable achievements that have been made but want to participate in them.

That is a far cry from Angola, or Somalia, or Yugoslavia, where people are prepared to destroy their own country in order to rule it. This feeling is precious in South Africa. It must not be wasted.

It will be wasted if the negotiations that have gone on for almost two years now do not reach fruition soon. It will not be enough simply to reach agreement, however. It must be an agreement that gives fundamental right to the majority.

Some still hope that democracy can be detoured, that under the facade of democracy an agreement can be reached which hobbles the authority of the majority. Let me be clear. No democracy works if power is absolute. The minority must have rights and protection. Power must have checks and balances.

All these can be built into the systems now under discussion — through a balance of central and regional authorities, through a bill of rights and a system of constitutional supremacy with a strong and independent judiciary, through a government of national unity.

### Sufficient mandate

But there must also be rights of majority. The electorate must feel that its votes counts for something, that the party or parties that are in the majority have sufficient mandate and authority to lead the country in new directions, to provide for new dispensations, to make decisions and to overcome opposition after a fair debate and adherence to lawful and constitutional procedures.

Any agreement short of that, in my view, will not hold. Any system which portends deadlock and paralysis would be deadly. Indeed it may not be sustainable through the elections.

Now is the time for courageous decisions. We have witnessed an outpouring of not only grief and anger but continued dedication to South Africa. We must see democracy come while that spirit is still dominant.

Everyone knows that the economy is in deep trouble. The challenge that faces all of us, South Africans and the international community that has a stake here — and I would emphasise that the United States has a large stake here — is to make the future happen. It is tempting for business to put its capital into safe financial instruments and take few risks at this point.

Chris Hani....death still reverberating in South Africa.

> **The challenge facing us is to make the future happen**

The trouble is that this only contributes to the problem. We look to the politicians to take risks in a political settlement but we are asked to understand the businessmen and women's unwillingness to do so. We tell the political leaders that violence will inhibit confidence and the readiness to invest but we are told that we cannot expect the business community to take steps now to provide jobs or job-promoting training to the unemployed in the townships. That cannot be the stance to take.

There are several institutions which are developing scenarios for the future development of the country. But, in truth, these are still more the exception than the rule. While some of the principal businesses of South Africa are so engaged, the general climate remains deeply conservative.

The international community is also cautious.

We anticipate that the principal sources of assistance capital that will be available to South Africa will be the World Bank, the African Development Bank and perhaps the International Fund for Agricultural Development. The World Bank has already undertaken an overall analysis of the South African economy and several sectoral studies.

The next logical step is to develop a portfolio of specific project proposals. However, it cannot move forward on this unless there is a clear signal to the bank to do so from the various parties in South Africa, in particular those which have called for maintenance of sanctions. We have urged such a step.

Unless the banks begins now, a newly elected government a year from now will be faced with as much as two years wait before being able to utilise this assistance for the pressing needs of the population. The psychological effect of this step will be important. It will further signal the constructive intentions of the liberation movement and will give impetus to new investment planning by the private sector.

It is not far-fetched to anticipate some \$2-3 billion annually eventually coming into South Africa from abroad, enough to help South Africa reach substantial growth levels.

### Foreign capital

But none of these ideas will take root unless the South African business community is equally bullish. More bluntly, none of these sources of foreign capital will materialise if South African capital is either leaving the country or held out of the market place. South Africans cannot expect foreign institutions to substitute their capital for South Africa.

In every potential case I have cited above, one clear condition is that foreign capital be matched if not overmatched by South African investment in the same areas or instruments.

Thus the lead cannot come from abroad. Nor can the business community put the whole burden on the politicians. The politicians of this country have already gone a long way to assure the business community about future economic policy.

Taking the ANC as one example, the economic policy statements of the past year make little of nationalisation, place great weight on fiscal responsibility and look primarily to the private sector as the engine of growth.

If there is continuing doubt, I urge the business community to engage the political parties more on the issues. But keep in mind that this private sector approach by political parties such as the ANC, and over an even longer time by the IFP, place a responsibility on the private sector. The business community needs to demonstrate that this faith is not misplaced. If the only response is business as usual, the political support for these policies will evaporate. The South African economy stopped creating new jobs a long time ago, before sanctions were imposed. Sanctions and recession only reinforced the trend. There are deep structural factors that are inhibiting both growth and employment.

### Structural change

The business community should not be silent on these matters. Rather, it should be in the forefront of developing proposals for structural change, for alternative tax and other incentives that will lead to far more job-creating investments. It should use the National Economic Forum to put forth a whole programme of this kind and commit itself to a programme of investments once the incentives are enacted.

It should be seeking out new investments that enhance demand and build skills within the black community. If the financial and management institutions appropriate for such investments do not exist, the business community should lead the way in creating new ones, not leaving this, as at present, largely to private non-profit agencies and charitable organisations.

As good as the latter are, they are not the captains of industry nor have they the depth of skills and market savvy to go very far.

What I am saying is that the private sector, which prides itself on analysing and taking risks, must now take some greater risks on behalf of growth and development. Those are not the kind of risks that it confronted in the past, indeed not those usually taught in business schools. They are, if you will, political-economic risks. But everyone is South Africa is being asked to take risks.

The minorities that have dominated this country and are most economically well-off are being asked to risk their futures in a democracy in which the majority is both of a different race and generally poor. The liberation movements are being asked to risk their credibility with their constituents by agreeing to coalition government and dependence on the private sector from which they have been traditionally excluded.

The vast majority of South Africans are being asked to risk their dreams of better education, housing, jobs and basic health services on a long-term programme of growth rather than a radical policy of redistribution. These are big risks but they are essential for each of these parties to take if South Africa is to come through this transition whole.

### Common ground

The business community must equally be prepared to take risks on behalf of structural change, greater willingness to invest, dynamic programmes of affirmative action and far more dialogue with the future leaders of the country to find common ground. If South African business leads the way the international community will be there with you. But alone, we cannot do it.

'The challenge facing us is to make the future happen'.

Star 12/5/93

# Reversal of the 80/20 business rule

(180)

THE "80/20" rule is an old business adage that says 80 percent of your income comes from 20 percent of your customers.

When it comes to small business and the country's gross domestic product, that rule is definitely reversed. Because 15 percent of South Africa's GDP comes from the broadest grassroots economic level — the informal sector — and a total of 45 percent of GDP from the combined efforts of the small to medium business sector (SME).

Yet recognition of this fact is believed to have been slow among economists, statisticians, politicians and organised business, resulting in major distortions in official statistics and in perception of the economy according to the SBDC's Economic Research Unit.

# Gencor sets sights on worldwide expansion

Star 12/5/93

(180)

By Stephen Cranston

Gencor has opened negotiations with Royal Dutch/Shell and its mineral resources company Billiton to acquire a worldwide portfolio of metal and mining assets.

Yesterday's announcement contributed to the 20c increase in the Gencor share price to R11,95.

In contrast to Anglo American, Gencor's international mining interests are low-key, although it has active exploration projects on most continents.

Its most notable offshore asset is a pair of gold mines in Turkey.

Chairman Brian Gilbertson says acquisitions are being considered as far afield as Surinam, Australia, Brazil, Canada, Colombia and Ireland.

The negotiations would also include the Collahuasi copper project in Chile and a marketing and trading company in Holland, which has a global office network.

Gilbertson says if the negotiations are successful, "we plan to create a publicly quoted international natural resources company, which will be floated when the timing is right".

Brian Gilbertson . . . we plan to create a publicly quoted international natural resources company

He says the group will also consider contributing other assets, including its international assets, particularly its interests in Consolidated Rutile in Australia and Sao Bento in Brazil.

But, Gilbertson stresses, discussions are at a very early stage.

Gencor hopes to take the businesses on as going concerns because it does not have the management structures in place offshore to handle major acquisitions.

The potential price of the acquisitions remains undisclosed, but Gencor says it plans to finance them by way of non-strategic assets held offshore and through offshore borrowings.

The restrictions on the use of the financial rand for offshore acquisitions make the use of funds sourced from South Africa impractical.

Gencor has considered including possibly one major local asset in the transaction, and hopes to attract one or more equity participants or financial institutions to the venture, says Gilbertson.

A mining house analyst says the venture shows that Gencor is still large enough to consider major acquisitions, even after unbundling a large part of its assets to shareholders.

But there could be problems finding equity partners in mining ventures because the short-term outlook for commodities is bleak.

Billiton's earnings plunged from \$262 million in 1989 to \$12 million in 1991.

Just as Gencor is moving out of the energy field through the sale of Engen, Shell is planning to concentrate more on its core energy business by reducing its exposure to mining. BP sold its entire mineral portfolio to Rio Tinto Zinc in 1989.

Companies identified for the acquisition are gold mining operations Boddington in Australia, Bogusu in Ghana and Lerokis in Indonesia; alumina/aluminium operations Worsley in Australia, Alumar and Valesul in Brazil, Paranam in Surinam and Aughinish in Ireland; lead/zinc operations Cadjebut in Australia and Pering in South Africa; the Cerro Matoso Nickel operation in Colombia and the Selbaie copper/zinc operation in Canada.

Non-mining interests to be shed

# Gencor to proceed with unbundling

BDAY 12/5/93. (180)

MATTHEW CURTIN

GENCOR has given the green light to plans to unbundle its non-mining assets in the biggest shake-up in SA corporate history for years.

Chairman Brian Gilbertson said yesterday the mining house would distribute shares in its non-mining operating subsidiaries to shareholders in a single "big bang" transaction.

At the same time, Gencor's holding company Gencor Beherend, whose only asset is a 54% stake in the mining house, would pass its shares on to shareholders before being liquidated.

Sanlam, through its industrial arm Sankorp, and Rembrandt would lose direct control of Gencor and its subsidiaries, but would retain effective control of the new-look companies. Both parties would reduce their holding from a direct 50% to an effective 30% or more. Control would be exercised through a single voting pool, and excess shares placed on the market.

Gencor was likely to distribute its shares through a special dividend, passing its stakes in Genbel, Engen, Malbak/Malhold and Sappi to its shareholders.

The exercise would take place in September, the start of the 1994 financial year, once enabling legislation proposed in this year's Budget was promulgated in Parliament.

Gilbertson said the driving force behind unbundling was the group's determinaton to release the full value of Gencor's underlying assets.

The group's stock had consistently traded at a 20% discount to the net asset value of its operating subsidiaries.

Unbundling would enhance the value of the non-mining assets and "in time" would narrow the discount at which the streamlined Gencor — effectively a listed version of mining division Genmin containing the group's gold, platinum, coal, steel and other minerals interests — would trade to its net asset value.

The move would also improve the tradeability of the shares of companies in the Gencor fold.

Gilbertson said without the comfort of earnings from Malbak's industrial interests or Engen's fuel businesses, Gencor would have to be "more nimble-footed" in operating businesses so closely tied to commodities markets.

He said the intense internal debate about whether to proceed with unbundling had raised critical issues outside of the immediate task of unlocking shareholder value.

First, conglomerate structures were increasingly regarded as inefficient by investors worldwide.

"If the present Gencor did not already exist, no one would dream of joining Engen, Genbel, Malbak, Sappi and the mining businesses intc a single conglomerate," he said.

Second, unbundling brought Gencor in line with investor and public aversion to concentrations of power and control structures in business.

In addition, concern that the likes of

□ To Page 2

## Gencor

BDAY 12/5/93. (180)

□ From Page 1

Sappi and Malbak would be weaker without links to a mining financial house ran against the clear financial solidity of those companies.

He said Gencor was confident it would retain "the critical mass" necessary to undertake major resource projects, particularly as it planned to use the opportunity of unbundling to raise another R1bn through the placing of excess Sanlam/Rembrandt shares on the market. The close links with these shareholders, which had enabled the group to take on projects of the size of the R7,2bn Alusaf smelter expansion and R3,5bn Columbus stainless steel venture, would remain.

● See Page 8

# Room for big and small

STAR 12/5/93 (180) ~~(153A)~~

BIG and little fish belong in the same economic pond, say small business researchers.

Small and large businesses should not be viewed as competitors, but as essential and different ends of a continuum, and, in a sense, partners.

Big businesses give an economy stability. They have the resources to withstand up and down cycles in demand for their products.

Small business on the other hand, can react faster, take rapid advantage of new opportunities and a prompt stimulus to economic growth.

Large firms often rely on small firms for specialist products and services. Those small firms in turn, depend on larger companies as their market.

However, very different tax environments and economic variables affect the two ends of the spectrum, points out SBDC economist, Dr Edwin Basson.

"The geographical focus of small business is more localised compared with the national, sometimes international, perspective of large business.

"A small business often serves a tightly defined area of perhaps five to 50 kilometres. That 'territory' can rapidly become saturated if the situation is not controlled.

"Much of the bitter and violent conflict we see sporadically between rival taxi organisations and hawker groups is a direct result of that principle.

"A core problem in our economy now is more people squeezed into the urban areas. Unemployment forces them into some form of trading which overtrades in one area for a finite pool of funds."

While Basson does not believe that this competition has arisen to any great extent between informal and formal traders, he believes that many South African municipalities may find some more regulation on hawking and other informal trading may be necessary.

Tax relief which applied to large business in the March Budget failed to offer significant tax relief to small business, said Basson.

The reason is that many small business operators still operate as sole traders and are taxed in their personal capacity.

Aspects of the Budget which Basson said would help to promote the SME sector included funds allocated to small business development and tax relief which would assist the private sector in its many initiatives towards job creation.

# Mobilising 'sweat equity'

(153A)

THE 4,4 million South Africans engaged in various aspects of informal trade are rediscovering the world's most ancient form of trade — "sweat equity" that will provide services at affordable, inflation-dampening prices.

That is the view expressed by the authors of the SBDC's *Strategies for Economic Growth* document. STAR

### Handcrafts

12/5/93.

This sector is believed to provide the lowest cost job creation and on-the-job training.

The type of activity that is informal and entirely legally and socially acceptable spans production, distribution and service operators.

In the production category, some examples include handcrafts, diggers, dressmakers, self-employed artisans, home brewers and even cooks.

### Musicians

In the distribution category, there are hawkers, caterers, messengers, dealers and shebeen owners. In the service category, there are taxi operators, musicians, repair services, cleaning services, shoe-shiners and barbers.

A Star feature

# The individual is the kingpin

180

STAR 12/5/93

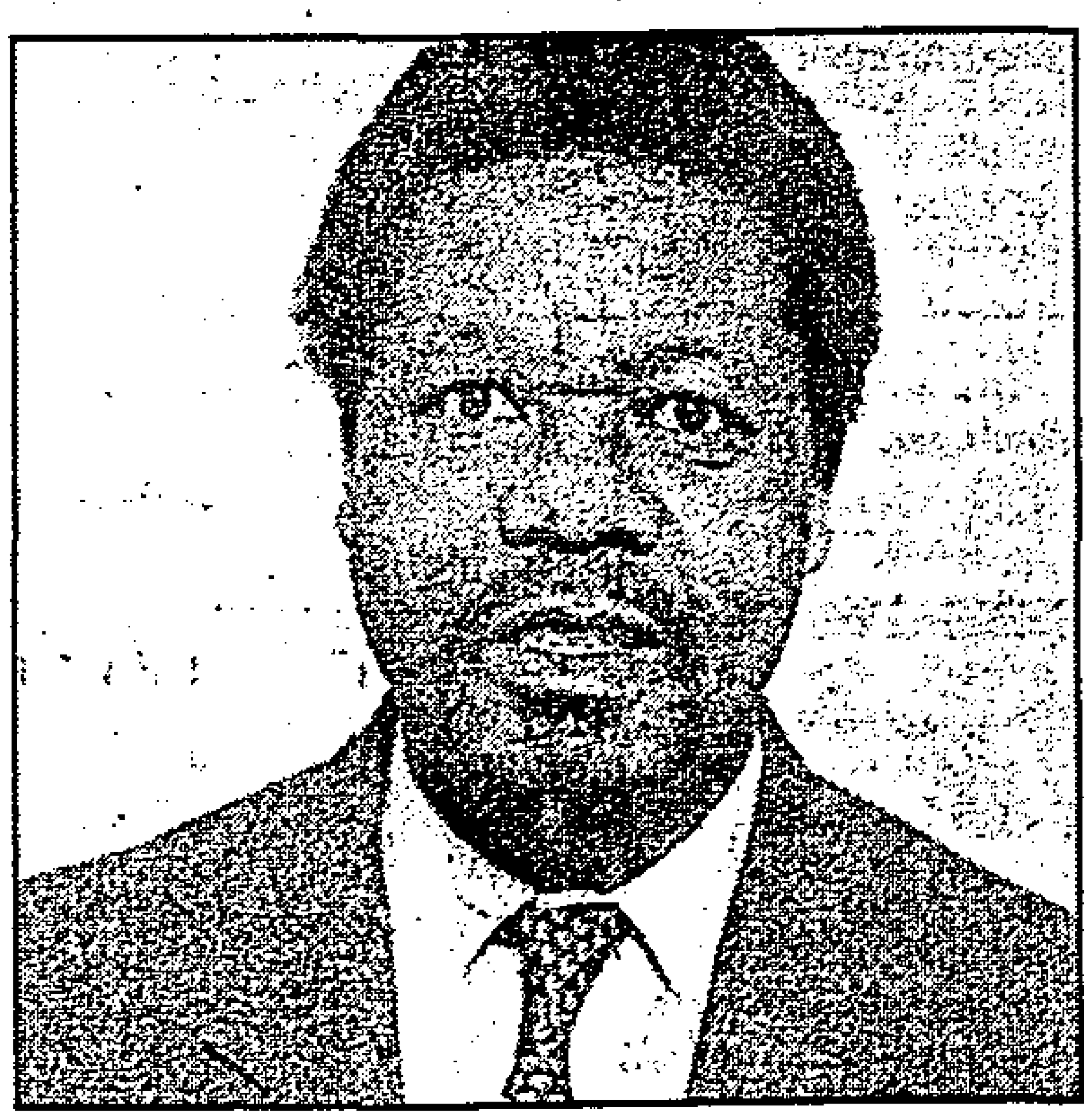
**■ Backing the unbankable:** FNB Small Business Unit Senior Manager Ali Mokoka believes the individual is the most important security when assessing the backing of a small business venture.

SECURITY is not always the first and only criterion a banker takes into consideration when assessing you for a loan and a helping hand into your own small business venture.

That certainly goes for First National Bank Small Business Unit Senior Manager, Ali Mokoka who says: "I'm against just lending against security", and puts the real meaning of security in perspective with the reminder, "we're not out to repossess things".

This seems to put the emphasis back in the right place when it comes to assessing the often "unbankable" and unproven new candidate taking the always risky first steps to entrepreneurship. Because as Mokoka points out, "The individual is the kingpin. He makes or breaks the business venture".

Much of the elusive "security" in this very different area of the banking industry is the individual himself, his talents, his motivation, his personal responsibility to make the venture work with just enough of a capital injection and financial consulting help from the banker to improve his chances.



Not out to repossess . . . FNB Small Business Unit's Ali Mokoka.

"Our inquiries range from franchising to corner cafes, from small manufacturing to new ideas with great prospects. They really cut across the spectrum of business activity.

"We ensure the individual has a reasonable stake in the business because this brings out commitment. That way, if things go sour, he stands to lose something.

"Our role here is to advise. We may suggest a partner, or surety for the value of a good name, a recommendation by someone who knows the potential candidate. We may encourage a person who has excellent prospects, or caution someone who has motivation but inadequate skills. It is a dangerous step to risk life savings on a small business when there are safer investments to be had.

"One successful candidate who had experience only as a general dealer has formed a thriving restaurant/hotel in Katlehong. He had good management skills.

"The biggest problem we see is entrepreneurs who do not really know how to run a business or how to meet cash flow constraints, how to contain costs and how to ensure they can meet salary payments."

Explaining First National Bank's pioneering step in taking high visibility in black areas with both banking and small business services, Mokoka says: "We had a vision that although this area is quite risky, small business would prove to be the backbone of the economy. We have learned many lessons since the formation of the unit in 1979 and have adapted. We are very encouraged by events and we believe this makes a vital low-cost contribution to job creation."

On the relative level of "entrepreneurship" evident in SA society compared to other cultures, Mokoka believes we have some way to go. "I don't think we're so fired up. The type of entrepreneurial development one sees in Latin American countries sets a high standard. But it is changing, and our slowness to catch on really has more to do with history and repressive legislation on street vending than anything else."

# Nurturing the business till it starts to thrive

Star 12/5/93

SIMILAR to propagating seeds is the process Standard Bank is engaged in through its Small Business Development and Advisory Department managed by Malcolm Kietzmann.

"Our object is to hold the entrepreneur's hand until the business is thriving and then hand it back to the branch network for full banking facilities.

'These are often people who would not normally have qualified for finance," explains Kietzmann.

## Underwriting

Important to Standard Bank, and to all of the formal lending institutions active in the small business arena is the Small Business Development Corporation's Guarantee Fund which they acknowledge as often vital in underwriting such an individual's finance.

"Nine tenths of small business loan applicants do not have the track record or the security that would normally be considered as acceptable by conventional banking standards," he explains.

**Helping hand:** Opening a business is easy, but keeping it open not as easy. Standard Bank's Small Business Development and Advisory Department guides the fledgling entrepreneur until he gets his business thriving.

180

Hence the specialist nature, personal level of advisory services, and emphasis on training that characterises this field of banking.

"There is no limit or restriction on the type of business activity we will lend to."

The demand is already sufficient to be considered a "mass market" in need of packaged banking products more easily marketable and a lot of added value products. These include a Small Business Kit start up programme with an audio tape and a lot of information; a 90-minute entertaining video and booklet which alerts the prospective entrepreneur to potential pitfalls and mistakes, and looks at issues such as marketing, legal etities, raising finances and reading financial statements.

SB also offers a Business Problem Solver series introduced by the quotation: "To open a business is very easy. To keep it open is very difficult". — attributed to a Chinese fortune cookie.

## Turnover

This series covers development of the business plan, managing working capital, cash, and how to manage your bank manager!

Another product on offer is a Small Business Computer Cash Flow Programme for the businessman who can "keep his head up and his overheads down".

By SB's definition, a small business is an individual, partnership, close corporation, company or co-operative with turnover of R5 million a year or less and total assets of less than R1,5 million.

A less formal level of lending which could apply to the informal business sector is provided by. SB's Community Banking Services Division managed by Barry Coetzee.

Star 12/5/93

# Gencor in R8 bn unbundling

(180)

By Stephen Cranston

Mining giant Gencor is to break up its assets of R20 billion into five independent companies.

Shareholders in Gencor's four non-mining subsidiaries, together worth R8 billion, will be rewarded because the group's holdings will be distributed to shareholders free.

The subsidiaries are energy group Engen, paper and pulp producer Sappi, industrial holding company Malbak and investment group Genbel.

Gencor chairman Brian Gilberson said yesterday these groups already operated as independent businesses.

"Their chief executives are unanimous that the chickens no longer need the mother hen," he said.

The unbundling will be completed by September 1.

The shareholding of Gencor's two major shareholders, Sanlam and Rembrandt, will fall from between 50 to 60 percent to 35 percent of the affected groups.

Although the scale of Gencor's unbundling is unprecedented in South Africa, the group is following a worldwide trend for conglomerates to dispose of peripheral businesses to focus on core activities.

However, its main rival, Anglo American, has been lukewarm on the topic.

Last year, deputy chairman Graham Boustred said South Africa needed more, not fewer, Anglos to carry out major capital projects.

ANC mineral and energy affairs spokesman Paul Jordan said the ANC favoured unbundling as it led to a deconcentration of power.

And ANC president Nelson Mandela said in London last week there could be no free market in shares if 75 percent of shares were owned by four groups — Anglo American, Sanlam, Old Mutual and Rembrandt.

The number of shares which will trade in the unbundled companies will increase considerably, and this usually lifts their value.

● Gencor in talks with Shell
-Page 19

The Star Thursday May 13 1

Star 13/5/93

# Behind the unbundling

(180)

**The unbundling of Gencor promises financial and political benefits to shareholders, writes CLAIRE GEBHARDT.**

ALMOST three years ago, Gencor, South Africa's second largest mining house, indicated it was considering the merits and feasibility of unbundling.

On Tuesday, the group announced plans to unbundle its non-mining interests in a "big bang" deal which will halve the value of the group's shares traded on the JSE to about R8 billion from R16 billion.

One of the reasons given then, and repeated on Tuesday, was the expected increase in wealth of Gencor and parent company Genbeheer shareholders which would result.

But apart from unlocking value, unbundling can be viewed as a political manoeuvre aimed at restructuring to avoid prosecution under any anti-trust policies of a new government.

Unbundling effectively dilutes the power that large corporate pyramid strutures wield.

After unbundling, Sanlam and investment arm Sankorp will still be the biggest shareholder in the companies concerned, but they will no longer have absolute control.

Together with Rembrandt, and in certain instances with Genbel, their shareholding will vary between 35 percent to 40 percent.

Brian Gilbertson, executive chairman of Gencor, has conceded that there was a political slant to the deal.

The ANC is known to favour unbundling as a means of reducing economic concentration and opening up the economy.

Most analysts concede that corporate power is likely to be of great symbolic and practical importance in the years to come as blacks strive for political and economic gains.

The feeling is that because monopolies exert so much control over the economy blacks, whilst holding political power, would remain economically weak.

Currently, four of South Africa's largest conglomerates, Anglo American, Sanlam, Old Mutual and Rembrandt,control between 70 percent and 80 percent of the stock market.

Corporate giants have long feared that even if some form of nationalisation is not implemented, legislation could be passed preventing multi-tier structures (pyramids).

A new government might try to reduce conglomeration by forcing a wholesale collapse of the pyramids into single-tier companies, said Davis Borkum Hare analyst Dr Jos Gerson recently.

He noted that most of the large groups, and in particular the family-controlled groups, would probably resist such a move.

"It will almost certainly generate a great deal of conflict between business and government, and hamper development."

Conglomeration in South Africa has been aggravated over the years by exchange control and disinvestment which has led to mergers and take-overs.

(A conglomerate is defined as a holding company and a group of subsidiaries engaged in dissimilar activities.)

However, more optimistic observers have hoped that if, and when, politics are normalised, and exchange control removed, the major groups might voluntarily spin off a range of their non-core subsidiaries and/or shareholdings.

Political . . . certainly, says Brian Gilbertson.

Gencor is likely to earn significant praise for being the first to do so.

The unbundling means that Gencor will relinquish control of its three industrial arms — paper and pulp producer Sappi, consumer group Malbak and energy company Engen — and its investment arm Genbel.

Another plus is that because unbundling allows control of the subsidiary companies to pass on to the existing management of the various companies, businesses should hopefully become more democratic.

Managers will be directly responsible to boards elected by shareholders.

Unbundling will also result in a more focused approach on core industries and a subsequent sell-off of smaller less significant holdings.

Gencor, for instance, will concentrate on mining, metals and mineral benefic

For the man in th unbundling exercise business risks asso unbundled subsidiar due to a higher cha ness failure because previously availabl resources.

Gencor says its companies will c have access to financ

The good news is dling should inc tradeability of listed

The JSE is not a liquid capital marke percentage of shares in the control stru holding companies mids, and do not trad

By turning large tions into numerous s sinesses, unbundling ate a real stock mark

Sankorp has said it the elimination of o mids in the group suc ray & Roberts Invest Malhold. □

Star 13/5/93

(180)

# Ownership reshuffle looms in wake of unbundling

Finance Staff

The break-up of Gencor's industrial empire could spark a major reshuffle of ownership between Sanlam and Rembrandt, Gencor's controlling shareholders.

However, South Africa's two other leading conglomerates, Anglo American and Old Mutual, said yesterday they had no plans to follow in Gencor's unbundling footsteps.

Shares worth millions of rands are to be given away free to Gencor shareholders with the break-up of its assets of R20 billion into five independent companies.

Thys Visser, managing director of Rembrandt Group, which has a 30 percent stake in Gencor, said that within the next few months "there could be a major realignment of ownership between ourselves and Sanlam."

This would involve a possible exchange of holdings in the parts of the unbundled Gencor with, for example, Rembrandt surrendering Genbel Holdings for additional holdings in Engen.

The involvement of other major companies cannot be excluded.

Visser conceded the unbundling would not necessarily result in a major change of ownership patterns.

The main effect would be the removal of control through pyramid structures.

Unbundling of Rembrandt was "not something we would like to discuss at this stage", he said.

Gencor will relinquish control of Engen, paper and pulp producer Sappi, industrial holding company Malbak and investment group Genbel.

Finance Minister Derek Keys, who initiated the unbundling while he was head of Gencor, has welcomed the move.

In its reaction, Anglo American yesterday reiterated that it did not believe its current structure, "which has served shareholder and national interests well, both locally and internationally, requires such steps".

Anglo said in a statement that it had neither a controlling company nor any pyramid structures designed purely for holding purposes and there was already an excellent market in both Anglo and De Beers shares.

"We have different levels of holding and operating companies, many of which are listed, with separate though overlapping shareholders."

The company reaffirmed its view that without the existence of a large group structure, the risks and costs of large capital-intensive projects "might be too great and some might not be undertaken".

Anglo said changes to the structure of Amic and the holding companies of Freegold were being contemplated, as adjustments could and would continue to be made to the overall Anglo structure.

Old Mutual also rejected suggestions that it emulate Gencor.

The insurance giant's chief operating officer, Gerhard van Niekerk, said Old Mutual would be unable to unbundle itself.

It was not a conglomerate, but could best be described as the biggest co-operative SA, representing more than three million policy-holders.

"We invest their money. We don't control companies."

It was inevitable that when an organisation such as Old Mutual was successful in investing money on behalf of policy-holders it would "own quite a bit of corporate SA," he said.

Star 13/5/93

(180)

# Ownership reshuffle looms in wake of unbundling

Finance Staff

The break-up of Gencor's industrial empire could spark a major reshuffle of ownership between Sanlam and Rembrandt, Gencor's controlling shareholders.

However, South Africa's two other leading conglomerates, Anglo American and Old Mutual, said yesterday they had no plans to follow in Gencor's unbundling footsteps.

Shares worth millions of rands are to be given away free to Gencor shareholders with the break-up of its assets of R20 billion into five independent companies.

Thys Visser, managing director of Rembrandt Group, which has a 30 percent stake in Gencor, said that within the next few months "there could be a major realignment of ownership between ourselves and Sanlam."

This would involve a possible exchange of holdings in the parts of the unbundled Gencor with, for example, Rembrandt surrendering Genbel Holdings for additional holdings in Engen.

The involvement of other major companies cannot be excluded.

Visser conceded the unbundling would not necessarily result in a major change of ownership patterns.

The main effect would be the removal of control through pyramid structures.

Unbundling of Rembrandt was "not something we would like to discuss at this stage", he said.

Gencor will relinquish control of Engen, paper and pulp producer Sappi, industrial holding company Malbak and investment group Genbel.

Finance Minister Derek Keys, who initiated the unbundling while he was head of Gencor, has welcomed the move.

In its reaction, Anglo American yesterday reiterated that it did not believe its current structure, "which has served shareholder and national interests well, both locally and internationally, requires such steps".

Anglo said in a statement that it had neither a controlling company nor any pyramid structures designed purely for holding purposes and there was already an excellent market in both Anglo and De Beers shares.

"We have different levels of holding and operating companies, many of which are listed, with separate though overlapping shareholders."

The company reaffirmed its view that without the existence of a large group structure, the risks and costs of large capital-intensive projects "might be too great and some might not be undertaken".

Anglo said changes to the structure of Amic and the holding companies of Freegold were being contemplated, as adjustments could and would continue to be made to the overall Anglo structure.

Old Mutual also rejected suggestions that it emulate Gencor.

The insurance giant's chief operating officer, Gerhard van Niekerk, said Old Mutual would be unable to unbundle itself.

It was not a conglomerate, but could best be described as the biggest co-operative SA, representing more than three million policy-holders.

"We invest their money. We don't control companies."

It was inevitable that when an organisation such as Old Mutual was successful in investing money on behalf of policy-holders it would "own quite a bit of corporate SA," he said.

# Rise in manufactured production

BDM 13/5/93

EDWARD WEST

MANUFACTURED production for the three months to February 1993 increased 0,7% compared with the previous three months, but was still 0,3% lower than in the same period a year before, Central Statistical Service (CSS) figures showed.

Main contributor to the increase was "other chemical products", but this was counteracted by decreases in the iron, steel, basic metal products, machinery, equipment, electrical and motor vehicle industries.

The motor, food and beverage industries showed the largest increase in the value of manufactured product sales, rising 0,5% compared with the previous three months.

Econometrix economist Tony Twine said that with manufactured production falling as little as 0,3% compared with the 2,4% decline in total economic production in 1992, pressure to reduce inventories appeared to be softening.

However, the items which contributed to the decline in manufactured production signified further cutbacks in productive asset capacity essential for further economic growth.

Lower motor vehicle production resulted from lower sales. Figures indicated that recession in this sector was unlikely to be bottoming out.

# Gilbertson: Boardroom visionary?

180

*Gencor's decision to ditch its pyramid structure and distribute underlying assets is a revolutionary move, reports* **REG RUMNEY**

W/Mail 14/5 - 20/5/93.

GENCOR'S unbundling announcement, the pinstripe-suit equivalent of revolution, will put pressure on other South African conglomerates to follow suit.

Gencor's commitment to ditch pyramid Genbeheer and distribute underlying assets to shareholders is motivated by the desire to unlock the value of those underlying assets.

Instead of investing in Genbel, Sappi, Engen, Malbak and Genmin through Gencor, investors will invest directly in a new Gencor incorporating Genmin and focusing on mining, and in those underlying companies.

Rembrandt, itself another candidate for unbundling, will with Sanlam still control more than 30 percent of Gencor and those companies.

Gencor must also have been prompted by the political unpopularity of conglomeration and the threat of possible anti-trust legislation by a future government.


Brian Gilbertson

The move, cautiously welcomed by a member of the African National Congress' department of economic planning, will especially focus attention on giant conglomerate Anglo American Corporation.

ANC minerals and energy policy co-ordinator Paul Jourdan argues that the coincidental announcement by Gencor of a sizeable international deal makes nonsense of Anglo's contention that conglomeration is necessary to be able to operate in tough world markets.

Gencor is negotiating to buy the metal mining businesses of Dutch-registered Billiton International from Royal-Dutch Shell. The deal, which could top $1-billion, would make the slimmed down Gencor a major force in international metals mining.

Gencor chief Brian Gilbertson has said, however, that because of, among other difficulties, the problem of financing the project it has a less than 50 percent chance of succeeding. Unlike Anglo, Gencor does not have a cash-rich offshore arm.

According to Robin McGregor, Anglo American controlled 33,7 percent of market capitalisation in 1992, mainly due to the fall in De Beers share price.

Sanlam controls 15,6 percent, Rembrandt 14,6 percent, and SA Mutual 14,2 percent.

Anglo this week quickly dismissed in a statement any idea it would follow suit. "It is important to understand that the major groups in South Africa have very different structures.

"While there may be some where unbundling may make sense (provided the desired efficiency and shareholder value gains are realised), Anglo American does not believe that its current structure, which has served shareholder and national interests well, both locally and internationally, requires such steps."

Anglo repeated the classical argument for diversification. This is that wider geographical and product diversity is calculated to lessen the effects of volatile commodity price cycles.

This is an increasingly unpopular stance worldwide as firms focus on core businesses, divesting themselves of those activities in which they do not have any special expertise.

The unpopularity with shareholders of widely diversified groups is reflected in the gap between the share price and the underlying value of the assets of the company. Anglo reportedly trades at an average discount of 28 percent.

# Aid for small business is here

Sowetan 14/5/93

**By Joshua Raboroko**

## ■ Now you can get your own business off the ground

LACK of skills among emerging black entrepreneurs has always been a thorny issue in South Africa.

With the aim of upgrading these entrepreneurs, the Small Business Education and Training Academy, the Job Creation Action Committee, BP, the Independent Development Trust and FutureBank have designed a scheme to help the unemployed develop business skills and to create jobs.

The scheme is set against the background of centuries of deprivation and restrictive legislation aimed at black business people, according to Sbeta's chief executive Mr Lucas Ntuli.

"Sbeta has developed unique business skills, training methods and systems designed to optimise the entrepreneurial potential in our society," he said.

Sbeta will run courses on how emerging businessmen can prepare business plans for new or existing ventures. Approved business plans will be submitted to the source of finance.

After having been granted business development loans, the Sbeta, working with the NJAC, will help trainees start their businesses and provide ongoing advice and mentoring.

FutureBank public relations officer Ms Lindi Kubheka said they supported the move.

For more information, contact Sbeta at 5th Floor, Suzuki Building, 62 Juta Street, Braamfontein, Johannesburg.

# Freeze managers' pay, says chamber

LINDA ENSOR

CAPE TOWN — A freeze should be placed on all remuneration paid to directors and managers in public and private enterprises until workers were granted increases at least in line with inflation rate.

This was suggested by Cape Town Chamber of Commerce president Herbert Hirsch in his presidential address at the chamber's AGM yesterday. BIDAY 14/5/93

"The suggestion that remuneration of directors and top management should be performance related should also receive more serious consideration in those enterprises where this system does not already pertain," Hirsch said.

He proposed also that instead of negotiated retrenchment packages, more managements should seek to negotiate short time — at reduced wages if necessary. For this to succeed management would have to display a willingness to take a considerable cut in their own salaries.

Hirsch urged the private sector to put pressure on all the parties at the negotiating table to ensure that a transitional executive council was established, an election date announced and a government of national unity established as a matter of urgency.

He said he found several sources of optimism in SA at present including the progress made in negotiations and the release of the normative economic model.

CORPORATE GOVERNMENT (180) FM 14/5/93.

# Regulating the regulators

**There's nothing** quite like a good argument to settle who supports what. Even so, members of parliament, supposedly accustomed to the energetic airing and debate of deep-seated antagonisms, were taken aback at the vigour of the repartee when members of the Financial Services Board (FSB) and the Life Officers Association (LOA) gave evidence recently to the standing committee on finance.

What gave rise to this sharp clash was the innocuous sounding Financial Institutions Second Amendment Bill. At the heart of the dispute is the delegation of ministerial power. It has become a feature of SA in recent years for Ministers increasingly to arrogate their powers in favour of executives or regulators. One result has been a proliferation of individuals in positions of great authority who, it subsequently turns out, are neither accountable nor responsible for actions that are radical and far-reaching.

One casualty of the row which has erupted is the JSE's intended new class of member — derivative broking member, which the JSE announced some weeks ago it intended to introduce shortly. The delay which results from the need to re-draft the Bill will provide some relief for those in the financial community who hold that it's simply the beginning of what will be a wholesale takeover of the JSE by the naturally acquisitive financial institutions.

Irritated by the intransigence displayed by those giving evidence and reluctant to be drawn into the dispute as an arbitrator, the parliamentary committee has apparently kicked the Bill into touch. That will please the LOA and its strange bedfellows — those within the JSE who oppose moves to widen the broking constituency.

The antagonisms which find their expression in the argument about ministerial responsibility and power, come at a time when various crucial aspects of corporate governance and financial industry regulation are being closely examined.

One result of the Bill would have been to enhance the power of the FSB. Foul, cries the LOA, which points to the recent report of the Melamet Commission concerning the establishment of a super-regulatory body, the Financial & Investment Services Commission (Fisc). The Bill would effectively cut across the Melamet recommendations which haven't yet been considered by the Cabinet.

Compounding the confusion, as the LOA was quick to point out, is the JSE's own examination of its constitution and intended future method of operation, the Katz Committee, set up last year partly in response to pressure exerted by the parliamentary standing committee.

Members of parliament will be forgiven for having been somewhat unnerved by the passionately stated arguments by both sides of what is traditionally a reserved and, theoretically at least, gentlemanly area of commercial activity. And they have decided, logically in the circumstances, that hurried action now could be detrimental to efforts to sort out the regulation of the financial services industry. The message to the industry appears to be to get its house in order before asking parliament for enabling legislation.

**Andersen** ... *won't say when the committee will publish its findings*

And that will include waiting for the recommendations of the JSE Research Committee. JSE executive president Roy Andersen says the bulk of the committee's work has been completed but he won't be drawn on when it will publish its findings.

Many aspects need to be resolved, not least among them such issues as dual capacity trading in a stock exchange paralysed by an endemic lack of liquidity and the introduction of negotiated commissions.

And there's no escaping another central issue: if ministerial power is to be converted in a new dispensation to self-regulation within the wider financial community — including how companies and institutions operate and are governed — then the matter of how to regulate the regulators becomes one of paramount importance. *David Gleason*

NEDCOR FM 14/5/93

## Conservative treatment

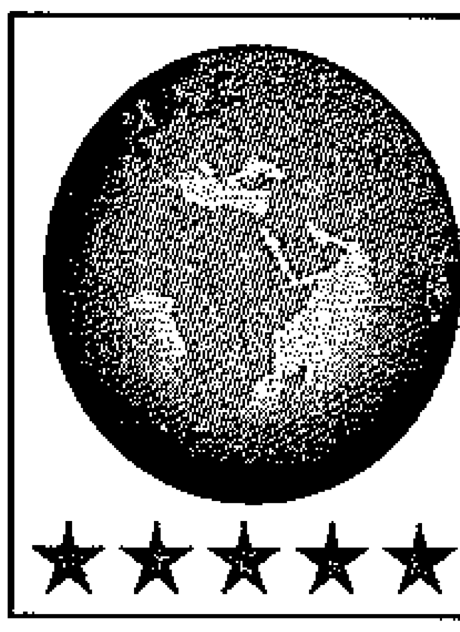
**There seems** to be something of a tortoise-and-hare race going on between the share ratings of Nedcor and First National Bank. Comparisons between banks can be mislead-

GENCOR FM 14|5|93.

# The end of the pyramids

180

## Gilbertson's bold moves will change corporate thinking



**It is nothing** short of the boardroom equivalent of revolution. In a dramatic statement earlier this week, Gencor chairman Brian Gilbertson announced his group's intention to press ahead with a total unbundling and restructuring scheme. It will involve the distribution of Gencor's shareholdings in all of its non-mining assets.

To reinforce the intent, pyramid company Genbeheer, which holds 54,8% of Gencor, intends that those shares, together with those it will receive in the underlying assets, will be distributed to its shareholders. That means Genbeheer will disappear in due course. Sappi, Malbak, Engen and Genbel will all become independent companies with totally distinguishable groups of shareholders.

The full extent and ramifications of the decision will take some time to filter through the elite corridors of corporate SA. But one thing is certain: after May 1993 things are unlikely to be the same again. In simplistic terms the deal, which Gencor directors envisage will be executed in what they describe as a "single, big-bang transaction," carries a notional market value of about R8,7bn. That's quite enough to turn the JSE on its head.

Almost simultaneously, Gilbertson announced that Gencor has agreed to proceed with negotiations with Royal Dutch Shell for the acquisition of Shell's major metal mining businesses — held essentially through Dutch registered Billiton International. Billiton's net capital employed in 1991 was US$2,1bn; the group has operating mines in Australia, Canada, Chile, Colombia, Ghana, Indonesia and SA.

Gilbertson makes plain his anxiety that Gencor's unbundling plans and its latest foray into overseas acquisitions shouldn't be confused or linked. "It's purely an accident that the announcement about our negotiations with Shell has come within a day of the unbundling statement. It certainly wasn't our wish to link these."

Intriguing though Gencor's foreign adventure may be, it is the unbundling which will attract most of the short-term attention. Unbundling has become corporate SA's hottest topic since Minister of Finance Derek Keys first placed it in the spotlight when, as chairman of Gencor, he thought it could be a means of unlocking added value.

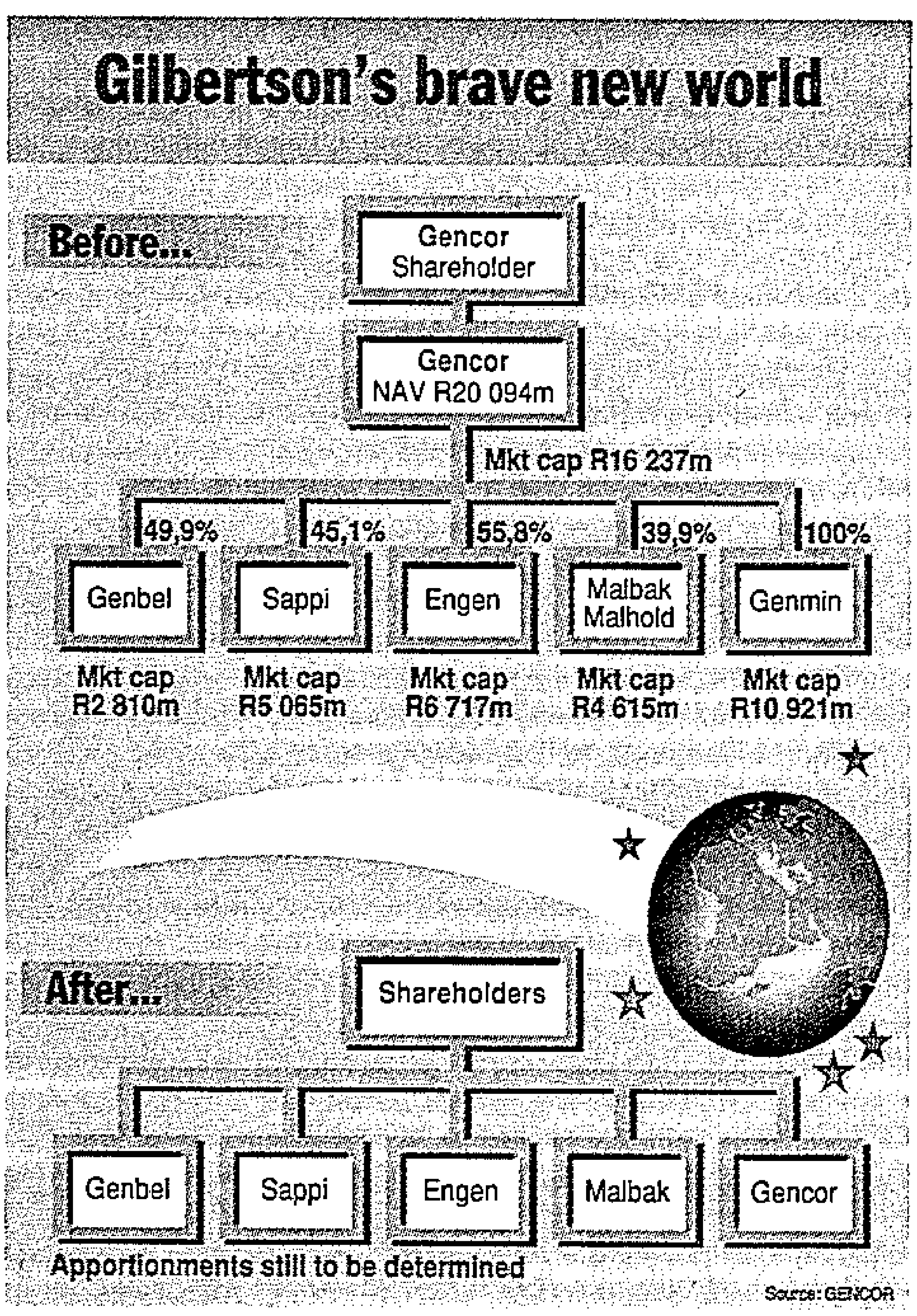
Since then it has come to mean different things to different constituencies. The word is used with such abandon that it threatens to become dispossessed. In some circles it has taken on almost pejorative overtones, associated as it is with conglomerates, pyramids, inadequate competition and concentrations of economic power — all those terms which are employed as bogeymen by economists of the Left.

Examining the philosophy behind Gencor's decision to make itself appreciably smaller, Gilbertson concedes that the pervasive hostility to pyramids and conglomerates, particularly overseas, exercised some influence on Gencor's board. However, he's quick to point out that the prevailing discount between Gencor's NAV and the value imputed by the marketplace — sometimes as much as 20% and currently about 19% — was considered the single most important factor. And that certainly accords with Keys's original thinking when he was first casting about for ways to unlock value for the group's shareholders.

A third factor, says Gilbertson, is the disfavour with which conglomerates are viewed overseas. The disparate nature of Gencor, involved as it is in mining, industry, paper, oil and finance, leaves outsiders with the impression that it is a group which has lost its way. One result of the unbundling will be that Gencor will be highly focused on mining and minerals beneficiation and marketing. If Gencor did not exist in its present form, says Gilbertson, "no-one would dream of joining Engen, Genbel, Malbak, Sappi and the mining businesses into a single conglomerate."

Unbundling Gencor — passing its holding of shares in the non-mining companies through to the ultimate beneficial owners — also means that Gencor will become significantly smaller. One calculation is that the non-mining assets comprise about 45% of the group at present. On that basis, the new Gencor will have an NAV of around R11,1bn compared with the current R20,1bn.

Truncated Gencor will effectively be a listed version of the presently unlisted Genmin, except that it will also include the cash and portfolio assets of present Gencor. The remaining group will still be, of course, a substantial mining house — but its business will be focused exclusively on the management of its mining assets. Those interests include the gold mines managed by Gengold, Impala Platinum, Richards Bay Minerals, Samancor, Trans Natal and the massive Alusaf aluminium and Columbus stainless steel projects.




It cannot be often, indeed it may be unprecedented in SA company history, that a major mining house deliberately seeks to make itself smaller. In an age when men put store and prestige by the size of the businesses they manage and control, actions of the kind taken by Gencor's directors bespeak either an intrinsic belief in a brave new world or a view taken solely on hard economic considerations.

Another aspect arises out of the early antipathies of the ANC to big business and from its Freedom Charter, to which it clung resolutely (but about which little is heard now). Black governments have frequently nationalised free enterprise and

cont-d

FM 14/5/93 . (180)

have paid derisory sums for their acquisitions — if you like, a form of legalised theft. Pyramids and conglomerates make easy targets. Independent companies can't protect themselves totally from rapacious governments — but the process can be made so expensive as to become unattractive.

Daling

Gilbertson confirms that this consideration played a role in the decision-making process. Sankorp CE Marinus Daling, perhaps the most important of the individual players, says business decisions in SA have become so complex he knows of few which no longer carry a political dimension. "But the real issue for us at Sanlam is to create corporate structures which go on adding value. And the process of adding value in the modern world requires high degrees of specialisation and focusing."

Gilbertson stresses that the unbundling programme is dependent on the necessary enabling legislation being passed during the current parliamentary session. That will require Acts dealing primarily with taxation and stamp duty, as these apply in distributions in the form of dividends in specie. Keys made it perfectly clear during his Budget address that these would not be impediments. Provided the legislation is enacted, Gilbertson hopes to complete unbundling by August to coincide with Gencor's financial year end.

The unbundling decision — reportedly not unanimously endorsed by Gencor's directors — also highlights another major change in philosophy. Daling agrees that in the Eighties the concept of absolute control — 50% and better — was paramount at Sanlam. "Now, we accept that the decisions we make have to be driven by what's necessary to create the right environment for a good business." Perhaps the first signal of Sanlam's readiness to exchange absolute for effective control came when it jumped the emotional hurdle presented by what to do with Federale Volksbeleggings, Sanlam's alma mater and broke it up, sending the most important bits off to a new home at Malbak.

Between them, Sanlam and the Rembrandt stable control Gencor absolutely. After unbundling, they will be down to about 35% — enough to give them effective control and in line with the recommendations of the Securities Regulation Panel about what should be deemed the boundary for triggering compulsory offers to minorities.

It means also that after years of hostility, Sanlam and Rembrandt will sign shareholder agreements, in terms of which they will act jointly to cement their control — in other words, as concert parties. "What's new?" asks Daling. "It's true we had a big fight in the Eighties, but we've mended fences and the first sign of our rapprochement was when we teamed up to put Absa together a year ago. This (the Gencor deal) is just further proof that we've learnt to live together."

Gilbertson has another surprise up his sleeve. The Gencor board will be reconstituted in a way which will ensure that non-executive directors will be in the majority. That means executive directors won't be able to dictate the way Gencor will operate and function. And Gilbertson intends to balance the board with unusual care: non-executive directors will include representatives of the major shareholders, but independent directors will outnumber those from the majors.

Gilbertson says the board audit committee will comprise solely of non-executive directors. So will the committee dealing with the remuneration packages of executive directors. Minority shareholders generally will find this an intriguing departure.

And Gilbertson is determined the new board will operate along lines prescribed recently by the UK's Cadbury Committee, which investigated the financial aspects of corporate governance. In a series of wide-ranging proposals, Cadbury recommends that non-executive directors be given unusually wide powers of investigation and, in some areas, of control. The effect of the introduction of these methods into SA's boardrooms will change forever the way the country's corporates operate and function. It is another case of leading by example.

Gencor's previous efforts to establish itself firmly overseas, thus following the early example set by Anglo American, have been conspicuous for their failure. Nor can the group be accused of a lack of patriotism for looking outside SA's borders: it spent R1,7bn last year on rights issues and other investments. R720m went to Sappi, R176m to Malbak, R245m to Samancor, R220m to Oryx, R89m to Alusaf, R66m to TransAtlantic and, a few weeks ago, R675m on purchasing another 25% of the equity in Richards Bay Minerals. In addition, the group is committed to contributing R1bn to the Columbus project and about the same on Alusaf.

Gilbertson was left with "a sense of deep disappointment" when Gencor failed to buy 46% of McIlwraith McEachern (which controls major Australian coal producer Oakbridge), because at the critical moment the curtain was lowered on transactions using the financial rand. It hasn't taken long for him to bounce back, this time with the possibility of securing control over Billiton, an important international mining house.

It seems likely the relationship between Gencor and Billiton was first forged in the course of the negotiations surrounding the Alusaf expansion project, which will take Alusaf towards the status of what an analyst describes as a "major world-class business." The raw bauxite supplies are being sourced from Alcoa and Billiton.

Billiton is heavily involved in the mining, processing, marketing and trading of non-ferrous metals and minerals. The list is comprehensive and extends to copper, lead and zinc, along with gold, bauxite, tin and titanium oxides. The group's net income in 1991 was $12m, a performance which certainly reflects the downside of the commodities cycle. Interestingly, Billiton holds a one-third share in the Collahuasi joint venture project in Chile, in which Minorco recently negotiated a stake.

The intriguing question is, how will Gencor finance an acquisition of this size, precluded as it is from the use of the finrand mechanism? Gilbertson won't be drawn on the subject, though he suggests that, if the negotiations are successful, an international resources company will be floated. He says Gencor may use some of its off-shore assets, including Consolidated Rutile in Australia and its Sao Bento gold mine in Brazil.

There are some alternatives for funding. One is that Gencor may be able to find an international partner with the necessary cash, while Gencor brings to the party its expertise in mining, metallurgy and marketing. Another is that, with its recent purchase of 50% of Richards Bay Minerals, it now has a strong card to play with Rio Tinto, its 50% partner. Presumably the possibility exists that Gencor may be able to bargain its shareholding into overseas assets.

Gilbertson remains hesitant about Gencor's ability to pull off the Billiton deal. "Because of the magnitude of this transaction, its complexity and the difficulty we will have in financing it, I suspect there is less than 50% chance of success." If that's so, why was it necessary to announce the project in the first place? Gilbertson says Shell insisted that a formal public statement should be issued and he was obliged to comply.

Gencor has had a remarkable 18 months. Some of its decisions have certainly been historic. Its R2bn rights issue, for example, was the largest the JSE has ever handled. And the group has played a significant role in the development of major new projects.

The course upon which it is now embarked may be an expression of profound movement within the SA corporate sector. Martin & Co partner Richard Stuart says the effect of Gencor's unbundling programme and Gilbertson's intentions relating to the new board structure, herald the arrival of SA's first true public company. It is certainly possible that Gencor's actions may have the effect of breaking up the perceived logjams in the corporate control of the country's biggest businesses.

If, as some observers argue, there is a pool of energy within the SA economy waiting to be released, this first step will put huge pressure on the rest of the corporate community. It is entirely possible that Gilbertson may have wrought more than he expects.

*David Gleason*

MARSHALLS 180

# Soberly dull

FM 14/5/93

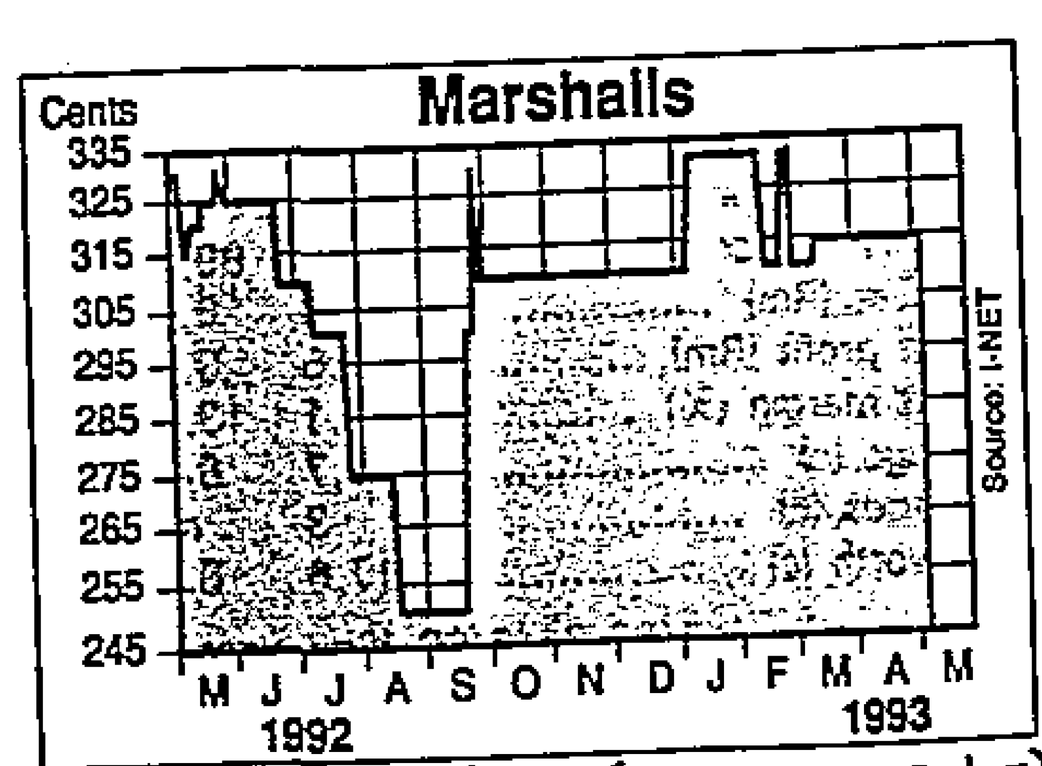
**Activities:** *Owns income-producing commercial and industrial properties and garages and is also an import financing group.*
**Control:** *Marshalls Controlling Investments 69%.*
**Chairman and MD:** *D C Marshall.*
**Capital structure:** *8,5m ords. Market capitalisation: R26,8m.*
**Share market:** *Price: 315c. Yields: 7,6% on dividend; 11,9% on earnings; p:e ratio, 8,4; cover, 1,6. 12-month high, 330c; low, 300c. Trading volume last quarter, 7 558 shares.*

| Year to Dec 31 | '89 | '90 | '91 | '92 |
|---|---|---|---|---|
| ST debt (Rm) | 1,8 | 0,8 | 1,06 | 0,76 |
| LT debt (Rm) | 5,4 | 7,7 | 7,5 | 11,2 |
| Debt:equity ratio | 0,06 | 0,08 | 0,12 | 0,12 |
| Shareholders' interest | 0,81 | 0,84 | 0,84 | 0,83 |
| Int & leasing cover | — | 10,7 | 6,1 | 7,1 |
| Return on cap (%) | 5,5 | 5,8 | 7,2 | 8,1 |
| Turnover (Rm) | 33,5 | 26,1 | 22,7 | 27,1 |
| Pre-int profit (Rm) | 3,5 | 4,4 | 6,1 | 7,5 |
| Pre-int margin (%) | 10,6 | 16,9 | 26,7 | 27,7 |
| Earnings (c) | 22,6 | 24,8 | 32,0 | 37,5 |
| Dividends (c) | 17,0 | 19,0 | 21,0 | 24,0 |
| Net worth (c) | 618 | 759 | 833 | 906 |

**Marshalls' 17,3%** increase in earnings came as a pleasant surprise. Seen in the context of declining rentals in the commercial property market — the largest contributor to trading profit — this was a result which will make shareholders appreciative.

Chairman and MD David Marshall says: "The rental business is relatively low risk: but since we're collecting over R1m a month we expect some duds." The property portfolio has achieved average occupancy of 94%, slightly up on the previous year.

Parking garage rentals, the other part of the rental business, continues to do well. All Marshalls' parking and commercial properties are in Durban, Pinetown and Cape Town. Together these businesses account for just under two-thirds of pre-tax income.






**COMPANIES** FM 14/5/93

180

About five years ago, Marshalls started a confirming and indent financing division. The estimated contribution to pre-tax income from commissions, confirming fees and interest received from this division is about R1,9m; a rise of nearly 50% on the year, and equivalent to just under a third of group pre-tax income. Marshall doesn't expect similar increases for 1993.

Agricultural equipment, the smallest operating division, improved on its pre-tax loss in 1991 to make a small profit. From January 1 1992, Marshalls sold 40% of this business to management: the intention is to dispose of the remainder later.

Marshall takes a conservative view of 1993: "We would be happy to maintain earnings levels of last year." Recessionary pressures continue to squeeze commercial rentals which don't look as though they will improve for at least a year. For this reason, Marshall expects earnings to be flat for 1993 though dividend growth is not expected to be affected: that is probably dictated by the interests of 69% controlling shareholder, Marshalls Controlling Investments, and is unlikely to take account of the desires of minorities.

Not surprisingly, the shares are not often traded, which explains the two-thirds discount to NAV. The group is conservative and doesn't see the need to loosen up the shareholding structure, says Marshall. The dividend and earnings yields are 7,6 and 12,0 respectively; healthy for a conservative company.

The share price has traded within a narrow band for the last 12 months. On a rating of 8,4 times we would not expect much capital growth in the medium-to-short term.

A sober company, if somewhat boring.

*Louise Randell*

# Manufacturers, are you ready?

FM 14/5/93. (180).

**Nick Charissis is the director of Deloitte & Touche Management Consultants.**

**SA's reacceptance** by the international community has not been well received by most local manufacturers. Many view international competition with trepidation instead of gearing themselves up for the tremendous opportunities it could represent.

But SA manufacturers cannot and should not avoid international competition. A strong manufacturing sector can be the main driving force in achieving the growth in GDP that is essential for the development, if not the very survival, of our economy.

Clearly, local manufacturers must become competitive. This is essential in protecting their local markets against international players and to ensure that those which aspire to it can become international players. Relying on the false sense of security provided by government protection policies is both short-term and short-sighted in thinking.

To find out how SA manufacturers are faring in key areas compared with their international competitors, Deloitte & Touche is conducting an International Survey of Manufacturing Organisations. It will cover critical success factors, the degree of global focus, manufacturing technologies and techniques, human-asset development, performance measures and the state of SA organisations. Other countries participating include the US, Canada, the UK, Germany, Japan, Mexico and France. The *FM* will publish the results later this year and plans call for repeating the exercise annually.

What can local manufacturers do to remain successful as SA becomes a normal member of the international community? Based on our experience in assisting manufacturing organisations to improve their competitiveness in both local and international markets, successful re-engineering of the organisation must address three broad categories:

- ☐ Achieving a complete focus on customers;
- ☐ Reorganising for success; and
- ☐ Integrating information systems.

The process is challenging and time-consuming. That momentum, however, can be maintained by avoiding lengthy planning and reports and concentrating on implementing the changes.

Obviously, not all manufacturers aspire to becoming world players. Some may prefer to remain successful in niche markets locally. But all manufacturers will benefit by going through a process of self-evaluation to address the three key issues and integrate their business around a focused objective.

The major difference for those with their sights set globally is that they must identify and address the needs of their international markets. These needs will not necessarily be the same as those of their local customers. Let's look at each of these three broad categories more closely.

**Achieving customer focus** revolves around customer service, a concept not extensively implemented in SA. The key issue is that customer service is not the responsibility of sales or marketing but of the whole organisation. Identification of the main order-winning criteria in each of a manufacturer's customer segments must be matched by the ability of the whole organisation to meet those order-winning criteria. Of equal importance is for the entire organisation — not just sales or marketing — to decide which segments it does not have the capability to compete in.

**Reorganising for success** means looking at the organisation from the customers' point of view — across the traditional functional areas. How should each and every part of the chain, from forecasting to selling, planning, manufacturing and distribution, be organised to meet the customers' needs? Organisation of all resources is important, not just where management has problems.

A reorganisation is based on the facts at a given point in time. In today's rapidly changing environment, however, how does an organisation remain relevant and competitive on an ongoing basis? Sustainability is achieved via flexibility and information.

**Effective information** — both inside and outside the organisation — is the nervous system that enables management to monitor and react to events. Reacting quickly can be achieved only if flexibility has deliberately been built into as many aspects of the operation as possible. A constraint is the amount of funds available for investment.

As a result of isolation, SA manufacturers have tended to focus internally when attempting business improvements. It is time we focused on our customers and reorganised to give them what they want.

# Positive growth at last as GDP rises 0,8%

(180)

CT 14/5/93

By AUDREY D'ANGELO
Business Editor

A 54% rise in agricultural production helped the economy achieve positive growth in the first quarter of this year — for the first time in 18 months.

Figures released by the Central Statistical Services yesterday show seasonally adjusted gross domestic product (GDP) rose by an annualised 0,8% at market prices.

Welcoming the news Boland Bank chief economist Louis Fourie said the growth had been in primary sectors of the economy, and was not due to artificial stimulation by monetary or fiscal policy.

The higher gold price improved the situation. An export-led recovery was now on the cards.

Fourie said political difficulties were now the only factor that could hold SA back. Once political stability had been achieved, SA could expect a long period of growth, reaching 5% a year or even higher.

Old Mutual economist Johan Els said this could be the beginning of the uptrend.

The rise in GDP was due mainly to the rise in agricultural production. But manufacturing production had risen by 0,3% — the first time it had gone up since the last quarter of 1990.

"This is significant, because it is the biggest of all sectors," commented Els. The electricity, financial and services sectors had all shown positive growth.

Construction had fallen by 8% on an annualised basis. But this was a smaller decline than the 11% reported for the last quarter of 1992.

The transport sector had also fallen, by 2,1%. Retail trade and catering had fallen by 2,7%.

"But we shall have to wait and see what will happen in the second quarter," Els warned.

"The effect of higher indirect taxation including VAT at 14% could push us back into negative growth again.

"However, we are past the effects of the drought and agriculture will continue to pick up. The effect of the maize crop will come into the figures only in the third quarter."

Edward Osborn, chief economist at Nedcor Bank, commented: "We appear to be experiencing the start of a turnaround."

This was due to the improvement in agriculture and the weaker rand, which had increased the rand value of exports.

"We are on track for a recovery but we are being held back by poor retail sales, which reflect the poor state of household finances."

# PPI rises by 0,2% for March

180 CT 15/5/93

By AUDREY D'ANGELO
Business Editor

THE producer price index (PPI) rose only 0,2% between February and March after the shock 1,2% rise between January and February. Figures released by the Central Statistical Service yesterday show the year on year rise was 8%, slightly below the 8,3% rise in February.

The index for locally produced goods rose by 8,5% year on year compared with 9% in February.

But the index for imported goods edged up to 5,6% year on year compared with 5,4% in February. The month on month rise was 0,5% compared with 0,3% in February, reflecting the weakening of the rand against the dollar.

Economists said these figures were encouraging, and the PPI was likely to stay below 10% for the rest of this year.

Nedbank chief economist Edward Osborn said it was "of interest that a bit of upward pressure is showing itself in the imported component, reflecting the fairly recent depreciation of the rand.

"This will continue to push through, putting upward pressure on the imported component for the rest of the year.

"But I think the domestic component is stable, mainly due to the good behaviour of wage rates."

Osborn said he expected the PPI to have a slow upward trend, to reach 9% towards the end of the year.

Old Mutual economist Johan Els said the figures were "surprisingly good" and showed inflationary pressures were still very low and the underlying trend was still downwards.

Although the index could jump in April he expected the PPI to remain below 10% this year.

But Els warned that although imported inflation was subdued in March, exchange rates were very volatile.

Boland Bank chief economist Louis Fourie said it was good news that the weakening rand exchange rate had so little effect on the PPI. "The rand has weakened quite a bit and it is fortunate the effect is not spilling through into the PPI.

"The low increase in the domestic component is very encouraging. It is a positive indication for the consumer price index (CPI) for the next few months."

Fourie pointed out that PPI figures overseas had also remained low. "That is keeping the imported component of our PPI low, in line with what is happening in the countries supplying us."

# R500m to bring electricity for all

S/Times (Buss) 16/5/93

By KEVIN DAVIE

ESKOM and the life assurers have struck a "R500-million ground-breaking deal to part finance Eskom's R3-billion "electricty-for-all" drive.

The project the assurers have agreed to a first tranche of R500-million — is the first by the Investment Development Unit of the Life Offices Association.

The IDU was set up to facilitate the flow of funds under the control of the life and pensions industry to socio-economic development.

The IDU has been investigating mechanisms to do this. A life-assurance source says Eskom involvement was the key to the scheme and the first tranche of R500-million.

The life business is expected to earn a market-related return on the 15-year bonds which Eskom will issue. The bonds are structured so that yields are low in the early years but improve with time.

"There is no capital risk, although there is a risk on the yield," says a source.

Eskom intends to bring electricity to at least a million people a year.

It is better placed than most to enter the high-risk area of socio-economic upliftment because the pre-paid meters it installs ensure that it gets paid.

Attempts to provide housing and other social services for blacks have, in contrast, largely been frustrated by rent, mortgage and service boycotts, high costs and poor quality and inefficient systems for collecting payment.

# Two go

STELLENBOSCH-based Gilbey liquor group chief executive Peter Fleck and human resources director Anton Erasmus resigned at the same time this week to follow other interests.

Parent company International Distillers & Vintners president of the Africa region Howard Smith, says successors have not been appointed.

---

ment and technical expertise.

SA Breweries says no single group has outright control of its shares and points to the threefold premium of the share price to net asset value.

"There is no value to unlock by unbundling SAB," says group financial director Selwyn MacFarlane. "We are a focused consumer group. Unbundling applies to conglomerates with interests which do not fit together, such as Gencor."

Rene de Wet, managing director of Pick 'n Pay, says unbundling would result in the Ackerman family's losing control.

"From a shareholder point of view there is a lot of value attached to the Ackerman control of the group."

Business leaders praise Gencor's decision to demerge its non-mining interests. Although Sankorp will retain effective control, the move is seen as an important step for shareholder democracy.

put unbundling on the corporate agenda when he was Gencor chairman, says: "Gencor has an outstanding record as an entrepreneur. I welcome the announcement of plans to unbundle in the belief that it will result in five entrepreneurs."

Brian Kantor, professor of economics at the University of Cape Towns, says that although control of Gencor's operating subsidiaries will remain with Sanlam, shareholders will have a stronger influence on affairs.

"Now the operating companies will be controlled directly through Sanlam rather than through the intermediary of Gencor management which may not necessarily be a good thing.

"We need to persuade the ANC that tight control by shareholders is a good thing. They appear to have picked up the US view of anti-trust behaviour which is outdated and in-

# Breaking up (not so) hard to do

S/Times (Buss) 16/5/93

**SOME Sanlam-controlled companies were unbundled this week while another was bundled in a set of moves which have changed corporate SA forever. Comment by KEVIN DAVIE**

SA BUSINESS is characterised by an over-concentration of control in a few white hands while few blacks are shareholders.

There will be enormous pressure in a democratic South Africa for artificial barriers — such as pyramid controlling structures — to market entry to be dismantled and for have and have-not disparities to be dealt with as rapidly as possible.

Two deals — announced by companies in the Sanlam stable this week — have these objectives.

First Gencor said that its pyramid structure would disappear as soon as Finance Minister Derek Keys's unbundling legislation had been passed. Two companies would go, leaving five stand-alones in Genmin (to be renamed Gencor), Engen, Malbak, Sappi and Genbel.

The intention is to free control of these companies and unlock value for shareholders through improved share liquidity, management independence and competitiveness.

In the SA context this has come to be known as unbundling. A company increases its exposure to market forces by stripping away holding companies which may help thwart takeovers.

Only days later Metropolitan Life, also part of the Sanlam stable, said that a new company, Methold, would be set up with a 40% stake in Metropolitan.

A special voting arrangement will ensure that control passes from Sanlam's industrial holding arm, Sankorp, to Methold.

Metropolitan has assets of R4,8-billion. Methold will have mostly black directors and blacks will make up 10% of the shareholders with a five-year option to increase this to 30%. Metropolitan has good growth potential as a savings and investment vehicle for blacks.

So desirable ends have been achieved in one case through unbundling and in another through bundling. This suggests that the ends — improved competitiveness and wider ownership of the economy — are more important than the means.

Competition Board chairman Pierre Brooks takes a simple view on the unbundling issue. He says in the past there have been incentives to conglomeration. This needs to be changed so that the incentives favour de-conglomeration and the improved competitiveness which this will bring.

Much of corporate SA is at present impervious to takeovers because pyramidal control makes takeovers an unlikely possibility.

But attempts at big-stick solutions, such as enforced break-ups, could replace an unhappy situation with an even unhappier one. As Gencor and Metropolitan have shown this week, win-win solutions are possible without using big sticks.

# Pressure on the barons of JSE rises

SI Times [Buss] 16/5/93

132 180

PRESSURE is mounting for a break-up of South Africa's corporate conglomerates which are blamed for concentrating economic wealth in the hands of a tiny elite.

The super-corporations came under the spotlight this week after Gencor decided to unbundle — one of the most significant events in SA business history.

The Competition Board wants a revision of rules which allow pyramid companies on the JSE. A few families are able to control more than R100-billion of listed companies. In some cases, the families hold less than 10% of the equity.

Anglo American, Barlows, Anglovaal and Rembrandt say they are able to mobilise capital for large projects, in many cases their assets trade at huge premiums to net asset value and that they bring considerable expertise to group companies.

**By CIARAN RYAN**

The ANC plans to introduce tough anti-trust legislation which may enforce unbundling.

An ANC spokesman says: "Conglomerates can lead to monopolistic practices. Holding companies are able to exercise control over the investment policies of the operating arms.

"This constrains the growth potential of small and black business."

Competition Board chairman Pierre Brooks says pyramiding — it allows minority shareholders to control huge conglomerates with relatively little capital outlay — deters foreign investment.

"We have excessive economic concentration and foreign businessmen have complained to me of the extent of pyramiding in SA. It is something they want to see removed before investing here."

JSE president Roy Andersen welcomes Gencor's decision, saying: "We believe this unbundling will make an important contribution to improving liquidity on the JSE."

Sankorp chairman Marinus Daling says: "We need investment in SA. Our highly controlled corporate structure is foreign to northern hemisphere investors."

Anglo American defends its corporate structure and cross-holdings on the basis that size is good for capital agglomeration.

A Barlows spokesman says unbundling would not unlock shareholder wealth because the shares do not trade at a discount to underlying assets.

## Tight

Analysts say Barlows' net asset value is understated because of large unlisted holdings.

A Barlows spokesman says a head office enables a sharing of management and technical expertise.

SA Breweries says no single group has outright control of its shares and points to the threefold premium of the share price to net asset value.

"There is no value to unlock by unbundling SAB," says group financial director Selwyn MacFarlane. "We are a focused consumer group. Unbundling applies to conglomerates with interests which do not fit together, such as Gencor."

Rene de Wet, managing director of Pick 'n Pay, says unbundling would result in the Ackerman family's losing control.

"From a shareholder point of view there is a lot of value attached to the Ackerman control of the group."

Business leaders praise Gencor's decision to demerge its non-mining interests. Although Sankorp will retain effective control, the move is seen as an important step for shareholder democracy.

MARINUS DALING: Out of kilter with northern hemisphere investors

Finance Minister Derek Keys, who put unbundling on the corporate agenda when he was Gencor chairman, says: "Gencor has an outstanding record as an entrepreneur. I welcome the announcement of plans to unbundle in the belief that it will result in five entrepreneurs."

Brian Kantor, professor of economics at the University of Cape Town, says that although control of Gencor's operating subsidiaries will remain with Sanlam, shareholders will have a stronger influence on affairs.

"Now the operating companies will be controlled directly through Sanlam rather than through the intermediary of Gencor management which may not necessarily be a good thing.

"We need to persuade the ANC that tight control by shareholders is a good thing. They appear to have picked up the US view of anti-trust behaviour which is outdated and increasingly subject to criticism in America where shareholder control is generally weak," says Professor Kantor.

Paul Beachy Head, general manager of investments at Southern Life, says: "There are pros and cons to everything. I think Gencor has sacrificed some of the critical mass required to finance and undertake mega-projects such as Alusaf."

# R500m to bring electricity for all

SI Times [Buss] 16/5/93

ESKOM and the life assurers have struck a R500-million groundbreaking deal to part finance Eskom's R3-billion "electricty-for-all" drive.

The project — the assurers have agreed to a first tranche of R500-million — is the first by the Investment Development Unit of the Life Offices Association.

The IDU was set up to facilitate the flow of funds under the control of the life and pensions industry to socio-economic development.

The IDU has been investigating

**By KEVIN DAVIE**

enter the high-risk area of socio-economic upliftment because the pre-paid meters it installs ensure that it gets paid.

Attempts to provide housing and other social services for blacks have, in contrast, largely been frustrated by rent, mortgage and service boycotts, high costs and poor quality and inefficient systems for collecting payment.

# Fly in the ointment if it's no more than sop to ANC

S/Times (Buss) 16/5/93

(180)

SIR James Goldsmith coined the term unbundling in 1989 during his Hoylake consortium's bid for BAT Industries.

Sir James meant something specific, and exciting, by it. So novel was the term in an investment context that the Financial Times put the word in quotation marks.

By JAMES PICTON

Derek Keys used the same word a year later. In October 1990, as the world recession was biting and Gencor's earnings were at the start of a likely three-year fall, the word meant something very different and was much less enticing.

Nevertheless, it gave the market something to chew on in addition to declining profits; and chew it did — in a most confused manner.

In a nutshell, Sir James was saying that in BAT, on a single-figure multiple, were several large, potentially double-figure multiple companies screaming to be let out at over double their implied value in BAT — that is unbundling.

Sir James was proved absolutely right.

Mr Keys also meant what he said — effectively a distribution of assets (DOA) to shareholders.

## Hands

Whether or not the distribution of Gencor's assets to shareholders enhances long-term value remains to be seen and would be difficult to assess in practice.

In Gencor's case, a DOA affects the parcelling off of its shares in Sappi, Malbak, Engen and Genbel to Gencor shareholders. That would leave Genmin (the mining interests) as the remaining content of the Gencor share.

If the primary reason for a DOA is to narrow or eliminate the net asset value (NAV) discount, then the whole idea is suspect.

☐ A share which is part of a DOA — for example, Sappi or Malbak — could well find itself in hands which do not want it. An institution may already have its desired weighting, or be up to its legal limit, or be strictly a mining fund. This could prompt selling and lower the price.

☐ Having a large parent lowers a group company's risk. So a company cut loose in a DOA might move to a higher yield, again lowering the price.

☐ A large, powerful house attracts new business. Would Mobil have gone in with Trek if Gencor had not existed?

☐ Mining houses have a diversity of interests which give them a lower risk profile than the average of their constituents.

☐ They ~~conduct~~ in-house banking operations, centralise buying, etc — all with economies and saving.

☐ Rights issues for a whole lot of separate companies may prove more difficult or expensive than for a large parent.

☐ There are many other areas, such as employee relations, wage bargaining, charitable donations, which a large group may well perform better — and in a more enlightened manner to the ANC's liking.

Some commentators interpret the DOA as a part of the new SA, effectively breaking up great mining houses before the ANC does.

All one can say is that, if a DOA is partly to do with placating the ANC, then it is actually a tacit acceptance of any such ANC move and an incitement to it.

## Power

It is giving in before putting up a proper argument against it. It is defeatist and negative and likely to discourage foreign investment.

Why should foreign companies come to SA if majors here are throwing in the towel before the ANC has power?

The debate about banning pyramid companies and non-voting shares might be said to be revving up. Why should certain shareholders, however great their creativity and flair in building a company, be accorded control to which their true shareholding does not, in equity, entitle them?

It is all very well to argue ~~that, say,~~ Anglovaal's Hersov-Menell and Pikwik's Ackerman have done exceptionally well for shareholders. But that is not the point.

Times change, people retire, founding dynasties depart — and less scrupulous hands may manoeuvre themselves into power.

Anglo-De Beers, Sanlam-Gencor, Hersov and Menell-Anglovaal, Anglo-JCI, Rembrandt, Liberty-GFSA have a seeming immunity to takeover. Who can challenge managements to better manage their assets?

If previously bid-proof companies become realistic takeover targets, the mere existence of the fact should tend to narrow discounts.

One cannot escape from the principle that 1% of a company's equity should carry 1% of the votes.

Having stated that as a general principle, the issue immediately becomes confused by the concept of cross-holdings — another area in which the JSE is a world leader.

The existence of full voting shares only and takeover rules where cross-holdings exist would go a long way to removing criticism of inequity and protected managements of a tightly sewn-up corporate SA.

The rules would help to change views at home (ANC) and abroad (potential investors).

The best answer to opening up entrenched corporate SA to the winds of competition and challenge is: do away with limited or non-voting shares and bring in special takeover rules which ensure that companies with controlling cross-holdings cannot entirely frustrate the fruits of an outside bid.

What then of the commercial merits of unbundling?

## Skill

Discounts move around partly in response to management changes. Gencor's discount hit 50% in 1985, but dived to 15%, and lower, after Mr Keys took over.

This preamble seems to answer the question of mining houses' asset discounts and how to reduce or eliminate them without activating a DOA. A change in JSE rules to free bid potential, improving managements, looking closely at dividend policy and raising return on capital — all happening over time — should narrow the discounts a lot.

It would take a long time and much skill, but it appears preferable to the quick fix, implicitly defeatist DOA solution.

The elusive DOA at Gencor should be seen as an amusing sideshow to distract investors from a three-year earnings decline.

*James Picton is a consultant for Anderson, Wilson & Partners.*

# How spoils will be split on break-up

S Times (Buss) 16/5/93

By JULIE WALKER

LEGISLATION to allow Gencor to go ahead with its unbundling is expected to be passed in September.

Gencor intends to pass on its holdings in four listed companies to its shareholders. Gencor's holding company, Genbeheer, will do the same and be dismantled.

Former Gencor chairman and current Minister of Finance Derek Keys is to introduce legislation allowing unbundling to be duty free.

Gencor has not released the terms of the unbundling, but estimates can be made from the group's percentage holdings in the underlying companies.

According to figures prepared by stockbroker Kaplan & Stewart, holders of 100 Gencor shares will be entitled to 4,88 Sappi, 6,26 Engen, 15,7 Genbel and 8,89 Malbak shares to be passed on as dividends in scrip.

## Potential

Using share prices prevailing on the day of the announcement, the market value of theses individual holdings is R6,57. The remaining assets of Gencor, namely Genmin, are worth R8,03c, making a total of R14,61.

Kaplan & Stewart corporate manager Peter Vogel says: "Assuming the 19% discount to net asset value (NAV) on the unbundled assets is eventually realised and Genmin continues to trade at a 19% discount to NAV, Gencor should trade at R13.

"This assumes that the share prices of Sappi, Genbel, Malbak and Engen do not adjust downwards due to the increased volatility in the shares."

Gencor is priced at R12.

Holders of Genbeheer should receive 0,9 times the number of shares a Gencor member will get.

Rembrandt Group is a large holder of Genbeheer. After unbundling, the combined Sankorp-Rembrandt stakes will be 32% of Genbel, 28% of Sappi, 42% of Malbak, 30% of Engen and 44% of Gencor.

Sankorp could raise its holding in Gencor to subsidiary level of 50% and those in Sappi and Engen to above 35%.

The dilemma for shareholders is whether it is preferable to have an unrealised yet potential profit arising from the discount of a conglomerate to net worth, or to run the risk of a realised loss in the event that after unbundling, the prices of the component stocks fall because of a glut of scrip on the market.

Although SA's unit trusts are relatively small players on the JSE, they are bound by rules which prevent a trust from having more than a certain percentage holding in any single entity.

Those with full houses of any of the unbundled companies might be obliged to sell.

Malbak chief executive Grant Thomas says the removal of Malhold from the group structure will be positive for Malbak. The reason is that institutions complain they cannot buy enough scrip. Malbak itself trades at a premium to net asset value.

## Flow

Engen's Rob Angel believes that unbundling has been discounted in the share price.

Genbel chairman Tom de Beer says tradeability will improve. Genbel's funding partnership with Gencor will be maintained and new ones developed with other Sankorp companies.

Sappi chairman Eugene van As says the best part is to have a direct shareholder with a strong cash flow. It obviates Sappi's having to go to Gencor, and Gencor to Sankorp, when money has to be raised.

Genbeheer's Marinus Daling (also of Sankorp) says foreign investors might be reluctant to buy into, say, Foodcorp, which has Malbak, Malhold, Gencor, Genbeheer, Sankorp and Sanlam above it.

"They would be happier alongside Malbak, the real partner and controller," says Mr Daling.

# Happy families control R100bn of JSE wealth

SI Times (Buss) 16/5/93 (180)

**By CIARAN RYAN**

FEWER than a dozen families control more than R100-billion of Johannesburg Stock Exchange wealth even though they own, in some cases, less than 10% of the shares in the operating companies.

This is the magic of the pyramid company, common in South Africa but banned by most foreign stock exchanges.

Harry Oppenheimer, Anton Rupert, Donald Gordon, Raymond Ackerman, Basil Hersov, Clive Menell, Bill Venter, and Vivian Imerman have personal control of business empires because of pyramids.

If one adds institutional control, six major groups control 80% of JSE shares, according to McGregor's Who Owns Whom. JSE market capitalisation is R600-billion.

## Rules

With a mere 8,31% of the shares in Anglo American Corporation, Harry Oppenheimer is able to exercise control over a group with a market capitalisation of R31,4-billion.

Similarly, he controls the De Beers empire, capitalised at R30,7-billion. It owns 38,7% of Anglo American.

The Rupert family exercises outright control of the R13,7-billion Remgro empire with only 8,3% of the equity in the operating company. It owns 47,9% of top pyramid Technical & Industrial Investments (TIB), which holds 60,4% of Technical Investment Corporation (Tegkor) and 9,6% of Rembrandt Controlling Investments.

DONNY GORDON

ANTON RUPERT

Tegkor has 40,6% of Rembrandt Controlling, which has 51% of Remgro.

Similarly, the Rupert and Herzog families control the R20,2-billion Richemont empire.

Under existing rules, the Ruperts could sell control in TIB and pocket the premium any buyer would have to pay. Shareholders in the downline companies would receive nothing.

The Gordon family controls Liberty Life, capitalised at R14-billion, with slightly more than 8% of the equity, through four pyramid companies. The family owns 61,2% of Liberty Investors, which has 100% of DGI Holdings, which in turn has 50% of Liblife Controlling Corporation, the holding company with 52,1% in Liberty Holdings. It has 52,7% of Liberty Life.

There are 67 pyramids on the JSE, 22 of which are family owned, says McGregor's Online Information

The notion of a tiny elite controlling huge empires may be repugnant to minority shareholders and those on the political left. But there are strong arguments in favour of family control.

Raymond Ackerman's tight control of the group and aggressive marketing harvested a bonanza for shareholders. Pick 'n Pay trades at more than three times its net asset value.

## Hostile

Liberty, controlled by Donald Gordon, trades at nearly twice its net asset value. Remgro's premium to net assets is 250%.

A JSE analyst says: "Research shows that well-run family businesses do better for shareholders than those run by professional managers."

Anglo and Rembrandt this week said unbundling was not for them.

Because pyramids entrench control by families and institutions, hostile takeovers are virtually unknown in SA.

Competition Board chairman Pierre Brooks says hostile takeovers keep management on their toes and answerable to shareholders.

## Boost

Virtually all major SA companies are controlled through pyramids. It means that other than exercising their right to sell shares in poorly performing companies, minorities have little or no scope for action.

In London or New York, predators would target an underperforming company, fire the board and dismember the group to boost shareholder returns.

The JSE banned pyramids in the late 1970s and early 1980s, but made an exception in the mid-1980s when Raymond Ackerman floated Pikwik, Pick 'n Pay's holding company. Unlike other empire builders, Mr Ackerman agreed that if he ever sold control of Pikwik, Pick 'n Pay shareholders would also receive an offer.

Pikwik opened the door for other empire builders such as Natie Kirsh, Jeff Liebesman and Bill Venter — none of whom agreed to make an offer to minorities if control in the top company changed.

A pyramid can be formed by placing 50% plus one share in a holding company and then selling slightly less than half the holding company to others. The process can be repeated again and again.

# Roping in the private sector to help small business

South 15/5 - 19/5/93

360 180

PROVIDING a small business with an experienced business mentor from the formal sector could mean the difference between success and failure.

This vital process remains one of the major challenges facing the small business support fraternity, like the Small Business Development Corporation (SBDC).

The challenge can be addressed in co-operation with the private sector by recruiting a few hundred dedicated and experienced mentors willing to help emerging entrepreneurs handle the many obstacles facing them in the early phases of their businesses' development.

*Everybody's* **BUSINESS**

Some of these mentors might be sponsored, others might arrange some payment from the enterprises they represent. But most should come forward and get involved on a volunteer basis.

Their brief would involve:

- Adapting technical expertise available to formal sector enterprises to meet the special problems facing emerging entrepreneurs;
- Bookkeepers interested in making a contribution will have to know how to draw up meaningful sets of "statements" from scratches of paper and shoeboxes full of "information" — and present it to the entrepreneur in a way that he or she really understands and is able to use;
- Franchisors have to play a more active role in designing new types of franchises that effectively transfer skills, maintain financial discipline and strengthen independent entrepreneurship — yet do all of this at a reasonable and attainable franchise fee;
- Suppliers of emerging black enterprises should realise the developmental role they can and should play in effectively planning and executing deliveries of equipment, new materials, finished goods and other commodities. Quite often the supplier can be the most effective trainer, if willing to undertake that role;
- Financial institutions should accept that current accounts and other normal client services offered to black entrepreneurs provide the opportunity for active training in how to handle their money. Even though this takes time, costs money, and is not a statutory part of bank-client relationships;
- Training institutions offering courses to small enterprises still have a long way to go in finding new and innovative ideas to effectively teach the large number of informal and emerging formal sector entrepreneurs who need skills, but find conventional training methods inappropriate;
- Established enterprises in the formal sector should "adopt" emerging black entrepreneurs, especially in their own sphere of expertise. For example, a pharmacy in Bellville or Claremont could play a partnership role for black pharmacists in, say, Khayelitsha, advising on shop lay-out, pricing, credit control, supply channels, security and medical aid matters. Part of the adoption would imply visiting the newcomer's establishment. Another would entail the newcomer's presence in the well-run shop or industry;
- Chambers of Commerce, industry and related bodies can be used to mobilise panels, or willing "partners", in specific business sectors, so that emerging entrepreneurs can choose likely mentor candidates, and;
- Black entrepreneurs who operate black/white partnerships can show that non-racial business relationships are equally advantageous to both parties. The fastest route to black business advancement can lie in the acceptance of the partnership challenge.

**MENTORS: Small businesses need experienced business mentors from the private sector to help them with training and skills**

METRO SECURITY

# Corporate spying on the rise in SA

(180) S/Times [C/metro] 23/5/93

SPYING and phone tapping, long the domain of the security forces, is shifting to corporate boardrooms as companies fight for a competitive edge.

A painful recession has fuelled a rise in industrial espionage in Johannesburg as the desperate seek sometimes illicit methods to boost profits.

Security firms report a growing number of business clients in the market for private investigators and bugging devices to watch over their rivals and staff.

"People will do crazy things to make more money to feed their families," said Angela Henderson, who handles sales at Call Guard Service, which bills itself as a specialist in commercial and industrial investigations.

"They're more concerned than ever about small percentages in profits."

The company is one of several focusing on the business sector in the 15 pages of security firms advertising in the Cape Peninsula's Yellow Pages telephone directory.

She said demand was so great that the firm had widened its stable of agents, many of whom had had military training.

Business analysts and security sources say it is impossible to quantify how much eavesdropping is going on in the shadowy world of industrial espionage, as only a small percentage of incidents are reported.

By JUDITH MATLOFF

But they agree the number of boardroom James Bonds is growing.

"Business is booming," said Dave Miller about his Spy Shop, where many companies go to shop for surveillance equipment.

Several cases of high-profile corporate spying have surfaced in the press, raising questions over how many more incidents have gone unnoticed.

## Fired

In one particularly notorious case, private investigators discovered a bug attached to the telephone line of the chief executive of financially-troubled Motor Racing Enterprises, Dave McGregor.

Then there were claims by fired bank boss Bob Aldworth that a fellow executive had ordered the tapping of telephones in a messy business dispute.

Analysts say it is not just the weak economy which is encouraging illegal means to boost profits.

A lawyer who has represented businessmen involved in some of Johannesburg's more bitter industrial battles described a web of surveillance and counter-surveillance more befitting the security forces.

"More and more people are taking precautions and keeping records of what they — and others — say."

Miller said his shop used to serve mainly foreigners and security forces, but the client base was now widening to corporate circles. Business is so good, he has opened two new branches.

He said it was technically illegal to plant bugs on other people's telephones.

But Miller does not dig into what people plan to do with the equipment they buy at the shop, which offers a range of gadgets including bugs which can be fitted to flower pots, telephones or ashtrays.

"I don't ask questions," he said. - *Sapa-Reuter*

# Analysts expect Barlows to maintain dividend

BDPM 24/5/93

BARLOW Rand was likely to maintain its first-half dividend at 54c a share on expected lower earnings to be announced this afternoon, analysts said.

"Unfortunately Barlows is involved in markets that just haven't turned yet and are not going to in a hurry," said Syd Vianello of Ed Hern, Rudolph.

Poor recent results from its UK-based J Bibby and Sons would hit Barlows' earnings hard, analysts said. "It turns out that Bibby overpaid drastically for Spain's Finanzauto in the takeover last year," Vianello said.

Analysts' forecasts were in the region of a 10% fall in earnings to 186c a share from a previous 207c but some analysts said the decline could be slightly bigger. (180)

Full-year results ~~were~~ not expected to be any better than those in the first half despite predictions by the group late last year that it hoped to maintain earnings in the current year.

However, the expected dent in profits in the period to March 31 would have been worse had it not been for surprisingly good recent results from some of its interests, analysts said.

Packaging subsidiary Nampak was the best example, they said. Operating in stiff market conditions, the group reported a 21% rise in earnings to 313c for the first-half to end-March, well ahead of expectations.

Analysts said Barlows ~~would~~ have been aided by tax adjustments after the recent drop in the corporate tax rate to 40% from 48%, although the new 15% tax on cash dividends had been introduced as well. — Reuter.

# Intervention has a role to play as trade is liberalised

BDAY 24/5/93 (180)

RASHAD CASSIM and ALAN HIRSCH

IT IS now part of the conventional wisdom that import liberalisation is a key mechanism for enhancing firms' efficiency and export capacity. In SA, where several inefficient industries are among those most heavily protected, some see liberalisation as a quick fix.

This is a simplistic view. However, there is less disagreement on the view that protected economies are likely to benefit from *some* import liberalisation, than there is over the extent, the sequencing and the pace of such a process.

The main issues are whether import liberalisation precedes or succeeds export success, whether such a process should be swift or gradual, and whether it should occur at a time of macroeconomic stabilisation.

The classical argument in favour of protection is the infant industry which allows domestic industries to be established and grow until they become efficient. But it often leads to inefficiency with a wide disparity between domestic and international prices. Protectionism can protect jobs by preventing a flood of imports, but it can be a burden to consumers and it can direct investment to inappropriate industries.

The World Bank distinguishes import liberalisation from trade liberalisation. Trade liberalisation includes devaluation and direct export promotion measures in addition to import liberalisation.

The liberalisation orthodoxy of the '80s advocated the earliest and fullest possible import liberalisation, beginning with the replacement of quantitative restrictions by tariffs. The second step was to move rapidly towards a more uniform tariff structure, and the final step was to lower the remaining uniform tariffs towards complete free trade. Trade liberalisation was part of overall economic liberalisation.

The orthodox view suffered from various inadequacies. Firstly, it advocated wholesale liberalisation and precluded selective policies, for example, tariff liberalisation of one sector in conjunction with continued protection for others. Secondly, it saw little scope for reformed interventionist policies to, for example, enhance the provision of strategic inputs. For the orthodoxy, the less state intervention, the more successful the liberalisation programme.

Most importantly, the orthodoxy saw no distinction between trade policy and industrial policy. Industrial policies — for example assistance for restructuring industrial sectors which evolved under import substitution, help for export promotion through selective liberalisation of imported inputs, or protecting a domestic market as a reward for exporting — were not given much consideration.

Evidence suggests that liberalising output, employment and the balance of payments is often negative in times of macroeconomic instability, especially in developing countries.

The argument that import liberalisation leads to export promotion is particularly weak. Recent studies have shown virtually no evidence of a direct link between import liberalisation and manufactured export performance.

Successful attempts to reduce the anti-export bias in the '70s and '80s in countries such as India, Turkey and Mexico were based on export promotion measures rather than on the liberalisation of imports. Import liberalisation usually came after manufactured export success.

The transition to manufacturing for exports has taken a variety of forms. In Colombia, Mexico and Turkey, for example, exports grew from protected and import-substituting industries. Previously import-substituting production provided the base of experience and learning that eventually made exporting possible.

Recent studies of the exporting success of Korea and Taiwan show trade liberalisation was a very gradual process. In certain sectors it was implemented in conjunction with selective import controls and protection of other sectors.

The substantial role of government institutions in Korea and Taiwan in designing industrial and trade policy is no longer disputed.

In Chile, which is considered a classic prototype of full and speedy liberalisation, the results are mixed. Even there, liberalisation took five years. The reforms' success also had to be questioned since they led to increasing imports and unemployment, and a relative weakening of the manufacturing sector.

In Australia, tariff liberalisation did not have the anticipated effects. In 1975 the government implemented a 25% across-the-board tariff cut which had a severe impact on labour intensive industries such as textiles, clothing and footwear.

The Australian experience holds important lessons. Firstly, a loss in supply capacity where imports undermine the market share of companies with high fixed capital requirements is hard to reverse. Secondly, tariff liberalisation as a strategy to restructure industry is risky and assumes that export markets are open to new entrants — a bold assumption. Thirdly, the removal of tariff protection has not resulted in a substantial growth in manufactured exports.

The performance of SA's manufactured exports, with the decline of traditional exports, has given urgency to the debate on the role of trade liberalisation. SA's relatively poor performance is attributable to inappropriate trade and macroeconomic policies which resulted in an anti-export bias, leaving few incentives for manufactured firms to export.

On this basis, a 1990 IDC report commissioned by government recommended a fairly radical programme of import liberalisation, culminating, after five years, in maximum tariffs of 15% for capital and intermediate goods, and 30% for consumer goods. This recommendation apparently formed the basis of SA's offer to the Uruguay Round of GATT which, we understand, is being reconsidered.

According to a recent World Bank study the real problem with SA's trade regime is not so much overprotection, which is moderate by middle-income developing-country standards, but the complexity and fluidity of protection.

Also, SA still suffers from an anti-export bias which expresses itself in two ways. Firstly, profit margins in the domestic markets are higher than in external markets. Secondly, input costs are above world prices.

The World Bank paper agrees, implicitly, with critics of the "SA orthodoxy" that the immediate reduction of tariffs would have adverse effects on an already stagnating economy. The paper suggests alternative ways in which the anti-export bias could be addressed. Immediate attention should be given to input costs by creating a free trade regime for exporters, possibly through improving the duty rebate system for inputs into exports. In addition, the tariff system should be rationalised. Gradual liberalisation should follow improvements in exports.

While the World Bank paper provides valuable support for a more considered trade reform strategy, it says little about industrial policies that might strengthen potential export sectors. Our policy investigations aim at combining trade policy reform with industrial strategies designed to improve competitiveness.

**□ The authors are attached to the Trade Policy Monitoring Project at UCT which is sponsored by the ANC-linked Macroeconomic Research Group. This is an edited version of an article in the latest edition of Trade Monitor.**

LETTERS

out for the day leaving all the doors

# Poor growth stifles Barlows earnings

(180)

BDM 25/5/93.

MARCIA KLEIN

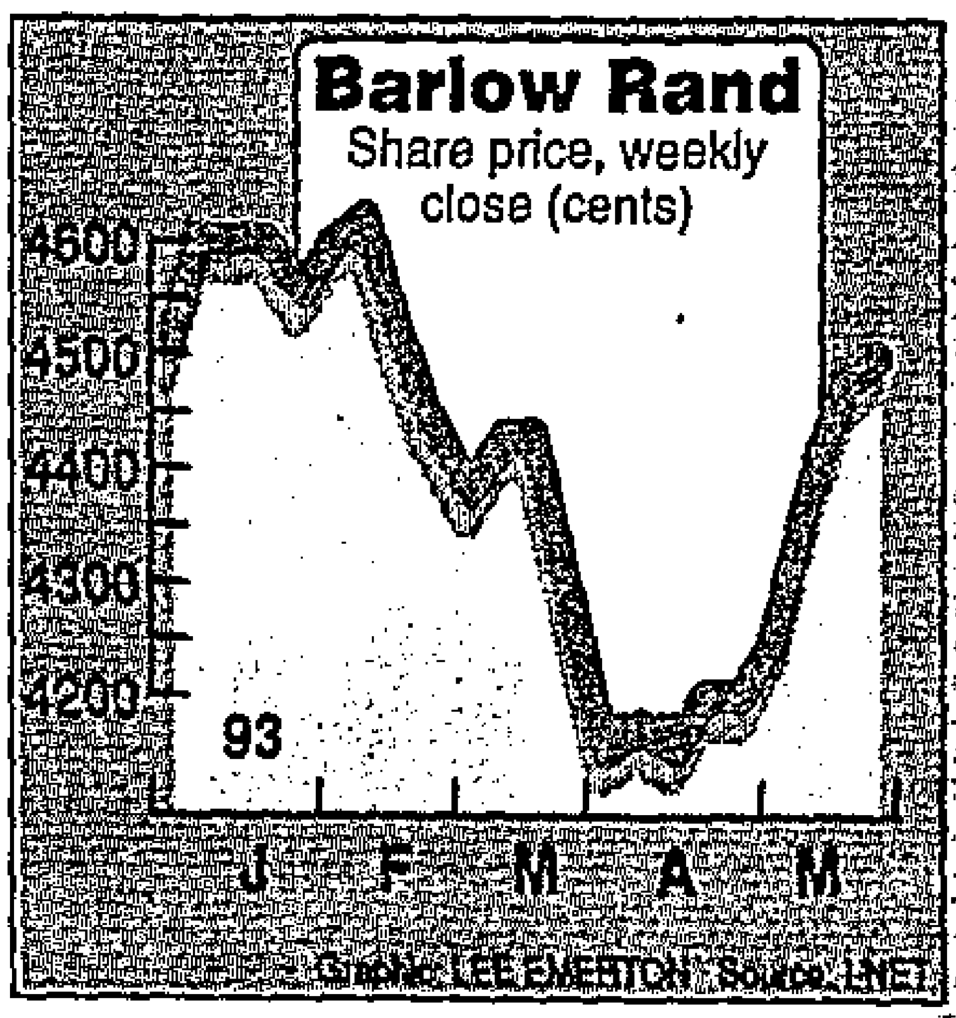
BARLOW Rand's attributable profit declined 4% to R384m (R400m) in the six months to end-March. A lower contribution from its mineral resources, food and international interests offset better results from the packaging, textile and industrial divisions.

Earnings were down 5% to 196c (207,3c) a share on a higher number of shares in issue. The interim dividend was maintained at 54c a share.

MD Derek Cooper said the 10% increase in turnover to R18,7bn (R17,1bn) reflected higher turnover, but little real growth, in all divisions. Strong turnover growth was reported by international arm J Bibby which included the acquisition of Spanish Caterpillar dealership Finanzauto.

Operating profit before interest declined 5% to R1,3bn (R1,4bn) as margins, particularly in its food interests and J Bibby, came under pressure. The average margin was reduced to 6,9% from 8,1% previously.

The interest bill declined 9% to R279m (R305m). But lower rates and reduced bor-




rowings after the receipt of the proceeds from the December 1991 sale of Middelburg Steel & Alloys were partly offset by a fourfold increase in J Bibby's interest bill.

Pretax profit was 3% down at R1,2bn (R1,3bn). Tax was 4% lower at R414m (R432m) as a lower company rate and deferred tax release were offset by secondary tax on companies. Cooper said the

☐ To Page 2

## Barlows

BDM 25/5/93 · (180)

☐ From Page 1

lower tax had a R33m positive effect at the attributable level.

The 128% increase in Barlow's share of associates to R23m (R10m) was largely due to NBS and its leasing interests. Net income was down by 1% to R823m (R832m), but an increase in profit attributable to minorities, which reflects more minorities in C G Smith Sugar and a good performance by the computer interests, saw a 4% decline at the attributable level.

Mineral resources, feeling the effects of depressed coal demand and prices and a 13% drop in the local market, contributed 23% (26%) of attributable profit.

Food and pharmaceuticals results dropped 8% on the back of a decline in food volumes and the effect of the drought, bringing their contributions to 18% (19%) of attributable profit.

International interests' results dropped 70% to contribute only 4% (12%) to profits, reflecting a sharp drop in J Bibby's results with losses in Finanzauto.

The industrial interests increased their contribution to 32% (29%) of profits. Cooper said Reunert and Persetech had performed well. Results from steel processing and distribution operations were lower, and consumer electric products reported a sharp fall in earnings as the household durables market declined. Packaging and textiles increased their contribution to 16% (12%) of profits on the back of buoyant results from Nampak and Romatex.

Cooper said the group had continued to stabilise the cyclicality of earnings. Commodities made up 22% of profits, but consumer and end-user interests' contribution rose to 43% (36%) of earnings.

Trading conditions would remain difficult in the second half. Attributable profit for the full year would "show a decline at a rate greater than the 4% of the first six months", but the total dividend should be maintained at 173c a share.

# Barlow Rand profit slips on slow growth

CT 28/5/93

(180)

From MARCIA KLEIN

JOHANNESBURG. — Barlow Rand's attributable profit declined by 4% to R384m (R400m) in the six months to end-March. A lower contribution from its mineral resources, food and international interests offset better results from the packaging, textile and industrial divisions.

Earnings were down 5% to 196c (207,3c) a share on a higher number of shares in issue. The interim dividend was maintained at 54c a share.

MD Derek Cooper said the 10% increase in turnover to R18,7bn (R17,1bn) reflected higher turnover, but little real growth, in all divisions. Strong turnover growth was reported by international arm J Bibby which included the acquisition of Spanish Caterpillar dealership Finanzauto.

Operating profit before interest declined by 5% to R1,3bn (R1,4bn) as margins, particularly in its food interests and J Bibby, came under pressure. The average margin was reduced to 6,9% from 8,1% previously.

The interest bill declined by 9% to R279m (R305m). But lower rates and reduced borrowings following the receipt of the proceeds from the December 1991 sale of Middelburg Steel & Alloys were partly offset by a fourfold increase in J Bibby's interest bill.

Pre-tax profit was 3% down at R1,2bn (R1,3bn). Tax was 4% lower at R414m (R432m) as a lower company rate and deferred tax release were offset by secondary tax on companies. Cooper said the lower tax had a R33m positive effect at the attributable level.

The 128% increase in Barlow's share of associates to R23m (R10m) was largely due to NBS and its leasing interests. Net income was down by 1% to R823m (R832m), but an increase in profit attributable to minorities, which reflects more minorities in C G Smith Sugar and a good performance by the computer interests, saw a 4% decline at the attributable level.

Mineral resources, feeling the effects of depressed coal demand and prices and a 13% drop in the local market, contributed 23% (26%) of attributable profit.

Food and pharmaceuticals results dropped 8% on the back of a decline in food volumes and the effect of the drought, bringing their contribution to 18% (19%) of attributable profit.

## Offshore interests

International interests' results dropped 70% to contribute only 4% (12%) to profits, reflecting a sharp drop in J Bibby's results with losses in Finanzauto.

The industrial interests increased their contribution to 32% (29%) of profits. Cooper said Reunert and Persetech had performed well. Results from steel processing and distribution operations were lower, and consumer electric products reported a sharp fall in earnings as the household durables market declined. Packaging and textiles increased their contribution to 16% (12%) of profits on the back of buoyant results from Nampak and Romatex.

Cooper said the group had continued to stabilise the cyclicality of earnings. Commodities made up 22% of profits, but consumer and end-user interests' contribution rose to 43% (36%) of earnings.

Trading conditions would remain difficult in the second half. Attributable profit for the full year would "show a decline at a rate greater than the 4% of the first six months", but the total dividend should be maintained at 173c a share.

# St Helena to step up gold production

WELKOM — Gengold's St Helena gold mine plans to increase gold production by 55kg a month to 520kg a month by vacuuming gold underground.

The Transvac process, unique to St Helena, is currently allowing the mine to recover 65kg a month. St Helena wants to increase its Transvac recovery to 120kg a month by the end of 1993.

To achieve this, St Helena is counting on government granting its request to extend its working week to seven days.

St Helena says it plans to reduce costs to R22 000/kg from the current R29 000/kg by increasing the amount of gold produced per ton milled and by streamlining its management structure to improve productivity. BDM 26/5/93.

However, St Helena geologist Gary Chapman says the mine has already cut its costs to the bone, and is relying heavily on the Transvac system to increase the amount of gold it produces.

"We can't rationalise any more unless we close shafts," Chapman says.

St Helena has reduced its workforce to 3 000 from about 12 000 in 1989. — AP-DJ.

# W&A boss promises return to profitability

BDM 26/5/93

MARCIA KLEIN

THE W & A group would return to profitability and dividend payment in 1993 on its strengthened balance sheet and association with Trencor, executive chairman Jeff Liebesman said in the annual review.

Earlier this year the group announced an attributable loss of R11,5m (profit of R129m) for the year to end-December. It also announced a R650m rights offer, which would result in Trencor gaining joint control of the group.

Liebesman said the R650m raised and the Trencor deal had been appealing as the process of selling non-core interests "and applying the funds to group debt had proved a long, slow one".

The group received an immediate cash injection of about R650m and a partner, Liebesman said. Now degearing and focusing would proceed from a financially secure base and at a steady pace. Gearing after the rights issue was 44% from 139,6% at year-end.

He said the principle of acquiring underperforming assets and turning them into good businesses remained a sound philosophy. But as the group had started with no equity, it had to borrow to acquire and had needed quick returns on its investments.

High interest rates and the severe recession had placed strain on the group, and the debt burden was an obstacle to growth. In an attempt to degear the group and improve its focus, W & A began to dispose of non-core interests, but progress was slow.

Liebesman said financial results to end-December were poor, but it was a good year for getting the group into shape.

UK-based AAF, the tyre division of Gentyre, The Fabric Library, Form-Scaff/SGB, the housewares division and JD group had perfomed well.

The consumer distribution division's contribution to W & A had declined, and National Bolts had turned in a loss.

The motor dealership business had returned to profitability, and the automotive replacement parts investments had been incorporated into a new listed company Varex Corporation.

The offshore scaffolding, shoring and formwork operations were expanded through a R116,8m acquisition, and AAF had made a number of acquisitions. FSI Holdings was listed on the Zimbabwe Stock Exchange. The group sold its interest in Noristan and, since year-end, had sold Sembel-It for R18m.

Liebesman said the operating environment was unlikely to improve in the short term, but the group was confident about the future. Core businesses had the resources to withstand and even prosper in arduous circumstances, and the balance sheet had been strengthened.

# NEI Africa merges two divisions

BDM 26/5/93.

ANDY DUFFY

ENGINEERING group NEI Africa has combined two of its 10 divisions in an effort to weather depressed market conditions.

The UK-owned group, which in the year to December suffered attributable losses of R18,1m, merged its troubled Ical division into boiler manufacturer John Thompson Africa.

The R120m-a-year company would be headed by JTA MD Garth van Nierop.

Ical MD Terry McGowan would leave, and further staff losses were expected as NEI salvaged Ical's profitable business.

NEI MD and CE Laurence Hyslop said closures and retrenchments would be decided by the division's management soon.

The combined operation would be profitable by the year end.

The merger was in line with plans outlined by NEI earlier this year to restructure after a deterioration in its performance.

Ical, which at one time accounted for more than half NEI's turnover, had seen orders for utility boilers dry up.

NEI planned to sell two other divisions. However, Hyslop said there had been no movement on these proposals since the company reported its results in March.

Once again I

# Business urges negotiators to avoid impasse

(180) GRETA STEYN

THE SA business community has urged negotiators at the multiparty talks to heed the disastrous economic consequences of a political impasse. (PTD)

Their message is that SA cannot afford a "devastating" setback of the kind that occurred after the breakdown of Codesa.

The Business Forum — representing umbrella organisations for commerce, industry and agriculture — is to table a statement on the economy at the negotiating council meeting in Kempton Park tomorrow. It had originally intended to table the statement on Tuesday.

The forum said in a statement yesterday: "Another political impasse will lead to more business closures, the withdrawal and withholding of investment, a further flight of capital and skilled manpower and further loss of job opportunities." The business sector could not fulfil its function as the engine of the country's economy in a climate of uncertainty, instability, disorder and violence.

Every political party had a burden of responsibility to create conditions — especially regarding the promotion of peace — in which a prosperous, nonracial SA could be attained. BDAY 27/5/93

The forum appealed to the participants to show flexibility, the ability to compromise and realism to keep negotiations on track towards an early conclusion. SA "desperately" needed a political solution acceptable to most South Africans and the international community, and which would stand the test of time.

The transformation was at a critical stage and the negotiations process appeared vulnerable and fragile. "Unless the resumed political negotiations succeed, the impact on employment and the economy — which is in its fifth year of recession — will be devastating."

Organisations represented by the forum include the Afrikaanse Handelsinstituut, SA Chamber of Business, Bifsa, Chamber of Mines, Council of Southern African Bankers, Fabcos, Nafcoc, SA Agricultural Union, Saccola, Seifsa, SA Property Owners' Association and the Life Offices' Association.

Doctors and lawyers should be treated like any other businessmen, says **Errol Price**

Star 27/5/93

# Scrap protection of professions

~~248~~ ~~246~~ 180

RECENT developments have convinced many in South Africa of the need to free the economy from unnecessary restrictions which have hampered productivity and economic growth.

Thus we have seen the withdrawal by the State from the control of certain industries, or sectors of the economy, as well as the dismantling of such patently inefficient mechanisms as control boards.

Deregulation is not only of benefit in industries where the State has a direct or indirect interest, but also in those areas of the economy where over-regulation has led to the undesirable concentration of economic power in the hands of a few, or has created supply bottlenecks, resulting frequently in an upward pressure on prices.

It is also now recognised that these general principles are applicable not only where commodities are sold, but also in service industries in general, including those involving the supply of professional services.

For too long the professions have been regarded as "sacred cows" — beyond public scrutiny in both their general practices as well as their pricing structures.

The idea that the organised professions are not to be judged by any of the criteria applicable to other sectors of the economy has been fostered in large measure by the professional bodies themselves.

As a matter of course, professional bodies tend to insist that they, and they alone, are competent to judge on matters such as the effectiveness of a practitioner's performance, ethical conduct, fee structures, and so on.

In this attitude they have been aided and abetted by a largely supine and frequently gullible South African public.

The concept that professions are fundamentally different from other types of businesses is not only misguided and naive, but positively harmful. If it is not understood that the demand and supply of professional services is subject to much the same economic forces as those acting on other types of non-professional services, the consequences are almost certain to be a misallocation of resources, distorted fee structures and the reduced availability of much-needed services.

Members of professions have historically insisted that they be given special statutory protection which has often been augmented by further regulations instituted by their particular governing organisations.

It is no coincidence, therefore, that the suppliers of services which are not traditionally treated as "professional" often aspire to that status so that they are able to organise themselves along the same lines and enjoy similar advantages.

However, since most professionals — other than those in fixed-salary positions — like any other rational suppliers of services, wish to maximise their income and act accordingly within the parameter of their chosen occupation, the grounds for such pervasive protection are difficult to justify.

In July 1992, the Competition Board, following a request from the Cabinet, published a report "regarding the inhibiting practice of closed professions which are in conflict with the public interest".

The board concluded that professional services should be subject to competition norms.

It pointed out that statutory and regulatory restrictions, which professionals had often stressed were for the protection of the public, were more usually designed for the protection of members of the professions.

It therefore recommended that restrictions on competition in the supply of professional services be speedily removed.

As a result, we are now beginning to see some tangible progress in the direction of deregulating certain professions — notably in medicine and pharmacy.

In some cases, it is fairly obvious that deregulation will lead to immediate benefits for the public. For example, the costs of prescription spectacles supplied by specialist retail outlets are far lower than those supplied by optometrists in private practice.

It is also fairly clear that the Government's stated intention of allowing pharmacies to operate on supermarket premises, and the wider supply of generic drugs, will result in substantial savings in the cost of medicines to the consumer.

In other cases, the nature and effects of the restrictions are less apparent. The legal profession, for example, is one of the most excessively regulated of all professions.

The result of this over-regulation of legal services is that this market is among the most-distorted economically of any pertaining to professional services. Any attempt to dispense with anachronistic privileges such as the advocates' exclusive rights of audience in the Supreme Court is fiercely resisted, regardless of the interests of the public.

At the same time we have recently witnessed the spectacle of attorneys in the Cape Province threatening confrontation with a major banking institution which had the temerity to suggest attorneys should reduce their conveyancing fees.

This instance highlights one of the main problems with regard to the cost of professional services. Generally, only a large institution with financial muscle is capable of challenging an organised profession.

As the Competition Board pointed out in its report, the individual consumer is for all practical purposes powerless. The board concludes: "... only the greater exposure of professions to marketing forces can provide a proper balance."

The situation which now prevails in South Africa, where professional services are frequently beyond the reach of vast sections of the population, can no longer be tolerated.

Elitist professional institutions, redolent of ancient class-divisions, and professionals sheltering behind protectionist economic barriers, cannot be allowed to maintain the *status quo* in the "new" South Africa.

Urgent attention must be given to changing the manner in which professionals *operate* in this society, in the face of the massive, political, social and economic changes already under way.

● *Errol Price is a lawyer practising in Johannesburg.* □

# Trencor's backing will help revamp at W&A

Star 27/5/93

By Stephen Cranston

The de-gearing and focusing of W&A will proceed from a financially secure base and at a steady pace, says executive chairman Jeff Liebesman.

Writing in the annual report for the year to December, Liebesman says that through Trencor's support of the R650 million rights issue, W&A has acquired a partner "whose sure hand will be of invaluable assistance to us in guiding this group to that destiny we envisaged when we founded it."

He says that while there has been speculation about the compatibility of the two corporate cultures, there is high level of affinity and respect between W&A and Trencor, as well as complete agreement on the broad principles of W&A's future.

180

Liebesman is unrepentant about his policy of building the group with high borrowings. He says that the group was founded on the principle of building wealth and value for investors by acquiring underperforming assets and turning them into good businesses.

"Because we started with no equity, however, we had to borrow to acquire and we needed reasonably quick returns on our investments.

"In normal times these would not have been pressing problems, but the harsh regime of high interest rates and severe recession which ensued placed great strain on the group."

Liebesman says that the heavy debt burden proved an obstacle to growth and a distraction for management.

It clouded the market's perceptions of the group and prevented a proper appreciation of the group's assets and achievements.

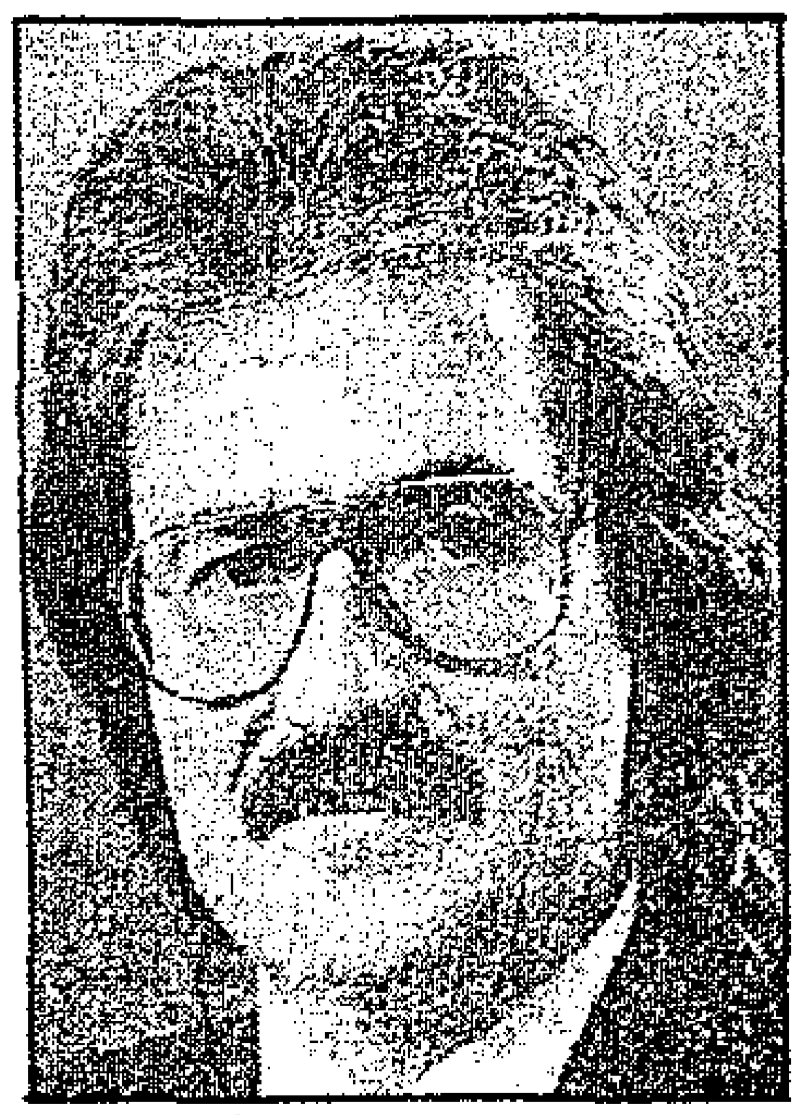
During the year W&A sought to define its core interests which it says covers businesses with substantial growth potential in real terms, are of an appropriate size, supply basic products and services to essential industries or mass consumer markets, and are capable of providing the required level of returns.

These core businesses include Gentyre, spares and motor car distributor Vektra, the scaffolding interests in Form-Scaff and AAF Industries, JD Group and National Bolts.

Management is reluctant to pick out its non-core businesses too specifically, but they are believed to include W&A Textiles, Metrotoy and coal distributor MacPhail, the 31 percent holding in Milstan and perhaps Housewares Exclusive and John Craig.

Increased contributions to W&A were shown by the JD Group (up from R16,2 million to R19,7 million), Form-Scaff (up R1 million to R43,9 million), AAF Industries (more than doubling from R3,2 million to R8,2 million) and Curnow M&G (more than coubling to R394 000).

All other group companies had reduced contributions with industrial and automotive fasteners showing a R1,8 million loss.



Jeff Liebesman ... heavy debt burden proved obstacle to growth.

FM 28/5/93

# In the public interest

189

## The Competition Board has a role — but does it have enough power?

**The Competition** Board is something of an enigma. Elements of big business fear it, small business reveres it and government sometimes ignores it.

The board's profile has been raised in recent months through its issue of a host of far-reaching recommendations — some of them hardly to do with private commercial transactions, the board's perceived focus.

For instance, the health sector was shocked last year by the board's finding that health care operates "restrictive practices that don't serve the public interest."

The resultant recommendations were even more disturbing to an industry that has been protected for years by a host of statutory regulations. Condemning maximum, minimum and recommended fees as price-fixing, the board proposed an end to the guaranteed payments that medical aid schemes make on receipt of a claim. It also said schemes should be allowed to supply and finance health care services.

Most of the board's recommendations became law in the Medical Schemes Amendment Act, passed in February.

Another recent landmark report has been the one on the professions. The board has found — not unexpectedly — that a host of regulations restrict competition in each profession and guarantee professionals their (often exorbitant) fees.

And the board wasn't short on suggestions of how to end what it regards as an abusive situation. Some of these include: ending all restrictions on advertising and marketing; allowing fees to be completely negotiable; and allowing a person with a lesser, but appropriate, qualification to perform certain services at competitive prices. The recommendations of this report, which amount to extensive deregulation, were submitted to Cabinet. They have had substantial influence on government attitudes.

The board's recommendations on health care and the professions are particularly significant because they amount to deregulation rather than new regulation.

The recent strengthening of support from government gives the Competition Board — traditionally constituted to prohibit restrictive business practices and to sanction acquisitions — a new dimension. Says board chairman Pierre Brooks: "The board is concerned with restrictive provisions in areas such as housing, health and education, where over-regulation could push up the cost of these services to the public."

Brooks is also aware that other legally sanctioned practices restrict competition in the economy. "Tariff policy could be a particular hindrance to competition. If local firms aren't competing with one another, they should at least be competing with international players." He notes that as soon as local business becomes ineffective, it beats a trail to the Department of Trade & Tariffs, asking — in effect — for tariff protection against inefficiencies.

"This clearly isn't in the public interest," says Brooks. And he contests the traditional arguments from some businesses that, because of years of sanctions isolation, they simply can't compete internationally.

"One can only accept these arguments to a limited extent," maintains Brooks, "otherwise this would mean an effective ban on all imports — a move that's simply not going to happen as we move rapidly back into the international economy. We need to accept that firms come and go. Protecting against competition can't secure a firm's existence forever. In the final analysis, market forces won't be denied. Firms that can't adapt will be swept away."

But do we need a Competition Board? Critics argue that market forces should remove the need for any formal competition policies and regulations. Wits University's Daniel Leach, a senior lecturer in business economics, is especially critical of competition policies and US-style anti-trust regulations.

Says Leach: "Authorities mostly don't understand what's happening in the marketplace. They tend to assume that certain practices are monopolies when they merely reflect effective competition. By constantly emphasising market share and concentration, they ignore the competitive rivalry among existing firms and the threat of new firms."

Leach says anti-trust legislation in the US has been used mostly by smaller firms to stave off cheaper prices offered by larger, more efficient operations. "In this sense, anti-trust policies have done little for the consumer. They have merely succeeded in protecting inefficient smaller players."

To illustrate this point, Leach cites the IBM case in the US. IBM spent 13 years in court, from 1969 to 1982, fighting off a host of complaints from smaller competitors. The US Justice Department eventually dismissed the case (with IBM's bill at US$1bn).

Brooks disagrees. He says there will always be a need for a Competition Board or some equivalent institution to stop people distorting the market. "As soon as you collude to fix prices, market share and tenders, you don't have a free market. Without strictly enforced rules, the competitive market can be eroded and subverted from within through agreements not to compete.

"There can also be consolidation of industrial control in the hands of dominant firms and private and government power complexes. All countries whose economies are essentially market-driven have laws governing competition."

Brooks warns that countries which have interpreted *laissez faire* to mean "whatever business does is to the benefit of the market" have all ended up enforcing heavy anti-trust legislation. "Competition policy should seek to ensure that market forces rather than government intervention remains the accepted norm," says Brooks. The ANC has already warned that it will investigate the possibility of introducing anti-monopoly and merger policies to curb what it sees as monopolies and to end continued domination of the economy by a minority within the white sector. There have also been rumblings that it would break up conglomerates.

Brooks argues that the benefits of competition are at risk in markets which are concentrated. But he stresses the board accepts that some measure of corporate conglomeration or diversification is not only tolerable but desirable. "Monopolies are fine where they reach their position through competitive superiority and don't abuse this position."

The degree of economic concentration in SA is probably too high, says Brooks. There is a danger in having five or six major groups co-existing in parallel, with companies within such groups confronting one another in numerous markets. This multimarket contact induces them to co-operate rather than compete, since they recognise that strong competition in one market might see their rivals retaliate in other markets. This situation is exacerbated, argues Brooks, by substantial inter-group cross shareholdings and interlocking directorates of competing companies.

Economists Brian Kantor and Jos Gerson, however, argue that pyramids and conglomerates allow for effective control of the managers of operating companies, overcoming the famous problem of separation of ownership from control — a feature that plagues companies in the US, where pyramid holdings are not allowed.

SA fared poorly in the recent World Competitiveness report, coming only 10th out of 14 newly industrialised nations, behind Hungary, Brazil, Taiwan and Singapore. Brooks says the anti-competitive climate has been even harsher because SA was without a comprehensive competition policy until 1980. "And even then, financial institutions were initially excluded from the provisions of the Act."

**Brooks** ... *keeping the market open*

But the board, in its 13-year existence, has seldom interfered in the commercial transactions of big business. It has blocked only two mergers.

Copper giants Copalcor and Non-Ferrous Metals' proposed R600m merger was stopped last year for not being in the public interest. The board found that a merger would certainly lead to a monopoly of the entire market — from the purchase of scrap metal through to the sale and manufacture of industrial copper products. Government approved the board's findings.

The board also tried to stop FSI's proposed merger with Arwa's ladies hosiery division. Government overruled the board in March last year, effectively giving FSI 99% market share.

The board is specifically empowered to investigate restrictive practices, acquisitions and monopoly situations — but it essentially lacks teeth, since its findings are merely forwarded to government, which still has the final say.

**Right of appeal**

Political influences highlight the urgent need for reform if the board is to have any role in a future society. "We need to depoliticise the whole process to exclude government involvement in decision-making in competition matters," says Brooks. He envisages a quasi-judicial status for the board, with rights of appeal to higher courts. But he is adamant that he does not want to build empires. "One needs only a few key staff with input from interested parties to ensure a cost-effective and efficient operation." His own Directorate of Investigations consists of only nine professional staff and three administrative personnel.

Brooks's push for greater independence from government is understandable, given his harsh treatment of semi-State organisations accused of anti-competitive behaviour in the private sector. On this score, Wits's Leach says the board is doing good work and could be useful in ridding the economy of State monopolies.

In recent months, Brooks has been inundated with complaints from the private sector covering a range of semi-State activity — accentuated, he says, by the poor economic climate. The private sector argues that it has to consider returns on capital and bankruptcy whereas semi-State companies — even the newly commercialised entities — can always rely on the State and, ultimately, the taxpayer to bail them out. This rationale was accepted by Brooks with his controversial recommendation to SAA to lift its prices to profitable levels and limit its flight frequency to give other players a chance.

He continues: "It's clear that the odds are loaded against these private-sector players. But we want to see as much competition as possible in the marketplace and, where appropriate, we are not averse to some competition coming from the public sector."

"It's a question of trying to work out a *modus operandi* whereby the resources of both sectors can be used to SA's benefit," says Brooks.

That seems sensible, but, as long as the decisions of the Competition Board remain dependent on the whims of whatever Minister has the power to overrule them, proponents of genuine competition will remain uneasy. ■

# Moves afoot to place curbs on controlling shareholders

Star 28/5/93

By Derek Tommey

Moves are under way to prevent controlling shareholders from ignoring the views of minorities and to curb the activities of anyone soliciting funds from the public under false pretences.

On another level, plans are being made to harmonise local company law with that of the European Community in order to encourage foreign investment in SA.

Roy Andersen, president of the JSE, says he expects changes in the Securities Regulation Code on Take-Overs and Mergers.

It is intended to expand the code to cover areas such as the disposal of a business entity in order to provide additional protection for minority interests, especially in the light of a minority resistance to certain disposals.

The need to expand the code arises from companies circumventing restrictions on disposal of control.

They are bypassing the more onerous provisions of the code, but are using Section 228 of the Companies Act, which deals with the disposal of assets.

The section enables the controlling shareholder to vote his own shares and to obtain approval for such transaction by a simple majority of shareholders in general meeting.

The Registrar of Companies, PB Roodt, says the standing advisory committee on company law is looking into the matter of companies issuing shares to the public and calling these "private placings" so as to avoid registering a prospectus.

Roodt says in his report to Parliament that there are seven cases of suspected share offers without registered prospectuses. The cases are still being investigated by the police.

He says the Companies Act does not indicate clearly when an offer of shares is to regarded as an offer to the public.

It is usually left to the courts to decide. But at the stage when a court makes a decision in such a matter, the damage has already been done.

Should a company issue shares or debentures to the public by way of a private placing, it is evident that the registrar will know nothing about the offer and will not be able to exercise any control over it.

While the Masterbond group initially registered a few prospectuses, thereafter it continued to make offers by means of private placings.

Roodt says the standing advisory committee has decided in principle, insofar as it is feasible, to bring company law into line with the law of SA's most important trading partners, in particular those of the EC.

The aim is to create an environment in which the foreign investor will feel at home. This should contribute towards the promotion of investment in job-creating sectors.

In 1992 some 7 469 new companies were formed — 48 more than in 1991.

Their authorised capital was R8,5 billion, which is 10 times more than the R805,3 million of a year earlier. However, the 1992 figures were greatly inflated by two developments.

The first was the incorporation of two semi-government organisations, South African Forestry Company (authorised capital R1,5 billion) and Denel (R1,4 billion).

The second was the registration of a number of foreign airlines as external companies. The inclusion of these companies' total capital lifted to R5,2 billion the authorised capital for new external companies.

The 1992 recession did not dampen enthusiasm of South Africans for starting their own businesses.

Some 6 252 new private companies were registered last year, which was 107 more than in 1991.

# Barlow boss pessimism on the nail

St Times (Buss) (180) 30/5/93

IT was with no self-satisfaction that Barlows managing director Derek Cooper was proved right about the state of the economy.

I remember considering him a misery when six months ago he said he expected no improvement in economic conditions.

Discussing the group's interim results for the half-year to March, we agreed this week that the recession had deepened. Barlows raised turnover by 10% to R18,7-billion, but suffered a 4% decline in attributable earnings to 196c a share. The dividend was held at 56c.

Mr Cooper aims to match the 1992 payment this year even though there is still little that looks bright.

## Paint

The drop in profit was not contained by any once-off advantage of the change in rate on deferred tax provisions. Barlows netted only R6-million from this source — hardly enough to make a difference on pre-tax profit of R1,2-billion.

Only a political breakthrough will trigger the upturn in the economy, says Mr Cooper.

He praises the efforts of Peace Committee chairman and Barlows director John Hall, particularly because the peace movement provides foreign visitors with something to latch on to without aligning themselves to political parties.

Barlows is a bundle of companies. Mr Cooper has been learning from Wendy Luhabe, a recently appointed director of group food company ICS.

The lesson in brief is that a township entrepreneur believes he cannot compete with big business not because of who owns it but because it is big and established.

Taken to the 'nth degree, a group would have to divide itself down to its very matrix to make units small enough for newcomers to compete.

In a nation short of capital, that is not a winning proposition. Mr Cooper looks forward to the World Bank's $1-billion loans and similar, purportedly queuing to get into SA when it becomes politically correct to do so.

## Ventures

He says SA does not necessarily need companies to invest, but it does require capital. "As a nation, we are grossly underborrowed."

Barlows is concentrating its cash at the centre of the group. Calls on the R1-billion cash or near-cash will be twofold — potential ventures with foreign companies and demands for expansion and working capital when the good times roll again.

Among the many investments, electronics and pharmaceuticals did well, and oddities, such as paint, also glowed.

"People are upgrading their shacks and the do-it-yourself market in general is booming," says Mr Cooper.

But food — usually a steady performer — did worse than in the first half of 1992. Drought ravaged the sugar crop and the troubles of the broiler market are widespread. Mr Cooper says the chicken business is reviving.

Consumer-durable earnings did not match those of the previous year's first half, but did well. Overall, including electronics, Barlows industrials made 6% more profit than in the first six months of 1992.

DEREK COOPER: Praise for peace efforts in troubled times

There has been a swing in earnings' sources. This time, 43% of earnings are consumer-generated and 22% derived from commodities — a reversal of the ratios only a few years ago.

## Global

Bibby served to remind that the recession is global.

Mr Cooper says: "We invested in Finanzauto in Spain because it is relatively underdeveloped and there had been good unit sales of earth-moving and other equipment.

"But yearly sales have dropped from 9 000 units when infrastructure was being built for the Barcelona Olympics and Expo to about 3 000 now. We based our decision on 4 000 to 4 500 units a year.

"There is 21% unemployment in Spain and whichever government is elected on June 6 will have to get the economy moving. Spain has been granted £6-billion by the European Community's Equalisation Fund and it has to be spent on infrastructure. What better way to get things moving than by spending somebody else's money?"

What better way indeed? Barlows has been shunned by analysts and its shares trade on 11 times historic earnings at R46. Sooner or later it has to start looking cheap.

# Anglo beats its profits forecast

Star 2/6/93

(180)

By Derek Tommey

Graham Boustred (left) and Julian Ogilvie Thompson at Anglo's press briefing yesterday.

Anglo American has given its shareholders several surprises.

Surprise number one is that its earnings for the year to March are better than predicted six months ago and the dividend has been maintained.

Surprise number two is that it is on the way to becoming a major South American copper producer.

Surprise number three is that it is a world leader in high-energy electric battery technology. In partnership with Germany's AEG, it will soon begin pilot plant production.

Equity-accounted earnings, which were expected to drop 11 percent, fell only five percent from 1 121c a share last year to 1 060c.

Attributable earnings before abnormal items were 14 percent lower at 611c (709c). But after abnormal items they were only eight percent lower at 660c.

## Tax credit

The major abnormal item was a deferred tax credit of R114 million from Amcoal, resulting from the reduction in the company tax rate.

All this has helped Anglo pay an unchanged final dividend of 255c, making an unchanged total of 345c for the year.

At a press briefing yesterday, chairman Julian Ogilvie Thompson said Anglo American had faced difficult times, especially in South Africa.

However, he was pleased with the results, which again clearly demonstrated the logic of the corporation's business and geographic diversity.

The biggest increase in income came from mining financial activities, which contributed R617 million, or 25,1 percent, of income, against R565 million, or 21,7 percent, last year.

The biggest drop was in the surplus on the sale of investments, which fell 79,3 percent from R222 million to R46 million.

It was too early to forecast earnings for 1993-94.

"We sit like everybody else, hoping that the recovery in the US will be sustained."

Deputy chairman Graham Boustred said Anglo had begun research into developing a high-energy battery with the Council for Scientific and Industrial Research (CSIR) in the mid-1970s.

Results were so good that it had entered into a partnership with AEG and Daimler Benz in 1989.

For the past two years a Mercedes Benz 190 has been used as a test bed for the battery and in this time it had travelled 43 000 km without the need for maintenance.

The battery gave the car a top speed of 130km/h and a range of 150km at 80km/h. It generated four to five times the power of a conventional lead-acid battery.

A pilot plant to make 300 batteries next year, rising to 450 by 1996, was on the way.

In 1996 Anglo and AEG would have to decide whether to embark on full-scale production, which would be 25 000 to 30 000 batteries a year.

Ogilvie Thompson said the group's 74,9 percent-owned South American mining company, Mantos Blancos, was planning significant expansion and was committed to capital expenditure of $442 million (R1,4 billion) in the next five years.

It was planning to produce 76 000 tons of copper a year at its Santa Barbara "big pit" mine, 40 000 tons a year at its Mantoverde mine, and 300 000 tons a year at its Collahuasi mine.

Deputy chairman Leslie Boyd said the success of Middelburg Steel & Alloys in the stainless steel market had made him far more confident about prospects for the Columbia project.

# Businessmen can help peace process

Star 2/6/93

By Shirley Woodgate

Business has a stake in community stability, and businessmen must make their own services and resources available to speed up the peace process, says the Consultative Business Movement's Natal chairman, M C Pretorius.

Speaking ahead of The Star/CBM Business Conference for Active Change, to be held in Johannesburg on June 25, Pretorius said business had a role beyond the factory gates.

As proof of successful involvement in community affairs, he cited the case of Mpumalanga, near Hammersdale, dubbed "Little Beirut" at the onset of devastating violence in the Natal Midlands in 1986. Stayways, absenteeism and plummeting productivity followed murder and anarchy. In 1989, business intervened in the Mpumalanga peace initiative at the request of shop stewards.

"Schools were repaired and a community hall is being built by families with opposing views, now ready to work together," he said.

- To book your seat at the conference, see coupon on Page 22.

# Companies seek specialist help with transport

BDay 3/6/93

180

SAKKIE VAN DER MERWE

FACED by mounting complexities and higher operating costs, more organisations are reviewing their fleet policies and consulting specialists to assist them in improving transport management.

Avis Lease & Fleet Management national sales and marketing manager Sakkie van der Merwe says fleet management is a complex science, particularly as every organisation's fleet needs differ.

"For this reason more companies are seeking expert advice and assistance, with many turning to full maintenance leasing (FML) as an alternative to running their fleets."

He says many factors must be considered when reviewing a fleet policy based on cost effectiveness and productivity, including:

☐ How many units should comprise company vehicles?;

☐ Are there alternative ways of ensuring transport without the additional holding costs?;

Are all vehicles productively utilised?;

☐ How does owning a vehicle affect the structure of the balance sheet?;

☐ How should vehicles be financed and what are the tax implications?;

☐ In the event of having its own workshops, how should they be structured to the company's advantage?;

☐ What is the total cost of administering its own fleet inclusive of management time, office space, salaries-/wages and off-road time?;

☐ Is the company's current vehicle policy effective or should it be reviewed?

Van der Merwe says the starting point in any fleet management should be a comprehensive fleet audit carried out by a specialist organisation.

Although the most well-known product in the fleet management stable is FML, other innovations and new technology have emerged since Avis introduced FML 12 years ago.

He says advice on and a choice of financial options can only be made after completing a full fleet audit and assessing tax implications. The most popular options are through a company's bankers; through the FML company; using company funds; operational leases; allowance leases — for staff on company allowances; financial leases; sale and leasebacks.

Rent-A-Truck MD Beau Papenfus says whether FLM or another method of debt financing is favoured will depend on the patterns of cash outflows for each financing method.

Several methods may be used to compare the alternatives. One is the net present cost of differential cash flows relative to the purchase and borrow and buy alternatives, which would indicate that FML is slightly more expensive than cash purchase or instalment.

"However, the method of acquisition of a vehicle or fleet will vary from company to company and the decision maker will consider factors such as the company's financial structure, choice of available methods of financing and the importance of certain aspects such as company image, property rights and risk."

Papenfus says the decision to enter into a FML agreement rests on whether the operating advantages exceed the financial disadvantages.

Bankfin GM (industrial finance) Martin Croucamp says a company may obtain information from a financial institution to assist management or buy software packages which provide information on the most effective fleet management techniques or seek assistance from specialists when buying transport.

# Budget deals a triple blow to companies

Buss. day 3/6/93

COMPANIES with fleets and individuals on car allowance schemes have been dealt a triple blow by the 1993 Budget imposing substantial increases in fuel tax, VAT and PAYE.

Fleetlease Contracts MD David Owens says this applies particularly to businesses that operate inefficient transport schemes.

Higher vehicle operating costs raise the need to obtain greater efficiencies in transport management, he says.

Faced with costs running out of control, many companies have walked away from the problem by paying their employees a car allowance and leaving them to handle it.

"Budgetary changes make the allowance route an expensive option, particularly as the past year has shown that rarely is it an economic solution for either party, as the allowance vehicles move into their third and fourth years of operation."

For example, the employee who has down-graded his car on allowance and generated cash for other purposes is now faced with a 35% PAYE deduction on the allowance.

"This will remove any chunks of cash available and may force the employee to subsidise the vehicle until he can obtain a cash refund, which assumes that he keeps accurate records to support any claim."

Of greater significance is the cost of repairs, which also attracts 14% VAT and in the employees' hands is an added cost, whereas the company car would constitute a legitimate input tax, says Owens.

Compared with the allowance scheme, full maintenance leasing (FML) has benefits for the company and individual, as the vehicle is operated at the lowest costs by skilled people supported by extensive systems.

"Day-to-day control is between the driver and the FML company, as are invoices pertaining to the vehicle. A one-line entry per vehicle covers the company's total monthly cost excluding fuel for that vehicle."

He says that while identifying the 14% VAT element on operating costs, which the company can reclaim as an input tax, the FML supplier will charge VAT on the monthly rental only.

This means instead of VAT being paid on the total price of the vehicle, it is only paid on the monthly rental cost.

The return of high residual values for FML companies on their well maintained vehicles also substantially reduces VAT while contributing to cash flow."

# Company car or travel allowance?

EMPLOYEES offered the choice between using a company car or receiving a travel allowance will find no cut-and-dried answer on which is best, as many cost and taxation issues are involved.

From a tax viewpoint, Ernst & Young tax manager Henk Mellet says the answer will vary from individual to individual.

"It is dangerous to generalise on the respective tax efficiency of the different options."

Apart from the inevitable lengthy comparisons on the tax costs of travel allowances and company cars for employees, factors such as the price of the vehicle and maintenance costs must be weighed up.

Those in doubt can consult a car advisory service provided by banks, or a fleet management specialist at a firm of chartered accountants.

This may help, particularly in view of tax changes and increases affecting vehicles used for business purposes in the 1993 Budget.

However, assuming an employee is bound to accept a travel allowance scheme, it should be remembered he carries full risk of ownership of the vehicle, says Mellett.

He would have to keep an accurate record of all business trips showing mileage performed, repair costs and petrol bills, if he is to claim the maximum tax refund benefit. Otherwise, he may be limited by the tax kilometre claim rate formula.

A possible advantage of a car allowance is it gives the employee the right to choose a smaller car than his employee status warrants, allowing him to pocket a portion of the allowance. But this also has negative tax implications, he says.

Employers and employees who wish to know which option is cheaper can be guided by a bank's car advisory service.

An example is Nedfin's car advisory service (CAS) system, which assistant GM (corporate finance) Franco Regnani says uses data to establish a series of realistic assumptions.

CAS takes account of car prices, discounts, running costs, fixed costs, depreciation and maintenance.

Another option is the car manufacturer. Toyota Lease executive director Neville Frost says his division will tailor packages for specific companies and their employees.

# Company car or travel allowance?

(180)

EMPLOYEES offered the choice between using a company car or receiving a travel allowance will find no cut-and-dried answer on which is best, as many cost and taxation issues are involved.

From a tax viewpoint, Ernst & Young tax manager Henk Mellet says the answer will vary from individual to individual.

"It is dangerous to generalise on the respective tax efficiency of the different options."

Apart from the inevitable lengthy comparisons on the tax costs of travel allowances and company cars for employees, factors such as the price of the vehicle and maintenance costs must be weighed up.

Those in doubt can consult a car advisory service provided by banks, or a fleet management specialist at a firm of chartered accountants.

This may help, particularly in view of tax changes and increases affecting vehicles used for business purposes in the 1993 Budget.

However, assuming an employee is bound to accept a travel allowance scheme, it should be remembered he carries full risk of ownership of the vehicle, says Mellett.

He would have to keep an accurate record of all business trips showing mileage performed, repair costs and petrol bills, if he is to claim the maximum tax refund benefit. Otherwise, he may be limited by the tax kilometre claim rate formula.

A possible advantage of a car allowance is it gives the employee the right to choose a smaller car than his employee status warrants, allowing him to pocket a portion of the allowance. But this also has negative tax implications, he says.

Employers and employees who wish to know which option is cheaper can be guided by a bank's car advisory service.

An example is Nedfin's car advisory service (CAS) system, which assistant GM (corporate finance) Franco Regnani says uses data to establish a series of realistic assumptions.

CAS takes account of car prices, discounts, running costs, fixed costs, depreciation and maintenance.

Another option is the car manufacturer. Toyota Lease executive director Neville Frost says his division will tailor packages for specific companies and their employees.

# Sacob calls for fairer tax distribution

Buss. day 3/6/93

**Business Day Reporter**

A NEW local government system should entail a fairer distribution of the tax burden to enable less affluent communities to benefit from tax revenues generated by commercial and industrial undertakings located mostly in "white" local authority areas.

This recommendation was one of Sacob's submissions, to the President's Council investigation into local government in a new constitutional dispensation.

Sacob urged a dynamic view of local government options which offered choices to cater for different communities.

It suggested a minimum of central control, provided government accepted financial responsibility for basic socioeconomic services and infrastructure. It said the composition of regions should be determined by local communities.

Sacob considered the most important demarcation criteria to include cost effectiveness and efficiency in rendering services; as well as economic interdependence, including the location of tax resources and communities which had the greatest need for service upgrading.

## NEWS IN BRIEF

BDAY 4/6/93

### GDP growth 'unlikely'

THE growth in GDP seen in the first three months of the year is unlikely to repeated in the second quarter, says the Northern Transvaal Chamber of Industries' economic review. (180)

Continuous retrenchment of workers and the higher VAT rate would have a further eroding effect on real disposable income.

"Add this to the depressed consumer confidence and the poor state of household finances and it is clear that final demand is set to decline further, affecting retail and wholesale trade sales and relevant production activities."

BDAY 4/6/93

BUSINESS

# Anglo: Huge and

Wmail 4/6 - 10/6/93. (18'

*Anglo American released its annual rep*
*beautiful. The corporation also des'*

**REG RUMNEY** *re*

ANGLO AMERICAN flourished its annual results at a presentation this week as evidence that diversity is strength. Going on the offensive against suggestions Anglo might follow Gencor's recent unbundling move, chairman Julian Ogilvie Thompson used the after-tax profit to defend bigness.

At R2,461-billion this is down five percent for the year ended March 1993 compared with the previous financial year.

"The logic of the corporation's business and geographic diversity was again demonstrated in a year in which recession continued to grip most of the world's economies," stressed Ogilvie Thompson in the comment that accompanied the annual report.

The idea seems to be that poor performance in one part of the economy, business sector or world is balanced out by good performance in other parts. The downside continues to be the poorer rating investors accord a company whose main business they cannot get a handle on. Anglo shares continue to trade at less than the company is actually worth. Based on the net asset value of almost R36-billion, or 15 392c a share, the gap between what investors are prepared to pay and the worth of the company was around 11 percent midweek when the shares traded around 13 700c.

That creditable five percent decrease in a bad year also hangs on a not-to-be repeated windfall of R114-million arising from the reduction in the tax rate of associate Amcoal to 40 percent. Attributable earnings before that abnormal income were 14 percent down.

Also, Anglo's bottom-line profit for the 1993 year is 21 percent down from the 1990 peak of R3,117-billion.

Anglo also gave presentations on six big business ventures it is engaged in, as a way of showing what a big company can do. Present alongside JOT were Anglo heavyweights Graham Boustred, Les Boyd and Clem Sunter to field questions.

The ventures also demonstrated the mind-boggling diversity of the interests Anglo is prepared to tackle — from precious metal to food to batteries for electric vehicles. Is there another company in the world that is involved in businesses as diverse as those represented by the Moab gold mine, the stainless st Del Mont for electric

Ogilvie the new p pollination the differe

The proj financial r Only a cor Anglo cou engaging i such size,

Continu Anglo's I discusses South A Namakwa Columbu magazine,

The cap projects to enormous to put it i O'Dowd n sents less t the new in to take pla over the f which the developed.

The num ly create spending w Columbus ject, for ins no more th

Boyd ex was a "bro in that it h stainless st

When it 120 000 to now at 140 tons, with a same numb

# getting bigger

*ɔrt and boasted that big is*
*ribed its new projects.*
*ɔorts*

ˈamakwa sands project, the Columbus ·el project, South American ventures, the Foods-Royal deal and a hi-tech battery ·ehicles?

ˈhompson expanded on his theme, saying ɔjects flow from technical skills, cross- of ideas and entrepreneurial initiative in t divisions of the group.

·cts made the best use of limited skills and :sources, he said.

ɔany of the size of ˈl afford the risk of · new ventures of ɜ said.

ıg the official line, .ichael O'Dowd three of the big :ican ventures, Moab, and , in the Anglo's *ptima.*

tal cost of these ,ether will be an ‹5,5-billion. But .to perspective, tes that this repre- ɹn five percent of ɜstment expected ɜ in South Africa ve years during · projects will be

ɛr of jobs actual- by that capital :ll be small. The ɹinless steel pro- ɹnce, will employ ı 2 000 people.

.ained at the presentation that Columbus nfield" rather than a "greenfield" project ɹ taken over the existing Middelburg ɹl plant as a basis for expansion.

was taken over the plant produced s of stainless steel a year. It is running 000 tons, and will be taken to 180 000 total of 1 800 people, more or less the ·r as were employed.

Eventually the plant will produce 500 000 tons of stainless a year with only a minimal increase in staff. O'Dowd puts the number at 2 000 employees.

This will make Columbus the third largest stainless steel producer in the world, and also put it in the world productivity league.

The small number of formal sector jobs underlines the lack of direct, formal sector job creation which can come from capital-intensive projects designed for highly competitive export markets.

Boyd stressed, however, that Columbus would create a multitude of opportunities in downstream and service industries. He said an estimated 10 000 jobs could be created in this way.

However, many of those depend on the ability of local entrepreneurs to make use of the the stainless steel produced to make goods such as stainless steel pots and pans, and the availability of this raw material at a competitive price.

Temporary jobs will be created by the capital spending of Namakwa Sands, 90 percent of which is South Africa-based.

Anglo expects the Del Monte deal to produce jobs downstream as well. It is estimated the increase in food offtake from South Africa for Del Monte Foods International markets in Europe will create 50 000 to 60 000 jobs, chiefly in the western Cape.

The flip side of the coin of such capital-intensive projects is potential earnings of desperately needed foreign exchange.

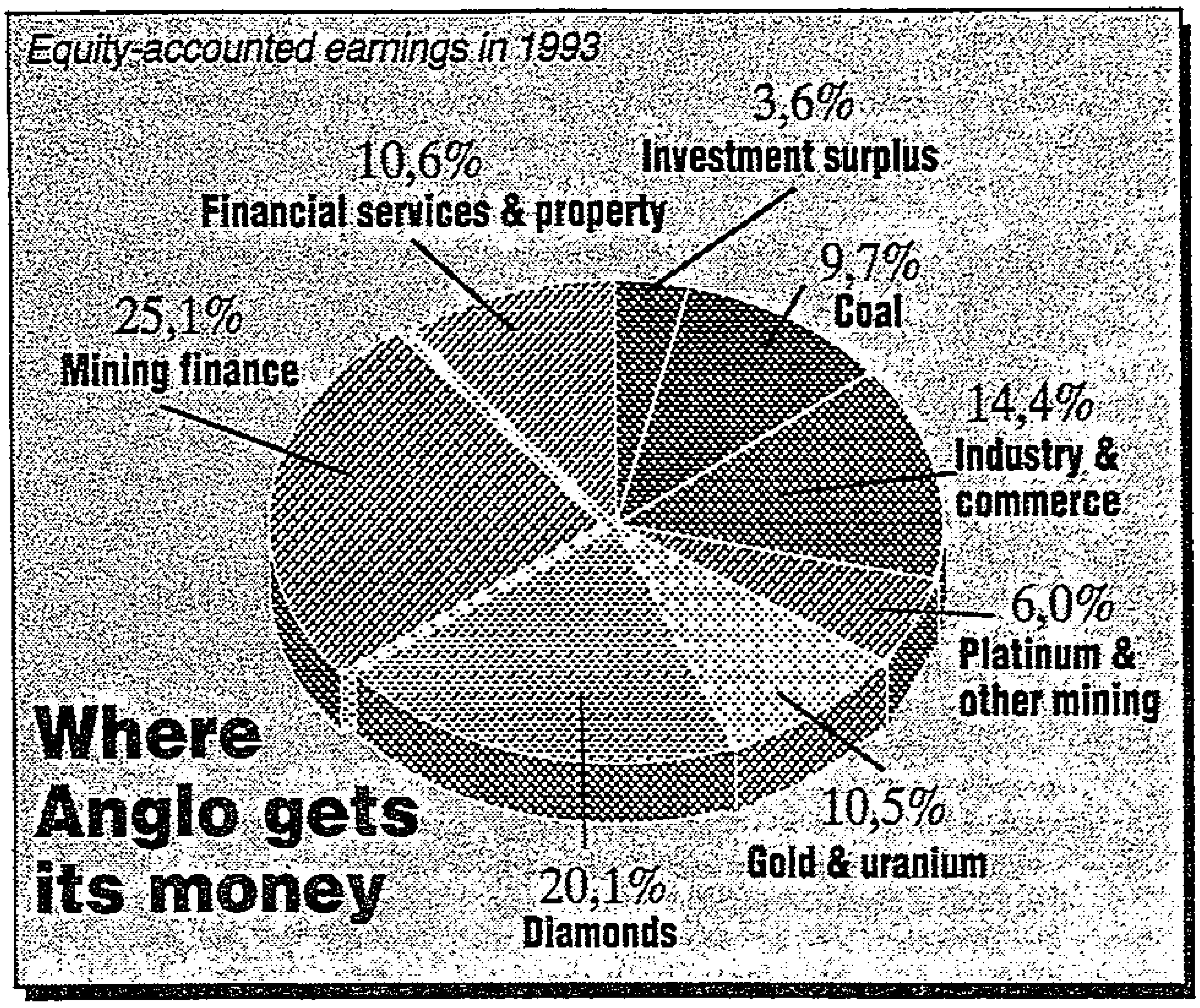
Columbus is projected to earn foreign exchange of R16-billion in 1993 money terms in its first 25 years of operation.

The Namakwa Sands project will bring in around R360-million a year in 1992 money. How much Moab will earn depends on the gold price, but at its peak it will produce 13 tons of gold a year.

Unlike manufactured goods, the use of foreign exchange in the production of exports is small. Mining uses far less foreign exchange than, say, a project in the motor industry would to produce for export.

While, the range of projects detailed shows its diversity, Anglo is still very much a mining company. Only around 28,7 percent of Anglo's earnings come from activities not related to mining.

Though it earns more from diamonds, in gold mining Anglo remains predominant. Its output of gold in 1992 was 277 tons, more than double that of its nearest rival Gold Fields SA, at 123 tons.




So despite its diversification, a rise in the gold price means a lot to the corporation — as long as it does not bring with it an increase in costs.

With no doubt an eye on increased pressure from the National Union of Mineworkers (NUM) Anglo gold division head Clem Sunter noted that Anglo had kept a lid on costs.

The Moab gold mine also illustrates the nature of risk in large-scale projects such as Anglo has undertaken.

These projects are not technical breakthroughs, like AECI's biotech project. Only the battery project could be described as technologically innovative. The rest are either simple, such as the Namakwa Sands project, which O'Dowd describes as an earth-moving job with a novel metallurgical process to beneficiate the ilmenite produced, use mostly existing technology such as Columbus, or are not new to Anglo, such as Moab.

While the technical risks are not great, O'Dowd says, the market risks exist. Moab depends — as the other two do — on a view of the future price of its product.

Anglo, he says, has taken much greater risks, such as the opening of the Free State and Western Deep Levels gold fields.

SECONDARY TAX ON COMPANIES FM 4|6|93

# Where to draw the line

(180)

**Finance Minister** Derek Keys's Secondary Tax on Companies has had accountants and share analysts in a flutter over a seemingly technical issue. That is, whether the new tax (7,5% on dividends) should be accounted for above or below the line. If above, that amount of the tax must be deducted from earnings and so reflect negatively on EPS.

But the company tax rate itself is down from 48% to 40%. Not only will this benefit EPS directly, but companies that have provided a significant deferred tax reserve, because of timing benefits from capital expenditure which are regarded as temporary, will be able to claw back part of that reserve — the reserve would have been based on projected company tax rates at that time.

The SA Institute of Chartered Accountants has issued a press release dealing with a variety of accounting questions flowing from the new company tax. It says it is not a tax on dividends but forms part of the corporate tax payable by a company. Accordingly, it should be reflected as part of the company tax charge on the face of the income statement (it should be placed above the line).

Many accounting firms have taken the view that STC is not a tax on income and accordingly should be reflected with dividends declared, as an appropriation of profits. Deloitte & Touche partner Peter Wilmot says his firm has taken a strong stand against this viewpoint. It is in conflict with Keys's intention. He indicated in his Budget speech that the STC will apply irrespective of the recipient, saying "the tax is in no way a tax on shareholders."

While Wilmot accepts the calculation of the amount is based on dividends declared, and not on income before taxation, it is nevertheless an expense of the company and should be treated accordingly.

Wilmot concedes certain special cases to which the general rule should not apply — where companies distribute dividends out of previously retained earnings or out of extraordinary gains. In those cases, the tax should still be treated as an expense, but the distortion in EPS should be commented on by management. This will ensure users of financial statements are informed about the impact which dividends, declared out of prior year profits, have had on the tax rate and so on the sustainable EPS.

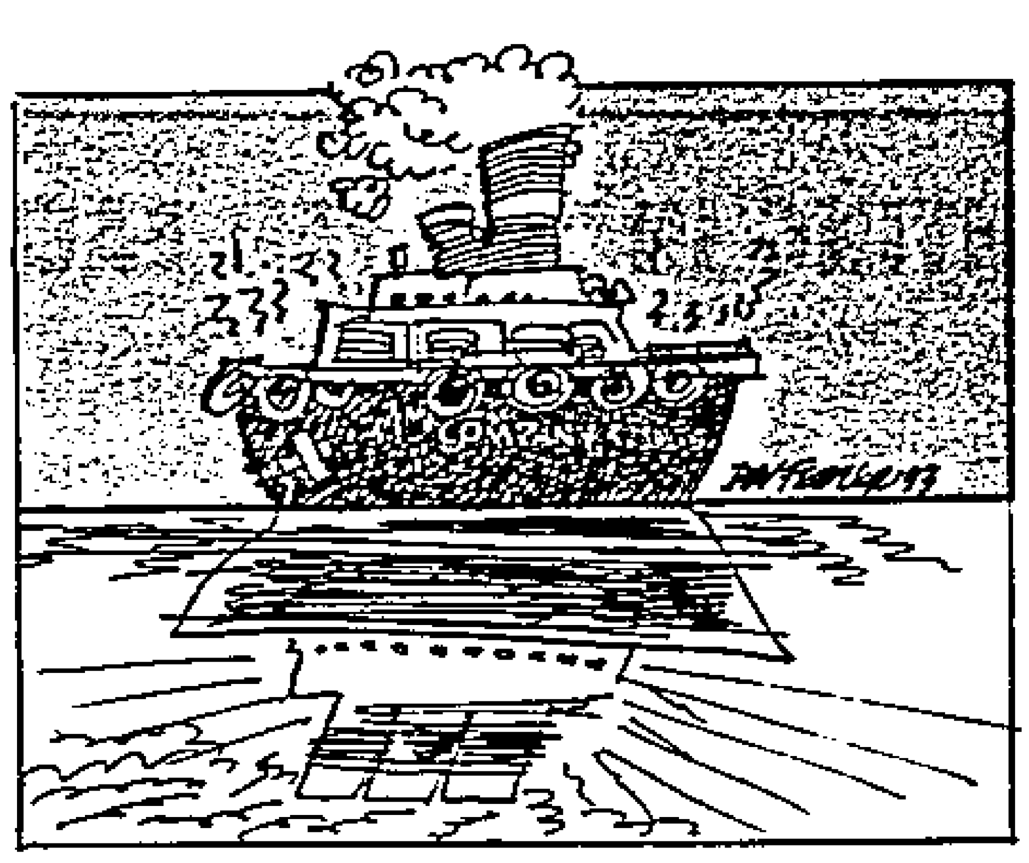
Of course, the imposition of the tax will make it less likely that companies will declare dividends out of previously retained profits, because of the tax penalty.

An indication of Arthur Andersen's approach comes from the latest financial statement issued by Tiger Oats (of which that firm is the auditor) — which places the liability for the tax above the line.

Coopers & Lybrand technical manager James Schnellen says his firm's view is that it should be treated above the line, which conforms to the conceptual framework used by accountants which regards tax as an expense, not to mention the view of the institute. This may mean the tax charge sometimes appears disproportionate to pre-tax earnings. But this occasional consequence should not be allowed to interfere with the principle, especially as it may be explained in the accounts as in the case of any other abnormal item.

Kessel Feinstein technical partner Frank Timmins says his firm will follow the institute's approach. However, if a client wants to account for the tax below the line, Kessel Feinstein will neither object nor qualify the accounts. Some clients might even want to reflect EPS on both bases.

Ernst & Young partner Ronnie Bowker says his firm will follow the institute but concedes exceptions could be made. One is in the case of companies with a March year-end, which will have to pay tax in 1993 at 48%, as well as the STC on dividends distributed. Another is the distribution, as a dividend, of a profit reflecting an extraordinary item, say the sale of a property. A third would be a dividend distributed out of a previous year's earnings.



Price Waterhouse senior tax partner Chris Frame takes a similar line, saying the general policy will be to take the tax above the line, but with exceptions.

Some share analysts are not willing to commit themselves. Simpson McKie director Tim Alsop, wants to see what the companies themselves do. Others, such as Fergusson Bros, Hall, Stewart director William Bowler, say flatly the tax should be placed above the line.

To these arguments could be added a line of reasoning based on the precedent of the long-repealed Undistributed Profits Tax. This tax was determined (if negatively) by the amount of after-tax income distributed as dividends. Yet no-one ever suggested it should be accounted for below the line.

It seems a sound principle to apply to STC. This will of course benefit those companies with high earnings retentions, such as those in the Rembrandt group, while hurting those such as Sappi with a low effective rate of company tax but with relatively high dividend distributions. But companies are always at risk from shifts in tax policy and should not shirk reflecting the occasional materialisation of that risk in their accounts. ■

GATT FM 4|6|93

# SA under scrutiny

**The first** Gatt review of SA's trade policy and practice gives full credit for the reforms to normalise the post-apartheid economy. But, underlying the even-handed language of the Gatt secretariat's report is the clear message: SA could do better. For two days this week SA's policy has been under the microscope of the Council of the Gatt in Geneva.

An early result of the Uruguay Round these reviews have been held for 30 countries so far — and the top four exporters of Gatt's 111 members, the EC (treated as a single entity), US, Japan and Canada, which are subject to biennial scrutiny, have been through the process twice.

The purpose of the reviews is educative — both for the subject and its trading partners — rather than prescriptive. The reports presented, one by the secretariat and one by SA, are debated in the council with the aim of creating transparency and understanding of two-way problems and needs.

But implicit in these exchanges between SA and the 80-odd council members is peer pressure for reform and change. As such the secretariat's report on SA, published as the *FM* went to press at the conclusion of the review, was an indicator of the external perspective of what is being done and what more *should* be done. It acknowledges the problems of ironing out the distortions which are the legacy of apartheid and isolation.

Gatt estimates the combined cost of trade sanctions, the financial embargo and disinvestment at R40bn — or 13% of 1991 gross domestic product. But, equally bad, are the rigidities and uncompetitive, high-cost structures created by protective import-substitution policies.

The report welcomes the lowering of tariffs and reduced import controls, increased emphasis on export promotion and open-market reforms. However, it finds that the last is being only "cautiously pursued."

In addition, "the tariff structure and review mechanism underlying it are far from

cont

# Face harsh reality on trade barriers, industry leaders told

Star 8/6/92 (180)

By Des Parker

DURBAN — South Africa's proposal to dismantle its import barriers more quickly and world trade body Gatt's urging of Pretoria to do much more to liberalise its trade policies will have done little for the peace of mind of hard-pressed industry bosses at home.

Leaders in sectors such as tyre manufacturing and textile production are seeking more — not less — tariff protection from what they perceive as disruptive levels of imports.

However, Trade and Industry Department director-general Stef Naude has told industrialists to face up to harsh realities.

"South Africa's own future and the international comunity responsible for multilateral trade rules demand from South Africa that we face realities that are impossible to avoid," he said.

"Our economy simply has to be reintegrated into the world economy. We cannot delay."

Gatt called for more uniform tariffs, phasing out of surcharges and a review of the rebate system. It said South Africa's export-orientation needed re-examination and the "fundamental lack of competitiveness" required attention.

Industry chiefs in capital-intensive sectors, such as textiles and tyre-manufacturing, would probably demur.

They contend that they cannot compete in their own backyard while their market is being eroded by cheaper imports, particularly from countries in the Far East which blatantly subsidise export businesses, and their production costs are being added to by duties levelled on materials and machinery they have to import.

In this environment, they argue, tariffs to protect their products are necessary just for survival and to maintain existing jobs. They dare not invest without it.

BTR Dunlop of Durban is baulking at a three-year R100 million programme pending the outcome of a SA Tyre Manufacturers' Conference application to the Board of Trade and Industry for a rise in new and second-hand tyre tariffs and an overhaul of duties on raw materials.

## Incentives

The shrunken Frame textile giant, also based in Durban, has hinted that it might cease to exist as an entity if a last-ditch attempt to resolve a long-lived imbroglio over tariffs in the clothing and fabric sector does not succeed.

On the other side of the coin are the incentives for exporters — such as Geis and the Tax Act's Section 37E tax credits system for major capital projects.

Without them, ventures such as Alusaf's new R7,2 billion smelter (the country's biggest private project) and the Columbia stainless steel project, probably would not have seen the light of day.

Geis is being phased out and Section 37E is not expected to remain on the statute book much longer, in line with sentiment in Gatt and the World Bank.

Gatt, which celebrated its 45th birthday on January 1, evolved from initiatives at the end of World War 2 to undo much of the trade protectionism spawned during the six years of conflict.

South Africa was one of the original 23 signatories to the accord, which today has 105 member governments, as well as having de facto application in another 30 countries.

About 90 percent of world trade is between countries applying its dictums.

# Sustaining family concerns a difficult business

BDM 8/6/93 (180)

MERVYN HARRIS

CONVENTIONAL wisdom that SA's economy is controlled by conglomerates is a myth. As in the US, the UK, Australia, Canada and other Western countries, the SA economy is controlled by wealthy families. Family business is big business and major economies are controlled by wealthy families.

At least 70% of listed JSE companies are estimated to be directly or indirectly controlled by families. Major corporations are in the hands of families such as the Oppenheimers, Ruperts, Menells, Ackermans, Venters, Gordons and Jowells.

The formation in SA of pyramid companies to enable families to retain control with a reduced equity holding is an example of the determination to entrench family control. But the dream of every father to perpetuate his business through his children does not often live longer than the founder of the business.

Research in the US and UK shows that 25% of family businesses survive into the second generation and only about 10%-15% survive into the third generation.

The issue of why such a small percentage of family businesses survive into the second and third generation has become a dynamic new field of research and expertise.

Kessel Feinstein national chairman and managing partner Malcolm Segal says there is "a significant body of knowledge, research and learning which can enable the problems threatening the survival of family business to be identified and resolved".

Harry Oppenheimer: patriarch of a family business.

Critical to resolving the issues is the role of the patriarch — the founding father of the business — and his spouse, the matriarch, although she may not be involved in the business other than in the early years. They are aware of the issues but have difficulty articulating them lucidly.

As Segal notes: "It takes courage to deal with the issues facing a family business. It can disturb relationships and people have a reluctance to upset the balances in a family. Decisions which are good for the business might not necessarily be good for family relationships. It is painful to differentiate between two sons, one of which has greater ability than the other."

Instead of confronting such problems, the tendency is to let sleeping dogs lie in the hope that the problems will go away. This only worsens matters for, as children grow up and in-laws become involved, problems tend to become compounded.

Succession planning is therefore a critical factor in the survival of a family business. The decision when a patriarch should retire and who should take over can be traumatic. "People are emotionally locked into their businesses which are often undercapitalised so that they cannot take their money out. If something goes wrong, it can affect their retirement," Segal notes.

Succession planning can be complicated if there is a non-family member more suited to taking over the helm than a family member. There is also the question of whether family members should be remunerated by what they need or by what they are worth. An organisation can be put out of kilter if family members are overremunerated — this antagonises non-family members.

The role of non-active family members in a business is another delicate issue which must be considered. If brothers are running the business, what should be the right of their sisters to information and influence over policy?

Financial structures and strategies are important in dealing successfully with conflicts in family businesses. This is where a family's relationship with its banker comes into play. But while bankers make decisions on the financial statements themselves, the issues underlying the financial statements — the non-quantitive factors — are just as critical to the survival of the enterprise as the financial statements.

"The banker ignores the emotional and psychological factors at his peril," says Segal.

"It is dangerous and even destructive to attempt to solve the issues without the use of an outside facilitator. The dynamics of each situation needs to be approached in a holistic manner, keeping the psychological and emotional issues in line with the fiscal, legal and strategic elements. Making blood brothers into equity brothers is a crucial issue in succession planning."

Ethnic background is also an important factor in the structure and mores of a family business. The cultural background must be taken into account when dealing with Afrikaner, particularly farming, communities, Greek, Italian, Jewish or Indian families. Moreover, the role of the matriarch in an Indian family is different to that of the matriarch in a Jewish family while the matriarch in an Italian family tends to be much more overtly influential.

"Some matriarchs are extremely powerful people in a family business and their role should not be underestimated although some tend to be less visible than others," Segal says. Ultimately, family businesses which fail to resolve conflicts or succession planning are sold to larger companies which tends to lead to further concentration in the economy.

LETTERS

# Manufacturing production up

BUSS. DAY. 8/6/93

EDWARD WEST

MANUFACTURING production climbed 0,7% in March compared with last year. This confirmed the upward trend in this sector over the past few months, the Central Statistical Service (CSS) said yesterday.

Seasonally adjusted production increased by 0,6% in the first quarter of 1993 compared with the last quarter of 1992, the figures showed.

SA Chamber of Business (Sacob) economist Keith Lockwood ascribed the upward trend to rising exports, as local consumer demand and stock levels were low. The trend could be seen also in a Sacob survey, being compiled at present. (180)

Lower stock levels were reflected in the 7,3% decline in primary steel products in March 1993 compared with March 1992. Basic iron and steel industry hot-rolled flat product stocks fell 38%, and levels for all other industries dropped 26%, the CSS said.

Lockwood doubted the trend of rising manufacturing volumes would continue into April.

Absa economist Hans Falkena said rising production in the first quarter was unexpected, but the trend could fall off later this year in line with forecasts of a decline in gross national product of more than 1%.

Leading indicators showed SA appeared to be approaching the lower turning point of the business cycle earlier than anticipated, he said.

Increased manufacturing production for the three months to March was ascribed mainly to textile production rises (8,3%), wood (6,1%) and rubber product industries (7,8%).

# Sacob warns on rural boycotts

(180)

Buss. Day 8/6/93

RAY HARTLEY

CERTAIN rural towns were facing serious economic setbacks with the risk of small businesses closing and professionals seeking the stability of major metropolitan areas, Sacob deputy director-general Ron Haywood said yesterday.

He said consumer boycotts in rural areas were driving many small businesses, which depended on a healthy cash flow, into bankruptcy.

Professionals such as doctors and dentists found it difficult to collect debts during boycotts and violence and some were moving to the cities where income was more dependable, he said.

The closing down of small businesses would increase rural unemployment and contribute to the exodus of job seekers to the cities, leading to further problems there, he said in an interview.

Some of these small businesses had experienced declines of between 30% and 40% in turnover as a result of the boycotts, he said.

"Consumer boycotts are a no-win situation. They are no-win to the businesses, they are no-win to the employees. Certain small towns are finely balanced in terms of survival. A consumer boycott can bring a whole town to a standstill with businesses going under," he said.

Both black and white small businessmen were suffering the negative effects of the boycotts, which were "totally colour blind" and often based on national political demands which local businesses were often powerless to address.

Consumer boycotts also had the unintended consequence of small businesses being bought up by larger companies, which could relocate them to urban areas, he said.

"In a downturn, the vulnerable businesses become very vulnerable. They are hard hit and they have to cut overheads.

"Some start looking at selling up and moving to the cities. When skilled people like engineers and industrialists move out, they are unlikely to be replaced."

There were encouraging signs that organisations were starting to recognise the serious short- and long-term implications of launching boycotts before trying to negotiate over their grievances.

"We've got into a mode of confrontation rather than consultation. We've got to reverse this to consultation before confrontation," he said.

In areas where negotiation had taken place, this had led to positive projects including the building of facilities such as schools, he said.

# Face harsh reality on trade barriers, industry leaders told

Star 8/6/93 (180)

By Des Parker

DURBAN — South Africa's proposal to dismantle its import barriers more quickly and world trade body Gatt's urging of Pretoria to do much more to liberalise its trade policies will have done little for the peace of mind of hard-pressed industry bosses at home.

Leaders in sectors such as tyre manufacturing and textile production are seeking more — not less — tariff protection from what they perceive as disruptive levels of imports.

However, Trade and Industry Department director-general Stef Naude has told industrialists to face up to harsh realities.

"South Africa's own future and the international comunity responsible for multilateral trade rules demand from South Africa that we face realities that are impossible to avoid," he said.

"Our economy simply has to be reintegrated into the world economy. We cannot delay."

Gatt called for more uniform tariffs, phasing out of surcharges and a review of the rebate system. It said South Africa's export-orientation needed re-examination and the "fundamental lack of competitiveness" required attention.

Industry chiefs in capital-intensive sectors, such as textiles and tyre-manufacturing, would probably demur.

They contend that they cannot compete in their own backyard while their market is being eroded by cheaper imports, particularly from countries in the Far East which blatantly subsidise export businesses, and their production costs are being added to by duties levelled on materials and machinery they have to import.

In this environment, they argue, tariffs to protect their products are necessary just for survival and to maintain existing jobs. They dare not invest without it.

BTR Dunlop of Durban is baulking at a three-year R100 million programme pending the outcome of a SA Tyre Manufacturers' Conference application to the Board of Trade and Industry for a rise in new and second-hand tyre tariffs and an overhaul of duties on raw materials.

## Incentives

The shrunken Frame textile giant, also based in Durban, has hinted that it might cease to exist as an entity if a last-ditch attempt to resolve a long-lived imbroglio over tariffs in the clothing and fabric sector does not succeed.

On the other side of the coin are the incentives for exporters — such as Geis and the Tax Act's Section 37E tax credits system for major capital projects.

Without them, ventures such as Alusaf's new R7,2 billion smelter (the country's biggest private project) and the Columbia stainless steel project, probably would not have seen the light of day.

Geis is being phased out and Section 37E is not expected to remain on the statute book much longer, in line with sentiment in Gatt and the World Bank.

Gatt, which celebrated its 45th birthday on January 1, evolved from initiatives at the end of World War 2 to undo much of the trade protectionism spawned during the six years of conflict.

South Africa was one of the original 23 signatories to the accord, which today has 105 member governments, as well as having de facto application in another 30 countries.

About 90 percent of world trade is between countries applying its dictums.

# Business confidence collapses

Star 9/6/93

By Claire Gebhardt

Business confidence collapsed in May, largely as a result of nationwide stayaways and violence in the wake of Chris Hani's assassination in April.

The SA Chamber of Business (Sacob) said yesterday its Business Confidence Index (BCI) had plummeted 1,1 percentage points to 94 in May from 95,1 in April.

The decline suggests hopes that the downturn has bottomed-out have been premature.

Sacob's forecast for real gross domestic product (GDP) growth in 1993 still remains at zero.

Other negative influences on the BCI in May included a sharp increase in the inflation rate to 11 percent, higher unemployment figures, and a deteriorating rand exchange rate against the dollar.

Director-general Raymond Parsons said optimism about growth in the first quarter was misplaced, especially when seen in the light of developments over the past two months.

Business sentiment, and the economy in general, remained hostage to political uncertainty, persistent violence and the short-term impact of the March Budget.

## Output

Parsons said that once the impact of higher agricultural output was eliminated from last quarter GDP calculations, the non-agricultural sector actually contracted by 0,5 percent — "a sharper decline than in the fourth quarter of last year".

With hopes for recovery now pinned on 1994, Parsons said growth prospects would depend on a sustained higher gold price, a modest recovery in the international economy, more political stability and a reduction of violence.

Positive factors already in place to support an upturn next year were lower money supply growth, lower interest rates and a surplus on the current account of the balance of payments (BoP).

Parsons said most business people believed the transformation process in SA was at a critical stage.

## Reflection

Economist Keith Lockwood said there was a relative improvement in trading conditions among the majority of manufacturers surveyed by Sacob in May, when compared with April.

"However, this is probably a reflection of the fact that there were only 17 working days in April because of public holidays and politically inspired stayaways, compared with 20 working days in May."

He said the outlook for the longer-term remained largely unchanged.

"A majority of manufacturers expect sales and production volumes to rise, stock volumes and skilled employment to fall, and capacity utilisation and real capital expenditure to increase."

be much sought after

# Credit agency fights poachers

MARIANNE MERTEN

CORPORATE and consumer credit information is being used to trace illegal rhino horn and ivory traders.

Kreditinform financial director Peter Sullivan said yesterday the company had given conservation agencies "unlimited access" via modem to a network which contained about 160 000 corporate and directors' names in its corporate database and more than 9-million names in its consumer database.

The donation — worth about R20 000 — was made because "as individuals and as a company we are interested in conservation", Sullivan said.

Although the arrangement was planned initially for only one year, the company would like to repeat it, he said.

A conservation agency source said yesterday it was a sensitive operation which "has already helped conservation agencies in tracking poachers".

"SA was an outlet for illegal trade in both ivory and rhino horns because of its ports and international trade relations."

The databases did not contain any confidential information, but provided contact names used to trace illegal dealers.

# Wits unveils plan to redirect youth skills

Buss. Day 9/6/93

JOHN DLUDLU

THE WITS Mental Health Unit will soon launch an intervention programme to rechannel township youth skills into social reconstruction, according to programme coordinator Melvin Freeman.

He says the programme's main objective is to equip the youth in violence-torn townships with the skills of coping with the current transitional period and the future SA, which demands more than just militancy.

The youth, he says, have to be credited for having contributed significantly to the current political negotiations through their militant struggles in the 1980s.

"Over the years skills such as leadership and militancy were built. But in the New SA militancy will have to be reharnessed to reconstruct the country," he adds.

He says youth energy and initiative developed in the 1980s will have to be rechannelled to "more progressive and constructive" programmes of rebuilding the country.

The intervention programme will consist of two parts. One part will be a pilot study that will evaluate a more effective way of training the youth in developing the coping skills.

"We want to involve the communities as volunteers.

"So the study will determine if it's a good idea to use volunteers or social workers as trainers."

The other part will be the training of the youth in what Freeman terms "life skills", which will include negotiating skills, conflict resolution skills, and skills that will help them understand themselves and other people better.

Freeman says the programme will also try to build trust among adults and the youth to normalise the relationship between the two groups.

"Adults have so much to learn from the youth and the youth in turn has much to learn from adults," he adds.

Several youth wings of political organisations have already been consulted and some have expressed support for the project.

The project will be financed by a private local foundation and non-governmental bodies will be approached.

While the programme will have psychological aspects to address the after-effects of the current violence in the townships on the youth, more emphasis will be placed on practical intervention, Freeman says.

"In our intervention we have to acknowledge the traumatic past and deal with it, as well as equip people for the future," he adds.

# Call on non-governmental organisations

Buss. Day 9/6/93

(180)

GAVIN DU VENAGE

THE local business sector should take over from foreign donors in supporting non-governmental organisations (NGOs), Gerald Kraak of the Interfund aid agency said in the latest Corporate Social Investment newsletter.

Kraak said NGOs, traditionally dependent on overseas support, were facing a reduction of resources as western governments cut their aid budgets and revised their policies towards SA.

If organisations were forced to shut down it would mean a loss of valuable expertise, experience and "the vision of a democratic social order which the NGO sector came to embody", said Kraak.

A "burgeoning movement" of NGOs had sprung up in SA over the past 15 years, active in education, health, education, welfare and local government, he said.

They had developed innovative strategies to confront social needs and forged close ties with communities.

NGOs also had a keen understanding of conditions on the ground, and were also able to operate where government bodies were viewed with suspicion, he said.

Apart from their role in providing services service, NGOs formed the core of civil society in SA he said, and could play an important role in building a stable democracy.

Donor countries had actively promoted the developmental role of NGOs, but their support was no longer certain: "There can be no doubt that this aid contributed substantially to the building of a strong NGO sector in SA," said Kraak.

The local corporate sector had only recently begun looking at these organisations as conduits to help disadvantaged communities.

A few large corporations had set up funds to help NGOs, but these needed to be extended into a broader partnership between business and organisations.

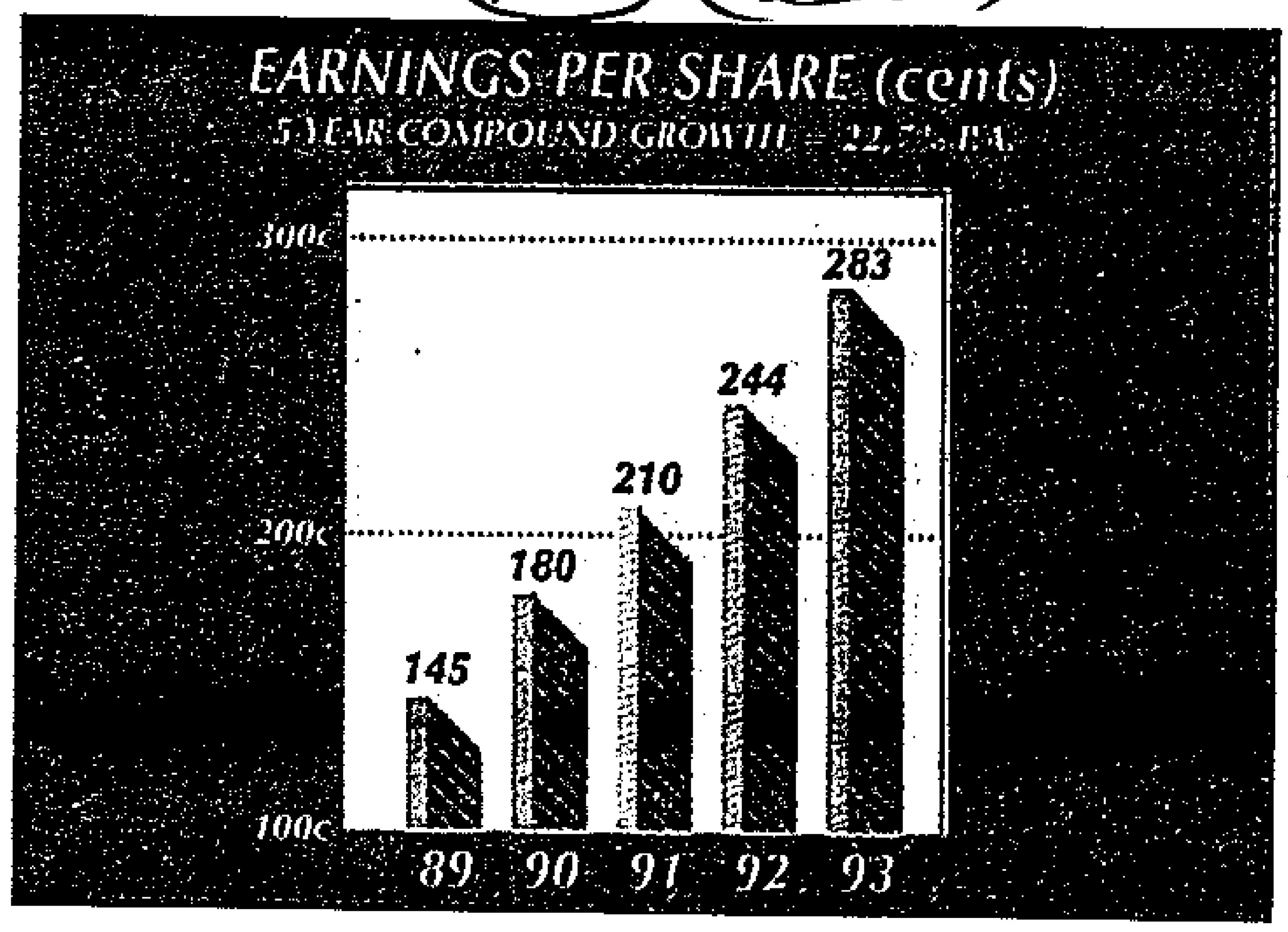
This would make it possible for the corporate sector to respond directly to community needs, said Kraak.

# Premier ahead of market forecasts

Star 10/6/93

(180)

By Stephen Cranston




The Premier Group has beaten market expectations with a 16 percent improvement in earnings per share to 283c. The dividend has been increased by the same margin to 94c.

Chairman Peter Wrighton says he has to thank Finance Minister Derek Keys for some of the improvement because about eight percent of the earnings growth is attributable to changes in company tax.

The effective tax rate fell from 42 to 36 percent.

Turnover rose by three percent to R10,15 billion, although turnover from continuing operations increased by 13 percent.

The operating margin increased from 4,3 percent to 4,4 percent, enabling operating profit to grow by four percent to R438,9 million.

There was a sharp reduction in interest paid, helped by the strong cash generation of Metro. It fell from R58 million to R23,6 million.

Attributable earnings increased by 23 percent to R233,8 million.

The food division's earnings were almost unchanged.

Drought, deteriorating socio-economic and political conditions and violence put margins under pressure.

Maize margins were affected by the introduction of yellow maize, which met with consumer resistance, but they are expected to improve with the resumption of white maize sales.

Metro Cash & Carry, Premier Pharmaceuticals and Clicks all exceeded profit expectations.

CNA Gallo improved attributable earnings only marginally, despite the downturn in consumer spending. There was a satisfactory improvement from Teltron.

Premier continued its active policy of investment and disposals, acquiring a 39 percent interest in Bonnita Holdings, the second-largest producer of milk-based products.

It increased its shareholding in Premier Pharmaceuticals to 57,5 percent, giving it management and shareholder control previously shared with the Krok brothers.

Despite the acquisitions, gearing increased from 10,6 to 14,2 percent.

Premier sold its wholesale pharmaceutical interests, which were housed in Gresham and PDC, to United Pharmaceutical Distributors in which it has a 40 percent holding.

Medical Cash & Carry, which owns the balance of the equity, has management control.

Wrighton says, when he is asked why Premier continually changes its shape, which makes comparisons with previous years difficult, it is because he does not want Premier to become another General Motors or IBM.

The results vindicate the recent strength of the Premier share price. At R49 it is 20 percent up on levels of R40 a year ago, although below the R53 level it reached in January.

It has a P/E ratio of 17,3 and a dividend yield of 1,9 percent, which is expensive, but other industrial companies on similar ratings have not produced results like these.

# Directors should be rocking the boardroom boat

BIDay 10/6/93

(180)

**TREVOR WOODBURN**

THE revolutionary unbundling of the Gencor pyramid will go down in history as a courageous move and will, no doubt, lead the way for other SA corporations. However, by proposing to adopt, virtually to the letter, the recommendations and principles of the recent UK Cadbury committee on board structures, in practice, and virtually to the letter, Brian Gilbertson has become a leader in an even more fundamental business sense.

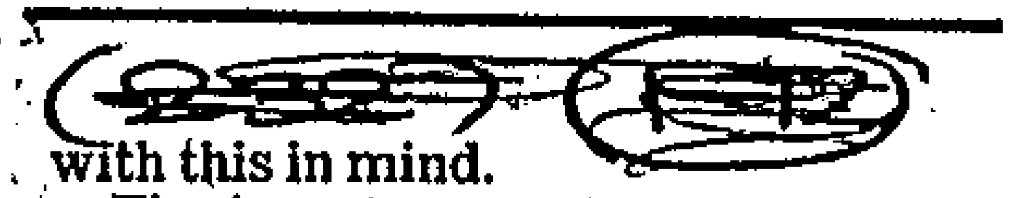
The public announcement that the Gencor board would be reconstituted to ensure non-executive directors are in the majority means executive directors will no longer be able to reign supreme. Furthermore, the board audit committee is to consist solely of non-executive directors, and so too the committee appointed to deal with executive directors' compensation packages.

The Cadbury report heralds a new era in corporate governance and seems destined permanently to change the way the UK's corporations and their boards operate.

This is especially true on the committee's innovative recommendations pertaining to independent non-executive directors, who are "to be appointed on merit and not through any form of patronage" by a formal selection process, and given far wider powers of investigation and control.

The intention is clear, in a somewhat ironic sense. Open the boardroom doors to admit independents, says the report, and use precisely these individuals as watchdogs at those same doors — a strong contingent of impartial, outside, non-executive directors to guard against the entry of undesirable and financially undermining practices. No more insular narrow-minded approaches, cosy complacency and unwillingness to rock the boat, not to mention the feathering of own nests.

The report expounds an articulate message. It is no longer adequate merely to bring high-powered visibility to the boardroom table. Each member must fill a strategic gap with an analytical and specific area of expertise, and should be selected



with this in mind.

The incestuous yet common practice of appointing non-executive directors from the ranks of the holding company or head office is implicitly discouraged.

It is very difficult and often impossible for them to be objective and impartial being, as they are, absorbed in company culture and day-to-day activities. Unhealthy and ineffectual "buddy" practices can be counteracted by exercising great care in the appointment of non-executive directors.

Where can these non-executive directors be found? Academics, professionals and successful executives from other disparate companies spring to mind. The report says people who are "free from any business or other relationship which might materially interfere with the exercise of independent judgment" should be recruited.

The relative detachment of such directors will allow naturally for a broader and less biased overview, and make them more susceptible to bringing outside realities into the boardroom, thus guarding against the omnipresent peril of isolation and insulation from changing trends.

The Cadbury report emerged from a committee sitting in the UK. But we cannot deny that the dangers it highlights are even more imminent in SA, where years of sanctions and isolation have not only created a "laager" mentality in politics but also in company boardrooms. What remains to be seen is to what extent SA companies have the courage to break out of this mentality, to open up and admit the independents, the outsiders, the foreigners who of necessity have been regarded as "enemies of the state" for so long.

As a further safeguard to ensure that these outside watchdogs are not permitted to become docile and submissive, the report suggests a further restraining measure: limit their terms of office. The perpetual problem is that the non-executive director's reliance on fees and long-term tenure makes him indisposed to "rock" the corporate boat or offer unpopular advice — which defeats the reason for his appointment in the first place.

In his pamphlet dealing with Myths and Facts in the boardroom, Boardroom Consultants chairman Hicks Wadron, himself a member of various boards, indicates that, in reality, CEOs welcome board members who rock the boat, and by making unbiased contributions and adding to the knowledge base often prevent it from sinking.

Clearly, the time has come for SA companies to appreciate that boards consisting of head-nodding, rubber-stamping clones of the chairman are not only less useful but downright harmful to company performance.

☐ **Woodburn is an executive search and management consultant.**

BIDay 10/6/93

# Industrial arm strengthened in anticipation of upswing

BDay 10/6/93

TALJAARD Carter has strengthened its industrial arm in anticipation of an economic upswing which is likely to boost the industrial building market.

The company was involved in the 60 000m² R100m industrial park development for Abland in Strijdom Park, which offers a rental or freehold solution to light industry.

The park has been immensely successful due to the demand for such space and because of its easy access to Johannesburg's northern suburbs and a major freeway.

Demand in the park has been mostly in the 1 000m² to 4 000m² space range.

The company recently completed a building for Kawasaki in the park.

Technical designer in charge of the company's industrial team Mark Pestana says the industrial field will begin to combine with retail, allowing companies to manufacture and sell their products at the same premises.

"People are increasingly moving into more industrial complexes because of security, low rentals and a better inter-relationship with other industry."

The Motor City centre in Wynberg, a venture between Abland and Sanlam, is another of the company's recent industrial projects.

The 7 435m² site is strategically located just off the Ben Schoeman highway along Rautenbach Avenue.

The fall of the site towards the north affords opportunities for relatively inexpensive lower ground level space. It offers motor retail and auto spare facilities.

The planning of the complex was developed around the tenant mix and the fall of the site.

Internal shops have beendesigned to accommodate motor vehicle service heights.The design allows for fully flexible space which can be used for showrooms, workshops, fitment areas and fast foods.

A micro mini factory industrial park in Strijdom Park is being developed between Sanlam Properties and Abland on a site covering 9 415m² just off Hans Strijdom Drive.

In designing the mini factories it was important that each of the 30 units have its own identity.

Each unit has a face-brick gable over the entrance to make provision for signage, and is provided with its own office entrance leading to mezzanine level offices.

180

AS MANUFACTURERS

# Business still facing lows

BIDAY 10/6/93

(180)

TIM COHEN

CAPE TOWN — Business should make provision for increased deterioration in both business and political conditions before a marked degree of improvement could be achieved, economist Ben van Rensburg said yesterday.

Speaking at a Cape Town Chamber of Commerce economic seminar on the mid-year business outlook, Van Rensburg said several negative factors affected the immediate position.

These included a government decision to reduce domestic expenditure, increase VAT and not adjust for bracket creep. There had also been renewed calls for mass action and deterioration in the balance of payments.

Capital outflow was more than R600m in April and continued to be negative in May. The capital account remained vulnerable.

An average monthly outflow of foreign capital of R1bn during August 1992 to March 1993 created extremely tight financial conditions which made it virtually impossible for the Reserve Bank to ease it monetary policy.

"Nevertheless the situation has now improved and the outlook for a further decrease in interest rates in the third quarter can be said to be more positive."

Listing positive factors that could influence the short-term outlook, Van Rensburg noted the upward buoyancy in the gold price, improved agricultural conditions and improved prospects for a political settlement.

He did warn, though, that political and social instability could worsen and intensify as SA moved nearer to a final settlement.

He pointed out that interim agreements had thus far been reached on process issues rather than on matters of substance. "I suspect that as we get nearer to substantial issues the debate will change in intensity and character and could even be accompanied by more violence and instability."

Violence would probably also tend to increase because of the high political stakes and the fact that a clear winner had emerged.

However, the ingredients existed for a prosperous new SA to emerge from the existing process both in politics and economics.

What was clearly missing was a major breakthrough in the restoration of business confidence, he said.

# Nafcoc plans drive for investment

BMDay 11|6|93

THEO RAWANA

THE National African Federated Chamber of Commerce (Nafcoc) last night invited big business to join it in formulating a strategy to attract foreign capital.

Speaking in Johannesburg at a presentation of Nafcoc's status in a changing SA, president Archie Nkonyeni told a function his organisation enjoyed great credibility in the outside world. (180)

"Nafcoc, as a representative of black business, will use its credibility in the outside world to improve our country's image in the eyes of foreign investors.

"But the organisation looks to its peers in the business community for assistance in making it possible for it to develop a capable secretariat that will operate comfortably and effectively in the unfolding scenario," he said.

Saying a political settlement was certain to be reached soon, Nkonyeni added that it was imperative that parties in the business community "found one another".

This was to ensure positive signals were sent to the investor public and secondly, that they did not lose the ability to influence planning of policies guaranteed to turn the economy around.

To position itself for its task, Nafcoc — which had up to now operated only from Soshanguve outside Pretoria — had opened the Nafcoc president's office in central Johannesburg.

"The restructuring of the secretariat and the development of our Johannesburg office is going to require a lot of funding assistance from all those who believe that the normalisation of the economic life of SA is inextricably bound up with the existence of a credible and viable body of black business," Nkonyeni said.

# Local brands go into fire

By JOHN FARQUHAR

ISOLATED from international competition for almost 30 years, local companies with purely local brands as their stock in trade never had it so good. With mediocre marketing strategies these companies have managed to dominate the market segments in which they operate.

Running a "one horse" race, local boys got promoted way beyond their ability. Today there are companies at the top of the hit parade run by chief executives who, as Ross Perot said of US President Bill Clinton, only have middle management ability.

As the CEOs of these companies encounter an increasing number of international exploratory teams investigating the potential of the South African market-place, their stress levels are rising.

The internationals are only waiting for a democratic government to be elected before they launch their attack.

When this happens local companies with only local brands in their portfolio which are quoted on the stock exchange are in for a torrid time. Now is the time to dump those shares.

The more astute local operator is talking about joining rather than fighting the internationals when they arrive. It is rumoured that Leisure Foods, the local franchise holder for Wimpy, is talking to Burger King.

Far-sighted Royal executive chairman Vivian Imerman probably had this thought in mind when he made the deal with Anglo, Del Monte and Mars.

The next five years are really going to separate the men from the boys. And when the battle for market share intensifies, creative advertising will be out in the cold. The big international players want sales and market share. They want ads which get the consumer to buy. Creative advertising, they say, is for the little boys.

BUSINESS CONFIDENCE (180)

## No darling buds FM 11/6/93

**Hints of** an upturn in the economy in the first quarter have come to nought, if the latest release of the Business Confidence Index put out by the SA Chamber of Business (Sacob) is anything to go by.

According to Sacob, the index declined to 94 in May, from 95,1 in April. This, says Sacob, was the effect of the upheavals in April, on top of the prevailing "political uncertainty, persistent violence and the short-term impact of the March Budget."

Of the 13 components that make up the index, eight worsened in May:

- The value of the commercial and financial rand fell against the US dollar;
- The inflation rate rose to 11%;
- Real retail sales were down;
- Unemployment rose;
- The volume of imports fell;
- Sales of new cars declined;
- The value of building plans passed fell; and
- The volume of manufacturing production dropped.

These overcame the positive effects of:

- A higher gold price;
- Higher volumes of merchandise exports;
- Marginally lower short-term interest rates;
- Slightly fewer insolvencies in the month; and
- The rise in the all-share index on the JSE.

As a result, Sacob sees little chance of

cont

**ECONOMY & FINANCE** FM 11/6/93

(180)

growth this year. Says executive director Raymond Parsons: "It is possible some sectors — notably mining — will experience improved trading conditions before a general turnaround in the economy. And the results of our most recent survey of the manufacturing sector show expectations of some improvement — but it is likely to be limited in its scope." ■

# General managers can cost R1,5m a time to replace

S Times (Buss) 13/6/93

(180)

**By TERRY BETTY**

IT costs a company nearly R1,5-million to replace a general manager, so it is essential the right person be chosen in the first place.

This is based on a salary of R133 000 a month, says an article in Human Resource Management. The figure includes the cost of advertising in newspapers and magazines and interviewing applicants.

It includes loss of output by the departing employee, who tends to work at half pace after deciding to leave and takes into consideration the fact that most people need about six months to become conversant with a new job.

The report says it costs R105 000 to replace a mechanical engineer and R542 000 for an insurance broker.

Thomson International managing director Brian Richardson says: "Apart from being expensive to replace an employee, in current economic times it is often impossible to get rid of an inappropriate employee because few people are budging for fear they will not get another job.

"People are hired and promoted because of their technical skills, but are fired for their behaviour."

Employers should place as much importance on the personality and behaviour characteristics of the applicant as on qualifications and experience.

No matter how well qualified people are, they will not be 100% productive if their behaviour clashes with that required by the job, the boss or the organisation.

To choose the appropriate person, an organisation should quantify exactly what it wants from an applicant where it wishes the successful man or woman to go.

Thomson International has a computer model that analyses behaviour under normal circumstances and at work and how it changes when the pressure is on.

Mr Richardson says good behaviour under pressure is essential because managers are highly stressed most of the time.

The behavioural pattern can be compared with the type of personality required for the job, reducing the likelihood of employing the wrong person.

Everybody has strengths and it is important to identify them to use an employee properly.

Unfortunately, management tends to focus on people's weaknesses and how to change them.

Mr Richardson says analysis of behaviour can be used by companies which wish to implement an effective affirmative action programme.

"The problem with most companies is that they are obsessed with the number of black people they are going to have in top management over the next few years.

"They do not think how they are going to get the right people or how they are going to make sure it works out.

"Zimbabwe is a classic case where people with the right technical skills were promoted to jobs that did not suit their personality."

This resulted in many companies failing.

Mr Richardson says 90% of white male managers have a high dominance profile — they tend to be autocratic, but make quick decisions.

"This is not necessarily the formula for a successful manager. A survey of successful Taiwanese businessmen shows that only 12% of them have a high dominance profile."

Mr Richardson says most blacks surveyed are also low on dominance. They are more consensus oriented and want everybody to share in decisions. But this means it takes them longer to make a decision.

"If managers understand this and adapt the job profile accordingly, the different behaviour pattern can be easy to live with. Otherwise it is easy to become intolerant and agitated with the employee."

# Donors open the door to SA firms

S Times [Buss] 13/6/93

By TERRY BETTY

(180)

AID agencies are ready to inject capital into commercial projects in Africa, providing an opportunity for South African business to expand.

This is a change in emphasis from the previous policy of carrying out mostly social and infrastructural projects, such as building roads, bridges, dams and providing health care.

Safto Africa director Paul Runge says: "It opens new opportunities for SA companies."

The new emphasis is that money must not be poured into a bottomless pit. Projects should promise profit and stimulate the private sector.

Mr Runge says only a few countries south of the Sahara do not depend on aid programmes. They include South Africa, Mauritius and Botswana.

The rest are undergoing structural adjustment programmes as a result of donor pressure.

## Float

Mr Runge says donor agencies basically control the countries' economies and have put pressure on them to liberalise prices, reduce the role of the public sector and boost private enterprise.

Main donor organisations are the World Bank, the Africa Development Bank, the EEC through the Lome agreement and the United Nations.

African countries are being forced to allow the currencies to float to their real rates. Governments are being persuaded to practise fiscal discipline and introduce transparency into their economies.

For example, Zambia, Togo and Kenya have become liberal investment countries that have tax holidays and allow repatriation of profits.

In a major rethink, donor agencies have decided that pure social spending, although worthwhile, does not stimulate the private sector.

Mr Runge says: "Giving medicine to sick people is good and holy. However, it does not stimulate the economy."

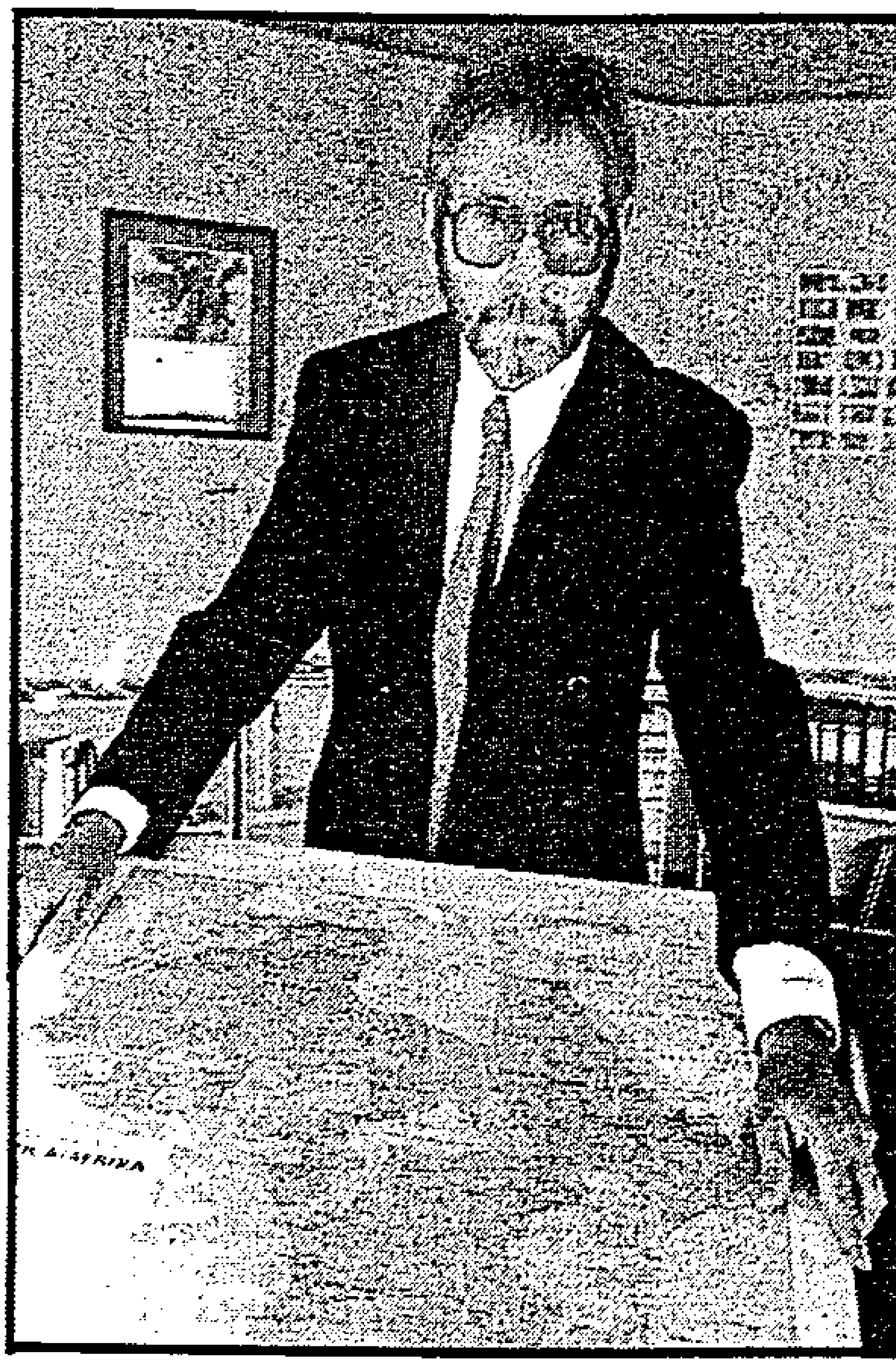
About three years ago the African Development Bank (ADB), the International Finance Corporation (IFC) — the private sector investment arm of the World Bank — and the United Nations Development Programme formed the African Project Development Facility (APDF).

This aims to conduct feasibility studies for small and medium private projects and help to secure finance.

The World Bank had already formed the IFC, which provides direct project funding for private enterprise in developing countries.

Although this has the advantage of less bureaucracy and a shorter project lead time of about six months, it does not handle projects worth less than $15-million.

Mr Runge says the agencies must find people to provide the skills, management, training and technology transfer. He believes SA is their ideal source.



PAUL RUNGE: Good deeds not enough Picture: JON HRUSA

But he warns that SA will be competing against European suppliers.

"SA is in an ideal position to provide consultants for projects and supplies for joint-venture companies.

"When SA companies have their foot in the door, have established contacts and become acquainted with the donor agencies, they will be able to become involved in projects."

Mr Runge says donor organisations take up to 30% of a private company for the duration of the project to make sure it does not go sour.

They generally prefer a partner with the expertise to ensure good management of the project.

But where will the money come from because African countries are notorious for their inability to pay?

Mr Runge says businessmen should change their way of thinking. Instead of only trading with traditional dealers, they should investigate the formation of joint ventures with companies which have foreign currency.

● **Safto will host an Africa Business Opportunities through Commercial Aid Projects conference on July 7 and 8 in Johannesburg.**

# Anglo lifts lid on the secret years

Citizen 13/6/93.

180

NOW that sanctions are receding into the background SA companies are beginning to lift the lid on some unusual activities they are involved in.

The giant of the SA business scene, the Anglo American Corporation is, for instance, heavily involved in the development of a high-energy battery.

The aim is to develop a cheap, safe and efficient battery to power electric cars of the future.

Work on the battery began in the mid-1970s with the assistance of the Council for Scientific and Industrial Research (CSIR).

As development work progressed a partnership was formed with AEG and Daimler Benz of Germany in 1989.

For the past two years a Mercedes Benz car has been used to test the new battery.

The car travelled 43 000 km without any major maintenance work.

The battery generated up to five times the power of a conventional lead-acid battery and a top speed of 130 km/h and a range of 150 km at 80 km/h was achieved.

A pilot plant to manufacture 300 of these unusual batteries next year was being planned and by 1996 a decision was expected to be taken on whether to embark on full-scale production.

If the project was indeed as successful as presently anticipated, it would help revolutionise motoring in the world's polluted cities.

It is interesting to note that Anglo American owns a ceramics manufacturing and cathode preparation plant in Derby, England, as part of the project. Its ownership was kept secret until now because of sanctions.

## MONEY TALK

But the most significant international project the group is tackling at the moment is the development of a major copper project in South America.

Situated in Chile and Peru, Anglo American's 75-percent-owned South American mining company, Mantos Blancos, is planning to invest about R1,4-billion in the development of the deposits.

The money is to be spent over a period of five years and will lay the groundwork for a copper output of a massive 500 000 tons a year by the end of the decade.

Meanwhile, Anglo is still investigating the rehabilitation of the Zambian copper belt, which will require an investment of several billion rand to bring output up to acceptable levels.

New prospects in politically troubled Zaire are also receiving attention.

A big investment was made a few months ago in Del Monte Royal Corporation, a SA food group that was created out of companies bought by the Imerman family from disinvesting American groups.

With the backing of a cash injection of almost R800-million by Anglo, Del Monte Royal now controls important food companies in SA and Europe.

# Urgent call to invest in future

B/Day 14/6/93

(180) LINDA ENSOR

CAPE TOWN — An urgent call for business to forgo expectations of short-term returns and to invest in the reconstruction and development of the country was made by Liberty Life vice-chairman Dorian Wharton-Hood at the annual conference of the SA Property Owners' Association on Friday.

"We must forget the idea that the criteria for investment should only be optimum, immediate, direct return. If we do not forgo the expectation of short-term gain in favour of potential long-term returns, in a few years we shall no longer be able to expect any returns at all," he said.

SA's impoverished communities could not rely exclusively on the political system for their welfare and progress. While creating wealth, business also had a crucial role in redistributing that wealth, particularly by redistributing opportunities.

Wharton-Hood urged business to adopt share option schemes to enable employees to become shareholders and to support affirmative action programmes.

"Only when we have fulfilled these obligations to help the disadvantaged help themselves do we have any legitimate right to insist on our rights to a free market, little government interference, low taxation, foreign exchange freedom and the freedom to unbundle our corporations as and when we see fit," Wharton-Hood said.

SABC chairman and Idasa policy director Van Zyl Slabbert said the forces in SA seeking the centre in the areas of stability, growth, redistribution and legitimacy outweighed those fleeing from the centre, giving cause for optimism.

However, there remained a threat of violence and militancy on the outer flanks, which made negotiation with the right wing urgently necessary. There could be no prospect of holding elections unless ways were found to marginalise violence.

# Deals put on the backburner after Hani assassinated

180

B/Day 14/6/93

THE recent assassination of SACP chief Chris Hani had a marked negative effect on the commercial and industrial market, brokers say.

Property Negotiators director Munro Donen says a number of deals that were being negotiated at the time were cancelled, while other prospective deals were put on hold as people adopted a wait-and-see attitude.

"Whenever something like the Hani assasination or mass action takes place, our phones ring off the hook as tenants in the Johannesburg CBD become nervous and want to decentralise.

"However, as soon as the initial shock has worn off and things revert to normal, the matter is soon forgotten. This is reflected in the fact that some of the deals placed on hold at that time are again under negotiation or have been concluded," he says.

Russell Marott & Boyd Trust industrial director Nick Harris says the Hani incident was a temporary setback.

"We launched our Aeroport industrial estate directly after this and a number of deals were accordingly lost, particularly prospective owner-occupiers.

GRAHAME LINDOP

"Decisions were shelved for a few weeks and then the market picked up again. While we have concluded 19 sales so far, this would undoubtedly have been more had sentiment been better," he says.

However, Anglo American Property Services sales and leasing director Grahame Lindop says Hani's assassination did not have an effect on the commercial market.

"The mass action programme and stayaways associated with the assasination affected the retail market, particularly in the Johannesburg CBD.

"Retail turnover countrywide, not just in the CBD areas, is under huge pressure at the moment. While the most vocal are CBD retailers, I am not convinced they are doing badly just because they are located in the CBD."

SA Property Owners' Association executive director Brian Kirchmann says the events around the Hani dealth saw almost all local deals put on the backburner, while a number of international deals were cancelled.

"The local market is more resillient and used to these developments and recovers much more quickly, but international investors are a lot more wary and do not return easily.

"If we do not sort out our political problems quickly, prospective investors will merely place their money elsewhere," he says.

Seeff Commercial properties MD Colin Blacher agrees, saying many people are sitting back and waiting to see what develops politically before committing themselves.

"While a number of deals were put on hold after the Hani assasination, many of them are back at the negotiating table. There is, however, a lot of uncertainty among investors and those considering a move."

## Upswing awaits a political settlement

B/Day 14/6/93

ANY return in the property market will hinge on a political settlement and the resultant growth in the economy, SA Property Owners' Association (Sapoa) executive director Brian Kirchmann says.

"The major players in the property industry have pulled together in the difficult times of the past few years. But, while I am confident conditions will improve, this is closely related to political and social stability," he says.

The recent assasination of Chris Hani and the arrest of senior PAC officials were setbacks for the negotiating process and economic recovery.

"If the violence can be contained, this will result in a more stable investment climate and will go a long way to ensuring both international and local investment return," Kirchmann says.

RMS Syfrets director Mike Brown says the sooner a final date is set for non-racial elections the better as this will boost confidence and result in the growth of new businesses and the development of commercial and industrial properties.

"An interim government will see us become more credible with the international community and, once this happens, activity will increase. The high level of violence also needs to be addressed."

Kirchmann says Sapoa has established a tourism committee as it believes there is an opportunity for property development in the establishment of the required tourist infrastructure.

"We have also been invited on to the National Economic Forum and we feel this is very positive," he says.

The recession has affected Sapoa membership negatively, but not as much as had been expected. The facilities offered to members and the networking achieved as a result of this helped support membership, he says.

# Tvl investors give auctions thumbs down

B/Day 14/6/93

180

THE sale of commercial and industrial properties by auction has not been well received in the Transvaal, as it still carries the stigma of being a forced or liquidation sale.

This is in spite of the hype surrounding these auctions last year, when they were touted as a niche market and a growth area in the industry.

J H Isaacs Transvaal auctioneering head Wayne Wright says there is little demand for auctions of commercial and industrial properties.

"This method has not achieved the support we thought it would, as it is still regarded as a sale of last resort — generally a forced or liquidation sale. It is a bargain hunter's paradise out there."

He recently attended an auction where the business machinery and equipment were to be sold with the property. About 50 people attended the auction for the machinery, but left when it came to the property.

"If a property is well located and reasonably priced, there is no reason why it should not be sold by private treaty. This is preferable, as it is embarrassing and costly if the property is not sold because no one attends the auction," says Wright.

A J C Burchmore Auctioneers spokesman says, however, that there is a growing awareness of auctions as an alternative to traditional broking.

"The public needs to become aware that this is an acceptable way of selling property," he says.

Auctions are a far quicker way of selling property and the price obtained is often an accurate reflection of its market value. But, for this to be achieved, the negative connotations associated with auctions need to be removed, the spokesman says.

After moving into their new premises at Wynberg recently, John Griffin Auctioneers and J C Burchmore formed a property division, known as Burchmore's Properties. It will be involved in selling, leasing, leasebacks and auctions of commercial and industrial property.

Paul Vermaak, who will head up the division, says: "Although the recession is biting, people are looking for cheaper buildings, so there is a lot of movement".

## Acceptance

Pam Golding properties' auctioneer Hugh Denny says that while the Cape Town market still largely perceives it as a liquidation method rather than a selling method, it is starting to gain acceptance.

"We have handled a number of auctions this year and none of them were liquidation sales. While we are seeing some distressed sellers, we have decided not to undertake any liquidation sales," he says.

Denny says if the media adverts are correctly worded and the marketing prior to the auction is correctly handled, it is generally successful. "But we have to work extremely hard before the auction.

"I find a number of auctioneers are not experienced or skilled enough to create the excitement and competition necessary for it to be successful."

Durban-based Williams Palmer Associates director Sheila Williams says auctions are one of the most popular means of selling property in Durban.

"Demographics and market education play a part. With Natal having a large Indian population, there was a significant change when the Group Areas Act was dropped two years ago.

"This resulted in an influx of investors and the auction route has proved to be the most popular vehicle for them."

Sellers in the Transvaal are prone to over-expectations on price, while buyers see auctions as the place to pick up property at bargain prices. This results in an imbalance, making the market unconducive to successful auctions, she says.

"Once the economy picks up, the time will be right to relaunch auctions on the Reef," Palmer says.

# Industrial market 'not as bad as commercial'

(190/30)

B/DAY 14/6/93

THE industrial market appears less affected by oversupply than the commercial market, with little land and space available in more than half of the Johannesburg industrial nodes, the latest Russell Mariott & Boyd Trust industrial property guide shows.

Of 60 industrial areas in Johannesburg, there is little land available in 41, while 37 have little available space.

"There has not been much growth in industrial land prices, as much of it is not well located.

In addition, many companies have rationalised in the recession.

"The market has also started to move away from the multi-level, obsolete space," says RMBT director Nick Harris.

The RMBT property guide shows that industrial land values range from R50/m² in areas like Alrode, Chamdor, Robertville and Wadeville, to a high of R230/m² in Eastgate and R220/m² in Kramerville.

Rentals range from a R4/m² low at Chamdor — which reflects a medium availability of land and space — to R12/m² in Eastgate, where little land and space is available.

In Durban, 13 of the 23 industrial nodes have little available land, while 16 reflect little available space. Land values are fairly diverse, depending on the area and stand size.

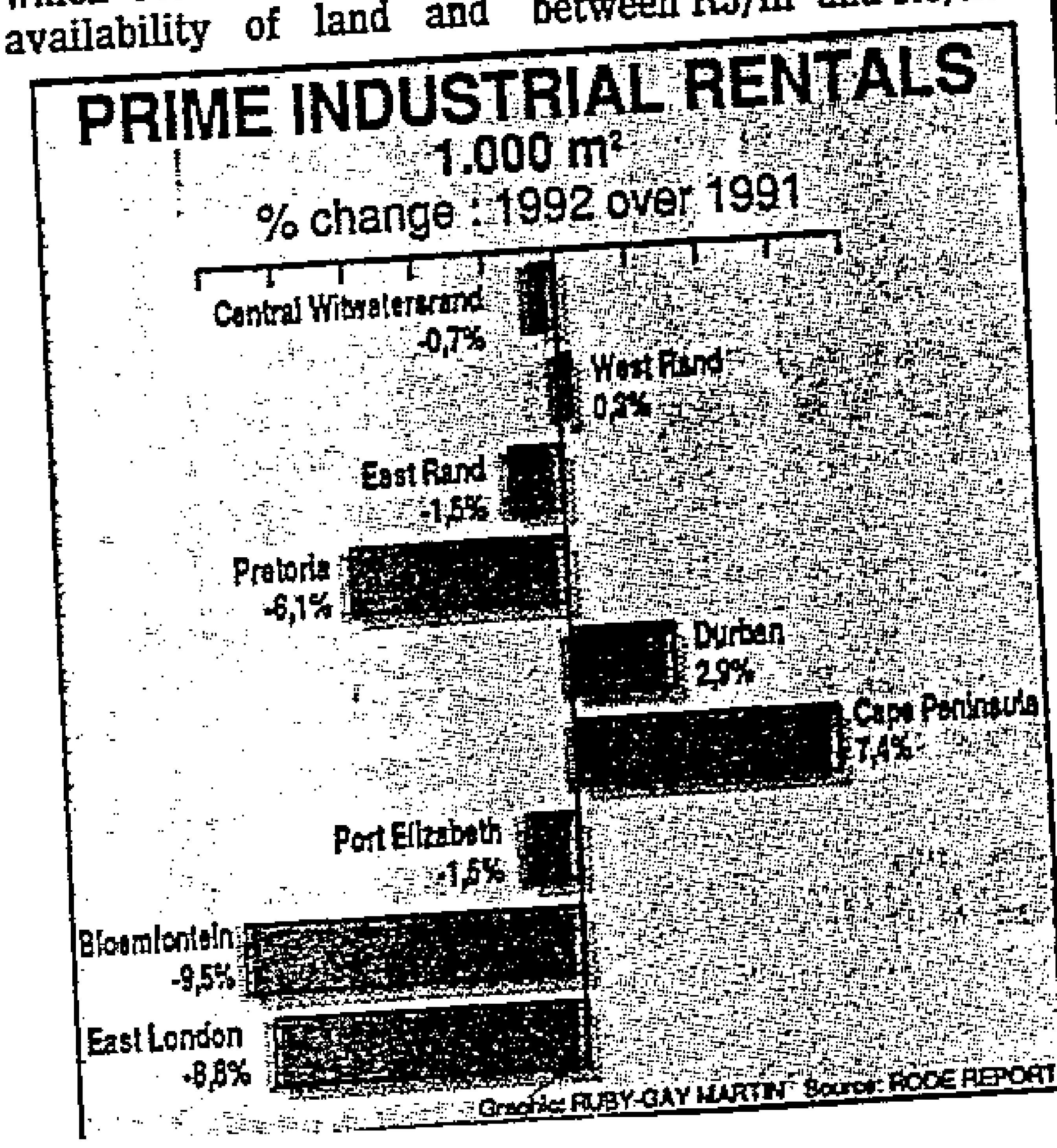
In Hammarsdale, the average stand size is 50 000m² at a land value of R5/m2, while stands of 20 000m² at Cato Ridge have a value of R10/m².

"In contrast, a 2 000m² stand at Mayville and a 1 000m² stand at Umgeni both have a land value of R300/m2, while a 2 000m² Springfield Park industrial site is worth R275/m²," says Harris.

Monthly rentals range from R3/m² at Hammarsdale to R10,50/m² at Springfield Park.

In Cape Town, the City and N'Dabeni industrial areas have no land available, while 11 others have little land for development. Land values range from R30/m² in Norwood/Phillipi for an average 10 000m² site to R200/m² for a 4 000m² Paarden Eiland stand.

Monthly rentals average between R5/m² and R8/m².



# 'Vacancies are worse than numbers show'

BDay 14/6/93 (180)

THE oversupply of commercial, industrial and retail space is worse than statistics show, says Old Mutual Properties investment manager Ian Watt.

Company rationalisations have resulted in a lower space requirement for commercial and industrial property, but this is not yet reflected in occupancy statistics.

"One simply does not know how much leased space is being occupied, but in most cases landlords are receiving rental for this spare capacity," he says.

However, when the leases come up for renewal, space take-up is likely to reflect the diminished requirements and this will place an added drag on any market recovery.

People are increasingly being replaced by computers and other forms of advanced technology. It is unlikely these jobs will be recreated, Watt says.

"So, if we have rentals that are not growing, vacancies that are increasing and a shrinking workforce, the next turnaround is quite a long way off — probably three years or more.

"Furthermore, an economic upturn does not automatically mean that more people are going to be employed, particularly in the office market. When the economy does start to take off, it will be quite a while before businesses grow into existing space," he says.

This means that rentals are unlikely to increase before demand begins to rise. But, for that to happen, the country needs economic and political stability.

This scenario has forced Old Mutual Properties to adopt a much harsher view of developments and does not bode well for the construction industry, he says.

"One needs to have a close look at property stock and determine whether it is still suitable. Some vacancies are caused by the state of the building rather than the market."

Good buildings will continue to attract tenants and, while rentals may grow at this end of the market, B- and C-grade property will come under pressure, he says.

# No boost in business confidence — BER

B/Day 16/6/93

DUMA GQUBULE

THE current low level of business confidence was unlikely to receive a significant boost from the local economy this year, Stellenbosch University's Bureau for Economic Research said yesterday.

Its nationwide survey conducted during May 1993 among 21 sectors of the economy showed the manufacturing sector continued to experience adverse business conditions.

Exports were picking up, but an improvement in the manufacturing cycle was unlikely to occur this year.

Adverse political developments, in the wake of the Chris Hani assassination and the March Budget, had knocked improving business confidence detected in the first quarter survey and affected consumer demand.

A majority of respondents said second-quarter business conditions were likely to be worse than those of the previous year and were expected to stay so in the third quarter.

Second quarter domestic sales had not lived up to expectations expressed in the bureau's first-quarter survey.

There had been a relatively sharp fall in the volume of local orders, but the outlook for the third quarter was considerably better.

Most respondents had reduced production, because of slack domestic demand, but they expected to increase production during the third quarter, the bureau said.

It appeared the higher production was largely the result of an increase in exports.

Encouraging news was that foreign demand for manufactured products had surpassed expectations and was expected to be keener during the third quarter.

More goods were produced for export than a year ago and most respondents expected a further acceleration during 1993.

The indication that fixed investment was slightly higher during the second quarter and that the deteriorating trend in real investment may be bottoming out over the next year, were other positive factors, the bureau said.

# Business mood worsens

Star 16/6/93

By Claire Gebhardt

A nationwide survey of 21 manufacturing sectors shows a significant deterioration in business confidence as a result of recent political developments.

The Stellenbosch Bureau for Economic Research (BER) says a majority of manufacturers expect second-quarter business conditions to be worse than last year and that there will be no let-up in the third quarter.

Because of slack business conditions and political uncertainty, manufacturers do not plan to expand productive capacity over the next 12 months.

### Boosts

180

The BER says domestic demand it unlikely to provide any significant boost in 1993.

Though exports are picking up, a turn for the better in the manufacturing cycle is unlikely to come to the fore this year.

The BER sounds a strong warning about job losses and the potential for this to aggravate violence and crime and intensify the downturn.

"It is disturbing to note that 46 percent net of manufacturers were forced to retrench workers during the second quarter.

"It is even more disturbing to report that a net 42 percent say they will do so in the third quarter."

In spite of the lay-offs, the survey reveals that fewer hours were worked per factory worker during the second quarter.

### Bottlenecks

Bottlenecks were also experienced, implying that even a mild economic upturn could cause problems on the labour front, which will undoubtedly be reflected in higher wages, says the BER.

"Even though the country finds herself in the fifth year of a recession, 39 percent of manufacturers experienced shortages of skilled labour.

"Nineteen had problems finding suitable semi-skilled workers."

Second-quarter domestic sales did not live up to expectations, but there are indications that the decline in sales is bottoming out and that this will continue in the third quarter.

Foreign demand actually outstripped previously held expectations and should become stronger during the third quarter.

Manufacturers therefore expect to produce more goods during the third quarter, largely as a result of increasing exports.

Manufacturers blame their woes on the politicans and their inability to get their act together.

# JCCI chief calls for new look at aid

B/Day 17/6/93

MARIANNE MERTEN

INTERNATIONAL donors should use only economic criteria to allocate aid funds, Johannesburg Chamber of Commerce and Industry (JCCI) president Mervyn King said yesterday.

Commenting on recent reports of SA's institutional inability to disburse international donations, King said the money should be given to specific projects which were feasible and acceptably managed.

(180)

This would ensure the creation of employment opportunities, prevent corruption and force political parties to commit themselves to sound economic policies.

The vast sums of money expected to be available once a transitional executive council was established would serve "little purpose" if future economic policies were not sound.

# Mismanagement is often the problem

Bdom 17/6/93 (180)

IDENTIFYING the rot in credit control before it sets in is the key to staving off company failure, say asset management consultants.

Kessel Feinstein director Costa John says credit control and asset management is vital to medium sized companies, which are typically undercapitalised.

"With fewer 'early warning systems' for liquidity problems, they have a narrow margin of error in asset management.

"This means the company should carefully consider any additional sales they are trying to generate, as these may have serious cash flow implications."

He says the company can help control cash flow problems by applying a checklist for evaluating the "next sales order". Issues to consider are:

- The addition of extra days of credit for a special order. Consider whether cash flow will allow you to wait for payment;
- Will additional sales be obtained by sacrificing profit margins needed to finance the additional stock levels?;
- Does another sale create additional overheads that will continue beyond the transaction?;
- Has a sales opportunity created attractive profit margins, but much longer credit terms and higher stock levels?

Credit Guarantee marketing GM Hennie Wiehahn says statistics show mismanagement causes about 65% of failures.

He lists the obvious mistakes:

- Many companies are sales-driven and reduce margins to acquire increased sales;
- Sales decline as a result of deteriorating service levels or quality of goods sold;
- The business grows too rapidly and outpaces its management and financial capabilities;
- Companies in search of greater market share often allow a drop in the quality of debtors books, which ultimately results in poor cash flow and bad debts;
- Changes are made to senior management, who are incapable of running a profitable business.

Wiehahn says the liquidity ratio, which measures the ability of a company to meet its short-term liability by converting its stock and debtors into cash, is also important.

"Should the ratio be 1:1 or less, indications are the business is close to failure."

**asset management**

B/Day 17/6/93

# Investment in stock 'should match business objectives'

(180)

THE tendency not to establish a balanced and cost-effective trade-off between investment in stock and customer service is reducing company profits through lost sales and increased costs.

Few organisations question whether their investment in stock is consistent with their business objectives and operating characteristics, say Deloitte & Touche Management Consultants director Nick Charissis and principal consultant Conrad Steyn.

Charissis says major gains are attainable, however, by implementing effective inventory management, which ensures that the policies, mix, re-ordering procedures and quantities of all types of stock support overall goals and customer needs.

Unfortunately, most companies focus on general stock control, including physical security, accuracy of transactions and random stock reduction.

Deloitte & Touche Management Consultants now provides a methodology that enables management to focus on the crucial trade-off between investment in inventory and customer services levels.

Steyn says it achieves this (while maintaining the correct mix of stock) by modelling various scenarios with different levels of inventory investment and customer service.

"Based on results obtained at various sites over the last few years, an inventory investment reduction of 20-30% is common."

Steyn says successful inventory management revolves around:

- ☐ Its integration with customer needs, business objectives and operating characteristics;
- ☐ A clear understanding of the role of inventory;
- ☐ Top management involvement in policy setting;
- ☐ Someone taking responsibilty for and co-ordinating the material chain;
- ☐ Disciplined and accurate forecasting.

Charissis says to realise benefits such as improved customer service, reduction of investment in inventory, improved forecasting and decision making, an organisation has to change its view from one of managing individual, isolated stores to managing an integrated materials management system.

"It is no good taking short-term action on an ad hoc basis. A disciplined, integrated approach results in a process of continuous improvement."

# Report on local govt 'ignores business role'

B/Day 11/6/93

GAVIN DU VENAGE

SACOB said yesterday it was "gravely concerned" that the President's Council report on a new local government dispensation failed to recognise that business was a major contributor to local coffers, and would be affected most by revenue collection and expenditure decisions.

The council released the report yesterday, before its dissolution today.

It called for strong autonomous third-tier government combining primary local authorities and services councils in metropolitan and rural areas.

In a statement released yesterday Sacob said that while the council recommended formal participation for ratepayers' associations and civics, no mention of regular consultation with business was made.

Business could provide valuable information on how best to use scarce funds and other resources, the organisation said.

Sacob questioned the advisability of a dual ward and proportional representation system in respect of primary local authorities.

Proportional representation at the local level would "unduly encourage party politics", Sacob said.

"We believe that a ward system, in which constituency representatives are directly accountable to the people who elect them, is fundamental to the success of local government," the statement said.

However, Sacob welcomed the council's endorsement of a wide range of options to be arrived at through negotiations, and its call for equal participation for all.

Sacob also supported the council's recommendations for a maximum devolution of authority, with the proviso that additional funds come from second and thrid tier government, for administrative rationalisation and a fair distribution of the tax burden.

# Nonracial SA 'a top priority'

B/Day 11/6/93

THE goal of a democratic, nonracial and united SA "is and must remain one of the highest priorities of the international community", UN Secretary-General Boutros Boutros-Ghali said yesterday.

In a June 16 message to commemorate the UN's International Day of Solidarity with the Struggling People of SA, he urged all parties to make every effort to reach agreement on remaining issues, and called on them to do everything possible to facilitate the establishment of a broad-based government.

"One of the most immediate challenges which South Africans now face is the task of putting an end to the present widespread violence and disorder. Achieving this objective will require goodwill and courage as well as a strong determination by all parties.

"The creation of a peaceful political climate is essential if democracy is to take root and grow, and it is a vital precondition for meaningful progress in addressing the serious socio-economic problems which SA now faces."

Boutros-Ghali said while the UN had confidence in the ability of South Africans to create a democratic and nonracial future, "we do realise the complexity of the situation in the country and we understand that the people of SA need the support and assistance of the international community".

He added the UN would continue to provide such support.

Sketching the already extensive involvement of the UN in SA, Boutros-Ghali said it was widely agreed the measures had had a salutary effect on the political situation in the country and had helped to advance the peace process.

He said the UN was committed to continuing such assistance until a democratic, nonracial and united SA was established.

"In a world full of conflicts and crises, recent developments in SA have been most encouraging. The peaceful resolution of the conflict ... would be an encouraging example for others and an important lesson to all.

"Its benefits would be felt not only by the people of SA but also by millions of people far beyond SA's borders." — Sapa.

t control and

B/DAY 17/4/93.

# Invoice discounting has many advantages

FAILURE of businesses to operate at full potential often stems from cash flow restrictions and a need to look afresh at financing facilities to obtain their maximum value.

Commercial Union Trade Finance (Cutfin) MD Colin Warner sees a tendency for companies to borrow at overdraft levels, which does not meet their needs and restricts the development of the business.

"In the present economic conditions cash is king — and will be even more so when SA starts to experience positive growth."

Warner says it is time more corporates appreciated the advantages invoice discounting as against overdrafts.

## Abreast

(180)

Unlike a fixed overdraft, invoice discounting keeps abreast with inflation, price increases and the dynamic changes in a business and market.

He says companies that use their debtors' book to avail of an invoice discounting facility would find the following advantages over a bank overdraft:

- They would receive a cash advance of 75%-80% against the existing book and all future invoices, as opposed to the 25%-45% value placed on the book for securing the overdraft;
- The facility is as confidential as an overdraft;
- Work involved for the corporate discounting its book remains with the corporate;
- Security required for the facility is often less than that asked by a bank, and the interest rate charged on the funds advanced of prime plus 1%-2% per annum compares favourably with many bank lendings.

# Factoring can ensure growth and continuity

B Day 17/6/93

(180)

COMPANIES should investigate their additional working capital needs for an economic recovery and a new era by adopting more innovative methods of financing against the collateral of their debtors books.

Credit experts say this will ensure correct gearing and assist them to maintain a positive cash flow.

"Recovery implies expansion, which in turn demands more cash," says Cutfin MD Colin Warner.

## Prompts

Anticipating this need also prompts suppliers to look at collecting trade debt sooner, while insisting more on cash terms when their customers start to over-utilise credit facilities.

Warner says the factoring industry is well geared to help existing and potential clients to respond faster than competitors to increases in demand.

Factoring and invoice discounting facilities utilise the debtors book to provide funding, thereby ensuring continuity and growth.

The recent 4% VAT increase has shown the advantages of a working capital facility linked to turnover.

"The VAT rise has placed more pressure on working capital facilities as most companies have to settle payment with the Receiver every 30 days, while receiving debtors make their payments on average only after 90 days.

"This means companies that buy and sell on credit need significant extra funding to overcome the threat to cashflow resulting from these differences," says Warner.

Experts agree this is important as a higher rate of company failures occur up to one year after an upturn in the economy than during the slump.

Task Credit Consultants MD John Rupert says notwithstanding this trend, SA is entering a new era from a credit perspective due to the current political and socio-economic scenario.

As a result, many of the old rules regarding risk management and traditional collection methods are either no longer the best options nor still apply.

"Few companies appreciate the changes taking place and that effective credit management now requires a total hands-on approach by management," ~~says~~ Rupert.

"Some have the wrong view that a credit department runs itself, instead of seeing it as having to interact closely with management and other business functions or support services that include sales, warehousing, distribution, finance and information technology."

Task Credit Consultants is called in only when a company finds itself in serious trouble, usually as a result of lack of control and failure to identify the early warning signs.

## Minimised

Risk and over-exposure can be minimised if they are anticipated and when companies actively manage their way out of recession, says Rupert.

"But more innovative ideas on risk evaluation and assessment, securities, pricing, trade and settlement discount structures, collection of debt and meaningful management reporting are called for."

With management effectively in control, coupled with improved efficiencies and the use of new credit tools, debtors books can be well managed and controlled.

# Political low spots hit industrial

Star 17/6/93 (180)

HIGH and low spots in the country's political life, reflected in levels of violence, can have as rapid an effect on property deals as on business confidence — a change from the days when property's outlook was governed by its three to five year construction lead time and economic intrinsics.

The latter is still true for investors, but for tenants, events such as the assasination of Chris Hani and its aftermath of increased protest action during April, and the violence that swept East Rand townships in May, it can mean refusal to make decisions on deals at the 11th hour that brokers would previously have thought of as concluded.

This was reported by JHI in the office market, but general comment seems to suggest the industrial leasing market may have been the worst hit.

Russell Marriott & Boyd Trust director, Dave Alcock, notes the irony in the fact that the one-time essential for good industrial land — proximity to black residential areas — has in some areas suddenly become its worst feature with examples such as Wynberg, and Marlboro.

Strydom Park on the other hand, which many predicted would fail because of its lack of proximity to labour supply, has burgeoned for exactly that reason.

RMBT's Aeroton industrial project launched in April could not have launched at a worse time politically. Alcock says that inquiry levels, initially good, took a dive during April and May but have recovered as rapidly as they fell and deals have been concluded for 20 stands.

In general, Alcock acknowledges that industrial rentals being achieved in the PWV have not kept pace with inflation, and further, the fact that inflation has come down, has meant rental reviews allow tenants to negotiate still lower rentals because escalation clauses in their leases were too high, based on inflation at 12 percent.

That said, there is a substantial difference across the board in the value of industrial land and rental levels based on location. RMBT has permitted The Star exclusive publication of its latest market research applied to the PWV, and in subsequent issues of our property round-up, will publish similar research for Cape Town and Durban's industrial property markets.

JH Isaacs (Transvaal) industrial leasing and sales director, Wayne Wright, reports a "trendless" second quarter.

"After a healthy kick-start to 1993, the industrial property leasing and sales market largely stalled on the back of ongoing violence," says Wright.

JHI's research indicates that industrial rentals are about 25 percent softer in real terms than they were five years ago. This generally obliges landlords to be negotiable about renewed leases or face tenants moving out.

Several large leaseback deals are being concluded as companies consolidate under one roof, and conversely, many previous "tenants" are becoming owner/occupiers because of the availability of bond finance and lower valuations.

# PPI continues downward

CT 17/6/93 (180)

By AUDREY D'ANGELO
Business Editor

THE producer price index (PPI) continued its downward trend in April — although the weakness of the rand was reflected in an upward tick in the index for imported commodities.

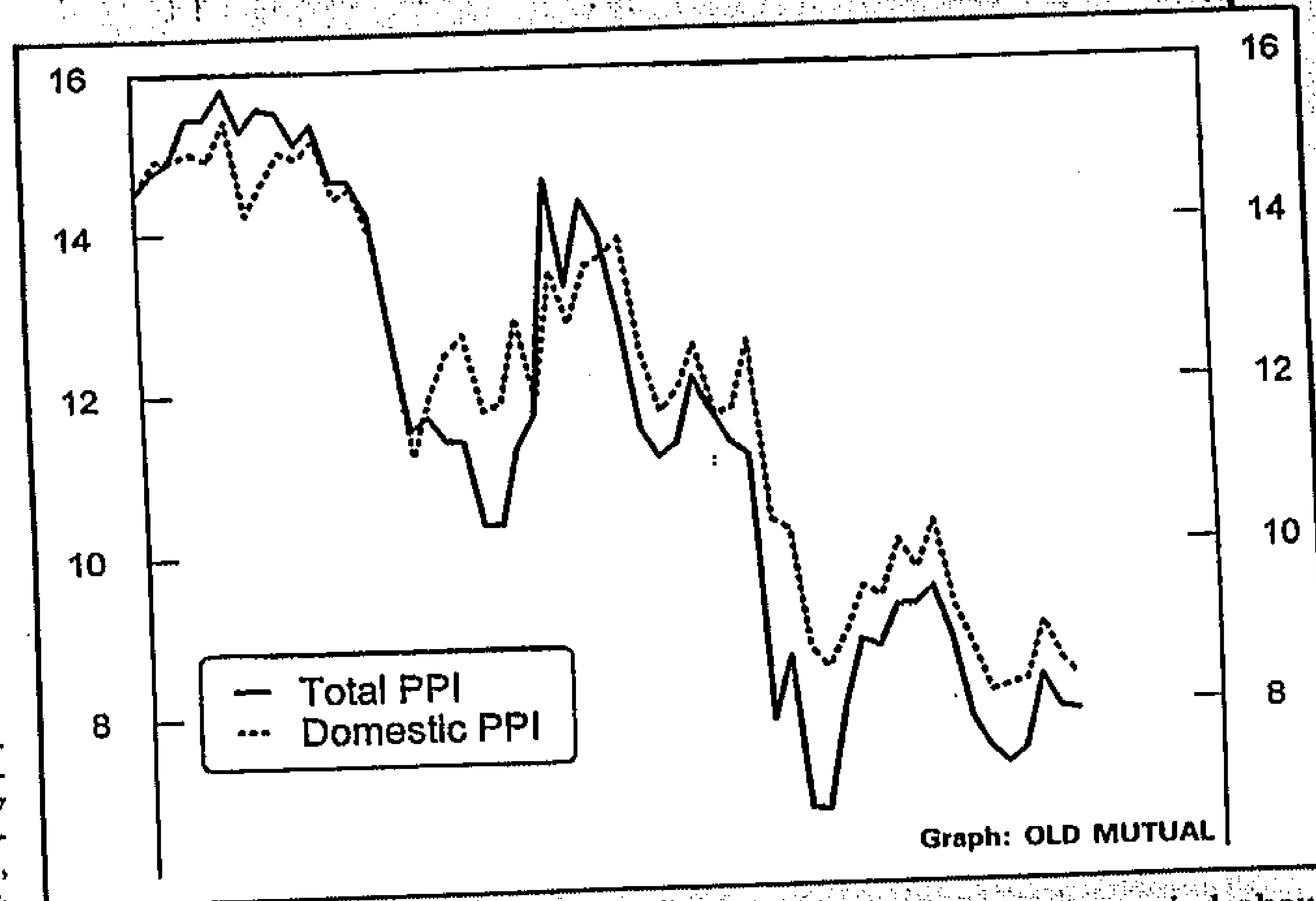
The PPI rose by 7,9% year on year, compared with 8% in March. The month on month rise was 1,2%, but the seasonally adjusted rise was 0,9%.

Locally produced goods rose by 8,3% year on year, compared with 8,5% in March.

Imported commodities rose 5,9% year on year compared with 5,6% in March. But although the actual rise, month on month, was only 0,5% the seasonally adjusted rise was 2,1%.

The biggest rise was 7,7% for petroleum and coal products. Forestry products rose by 2%, fishing products by 1,1%, alcoholic and non-alcoholic beverages 1,2%, tobacco products 4,4%, leather and leather products 1,8%, wood products 1,2%, furniture 4,4%, chemicals and chemical products 2%, rubber and plastic products 2,1% and scientific, optical and related equipment 1,9%.

Old Mutual economist Johan Els said it was encouraging that the PPI remained below 10%. Although the month on month rise might seem high it included the increases in excise duties and fuel prices introduced in the budget — although not the higher VAT.




Graph: OLD MUTUAL

"In actual fact this is a good figure and the outlook for the rest of the year looks encouraging. Internal inflation is low, oil prices are low and the rand exchange rate stable.

"We are still in a deflationary environment, which will be good for the consumer price index (CPI)."

Els said he was not worried about the seasonally adjusted rise in the imported component. "That has been a very volatile component.

"Although it was 2,1% month on month the average for the past four months has been only 0,7%."

Boland Bank economist Francois Jansen said he found the figures "very encouraging" because they implied lower CPI inflation.

He was not concerned about the prospect of higher imported inflation because the rand had not depreciated steeply against a basket of currencies, and had appreciated against the British pound. PPI inflation was still low in the big industrial countries.

Low domestic demand was putting downward pressure on prices and lower interest costs would also have a positive effect on the PPI.

But Southern Life economist Mike Daly said that although at first sight the PPI looked encouraging he was a little concerned about the upward movement of imported inflation.

In the present state of the economy producers were cutting costs as much as possible and were unable to raise prices much.

But although imported inflation had not risen very much as yet any further weakening of the rand, as a result of falling reserves, was a threat to the PPI.

"The fate of the rand depends on whether we can stem the capital outflow. I think the worst is past and reserves will be edging up for the rest of the year."

However, unless foreign perceptions of the risk factor of lending to SA changed, and the premium on borrowing overseas came down, debts outside the standstill net would not be rolled over and the rand would remain weak.

# Old faces in the new SA?

W/Mail 18/6-24/6/93

*After the SABC board saga, pressure on the Small Business Development Corporation to be more open in the election of its board is likely to follow.*

**REG RUMNEY** *reports*

RUMOURS have been doing the rounds that the Small Business Development Corporation (SBDC) chairman, Anton Rupert, is considering resigning due to ill health. Rembrandt founder Rupert, a symbol of Afrikaner capitalism, is in his 70s.

However, while the issue of electing a new chairman is said to have been the subject of a power struggle among board members, it is understood that Rupert has been asked to stay on a year.

A new chairman would bring the SBDC board itself into the spotlight. A glance at the 1992 SBDC report shows, judging by the names, that only nine of its 58 board members are African.

The corporation, although quite highly regarded in business and other circles for the work it has done in encouraging small business, has attracted criticism over the years, particularly from the black business community.

It has been claimed the SBDC loans too much of its capital to profitable white-controlled enterprises, that it does not co-operate enough with other small business support agencies and that its management structure is too white-centred.

These criticisms may be unfair but the problem is one of perception rather than fact. University of Cape Town economist Nicoli Nattrass says she discovered while doing research on small business that the corporation suffers from widespread mistrust. The mistrust is so widespread that the World Bank learned early on to avoid meaningful involvement with it.

Anton Rupert

"To avoid alienating community organisations, non-governmental organisations and black business associations the World Bank practically sidelined the SBDC from its research and policy workshops. This bodes ill for the corporation's future."

SBDC chief executive Ben Vosloo describes the World Bank's finance arm as having its "own agenda", though this is not necessarily negative.

Without confirming or denying that Rupert is about to step down, Vosloo says the SBDC board will elect a chairman at its AGM on August 31, as it has done every year.

The board's executive committe has an action sub-committee which nominates people as chairman, says Vosloo, and it will meet around the beginning of August to consider nominees.

Vosloo adds that whether Rupert is the chairman or not depends on whether he makes himself available for the post and whether he is chosen. In other words there is a chance that for the first time since it started the SBDC will have a new chairman.

The pending appointment of a new chairman brings into the spotlight the SBDC board as a whole. Rupert has chaired the SBDC and Vosloo has been the chief executive since its inception 12 years ago.

Ben Vosloo

Vosloo stresses the SBDC is a company and not a statutory body. The board represents shareholders and the state and has appointed people on it. The public sector representatives, he says, are in the minority to avoid the SBDC being dragged into the political arena. Appointees are elected by shareholders for their business knowledge of the needs of small business.

Vosloo defends the SBDC's contribution to the development of small business in South Africa, saying it is a model for other countries, where similar organisations are riddled with corruption because of state interference. He points out that other African countries have turned to the SBDC for advice on how to run a small business development organisation.

Nattrass, however, says there is a strong case for increasing the public sector representation on the board from its current inadequate level of 25 percent and making it smaller and more directly influential.

As Vosloo's comments indicate, this is likely to be resisted by the present management. But Nattrass points out that according to the 1992 annual report the private sector's accumulated investment in the SBDC amounts to about R180-million.

(180)

The state, on the other hand, supplements its investments with further injections of funds for specific programmes and these are non-interest bearing and non-repayable.

"The net value of those additional funds came to R475-million at the end of the 1991/92 financial year. This, together with a few long-term loans from the Independent Development Trust and the Development Bank, effectively increases the public sector's share in the total capital base of the corporation to about 80 percent."

While the board of the SBDC is dominated by the private sector, and Vosloo says this is necessary to avoid politicising the SBDC, by contrast Eskom has just appointed a board which reads like a Who's Who of the new South Africa.

Vosloo defends the SBDC's appointment process, and its reporting, as being as open as it possibly can be.

Although it might suffer from a perception problem, the SBDC is acknowledged to have done some important work in small business creation. For instance, African National Congress economist Tito Mboweni agrees the SBDC should be seen to be more accountable but reckons its positive role should be acknowledged.

He feels, however, the SBDC could do more to encourage medium-sized business, particulary black medium-sized business and says black businessmen he has spoken to have referred to hitting a kind of "glass ceiling" in getting loans for their businesses.

Attention is also likely to be focused on the Development Bank, which holds its annual general meeting at the end of this month. Strong speculation is that at the AGM Owen Horwood is about to vacate his seat as chairman of the Council of Governors, a position he held for the 10 years of the bank's existence.

# Critical view of social spending

Star 18/6/93

(180)

**Spending on social investment programmes has reached almost R1 billion a year. Successes have multiplied. But new question marks have been placed on whether many of the schemes have had optimum impact, reports MICHAEL CHESTER.**

NEW surveys have dislosed that total spending by private sector companies on social investment programmes has climbed to almost R1 billion a year as business takes a wider role in the reform process.

The formidable scale of the budgets has been confirmed by the Business Marketing and Intelligence research unit, whose latest count estimated annual spending at R840 million — and still on the increase.

Success stories have been well recorded. But deeper studies by the Consultative Business Movement (CBM) have put question marks over whether many of the schemes have hit the real targets they set themselves to make an optimum impact at community level.

All too often, the CBM found, internal corporate departments handling social investment affairs were "understaffed, overworked and crisis driven". In some instances they appeared to be "woefully ill-equipped to deal with the challenge of moving beyond cheque-book approaches".

Worse, many businesses felt frustrated by the lack of visible success from their programmes.

The analysis has resulted in a new set of guidelines on how to improve the interface between the business world and the community — and set the wheels turning on more and more development projects.

The message? Business should view social responsibility not as a cheque-book item but as an investment in the company's future.

Old-style paternalism and charity handouts no longer suffice. The development needs of communities should be tackled in full consultation with communities themselves and handled on a partnership basis."

Companies should not only provide financial assistance. They also needed to volunteer their expertise and resources — manpower and internal facilities — in the planning and implementation of special projects aimed at community upliftment.

Problems and solutions are discussed in detail in a CBM publication titled *Managing Change — A Guideline to the Role of Business in Transition.*

Wider and more effective links between business and the community in general will be among a number of pressing issues to be debated at the Business Conference for Active Change that The Star will hold in association with the CBM at the Carlton Hotel in Johannesburg on June 25.

The conference is expected to set important new signposts to the routes that business leaders should follow in the post-apartheid era.

"The private sector has a critical role in contributing to the development needs of South Africa, particularly during the transition," says the CBM. "In many areas, Government development projects have been discredited.

"Urgent problems such as housing shortages, the education crisis, unemployment and violence threaten to wreck hopes of a stable and peaceful transition." □

● For more information on The Star's Business Conference for Active Change call Rosemary on (011) 483-1637/40/42/45.

BUSINESS

# Major SA price rise shock seen

ARCT 19/6/93 (180)

Business Staff

THE latest producer price index (PPI) suggests that the Reserve Bank still has a fair amount of squeezing to do if inflation is to fall to overseas levels.

While the overall trend in producer prices is still low, an analysis of index constituents shows significant price rises could be on the way.

In the 12 months to April prices of all commodities for local consumption rose 7,9 percent — a slight improvement on the eight percent for the year to March.

But there is also a danger sign in the performance of prices in April.

Prices of goods produced by South African industry for local consumption rose 1,2 percent — equal to an annual rate of 15 percent. The seasonally adjusted figure for April was 0,9 percent — equal to annual price rises of more than 10 percent.

The price index for imported commodities rose 5,9 percent in the year to April, which is remarkable in view of the slide in the exchange rate of the rand. But the seasonally adjusted rise in imported prices in April was 2,1 percent — equal to an annual rate of increase of 26 percent.

S/Times (Buss) 20/6/93

# SA firms favoured at a cost of R1bn a year

By CIARAN RYAN

THE Government is adding an estimated R1-billion to its annual purchasing bill by favouring SA suppliers.

The policy has been exposed by the world's leading trade authority, Gatt, which met government representatives this month.

Government departments and provincial administrations buy supplies worth between R6-billion and R8-billion a year.

Government procurement policies have been attacked by the ANC for allegedly favouring big business.

The National Economic Forum is discussing the matter and measures to increase small and black businesses' share of tenders are expected to be implemented before the end of the year.

SA agreed to phase out or reduce several local content preference schemes to bring it more into line with General Agreement on Tariffs and Trade rules.

Suppliers have, according to Gatt, been allowed preferential margins of 30% to 40% if they meet local content requirements.

Industries in homelands (regional growth points) get 5% to 10% and a railage rebate of up to 60% of transport costs. Electronic goods suppliers have been allowed to add 35% to their price and still win tenders. Companies with SABS ratings can add 2,5% to their prices.

Regional preferences will be phased out by the month-end and foreign companies which meet SABS standards will also be able to add 2,5% to their prices.

Price preferences of up to 35% for SA-made electronic equipment are being scaled down.

Electronic equipment accounts for less than 10% of government purchases, says State Tender Board chairman Kobus Coetzer.

"The decision to do away with price preferences for local suppliers is a government decision," he says.

"The State Tender Board operates in a totally transparent manner. All tender awards are published in the Government Gazette and we have to give reasons why a cheaper tender was refused."

Imported goods account for 30% to 40% of Government purchases, according to Stefan Schutte, administrative secretary at the Department of State Expenditure.

He disagrees that local content preference margins are 30% to 40%, as claimed by Gatt.

Mr Schutte says the average local content preference is "no more than 10% in respect of all imports where electronic goods receive as much as 20%". The preferences cost SA no more than R320-million.

Chamber of Commerce economist Ben van Rensburg says SA will have to phase out all protection, including those applying to government procurement, as the country normalises its trade relations.

"But 350 000 to 500 000 jobs have been lost since 1989 and we must be careful not to damage employment creation any further."

One of the more controversial schemes is the ad hoc preference for SA products which have "little or no tariff protection" and where the price difference is marginally in favour of imports.

In this situation the State Tender Board may refer the matter to the Board on Tariffs and Trade.

Gatt says: "Where tenders are equally priced, even after deduction for preferences, the board gives priority to supplies made in SA."

# Business reels as hope of recovery is delayed

S/Times (Buss) 20/6/93

By CHERILYN IRETON

RETAILERS and wholesalers, still bleeding from the sharp fall in consumer spending, have pushed hopes of an upturn to the last quarter of this year.

A survey of the retail, wholesale and motor trade by the Stellenbosch Bureau for Economic Research (BER) confirms that the economy is firmly in recession.

Business conditions in the second quarter have been unsatisfactory. Most businessmen are relatively pessimistic about the third quarter.

Consumers are deeply concerned about their finances and believe now is not the time to spend on household appliances. This will inevitably work through to sales, says the report.

"The economy will at best bottom out during 1993. Gross domestic product is forecast to contract by about 0,5%," says BER director Ockie Stuart.

The assassination of Chris Hani, the deaths of Oliver Tambo and Andries Treurnicht, and the media coverage of their funerals had a pronounced impact on consumer behaviour. So did the high incidence of murders and attacks on restaurants. The adverse effect of the budget on consumer spending hit home in April.

A quarter of white consumers surveyed believe the economy will improve in the next 12 months. Pessimism about the country's future is more pronounced among white women.

Half of white respondents believe it is the wrong time to buy durable goods, a view shared by 40% of blacks.

Most retailers report lower sales volumes in the current quarter. First-quarter expectations were not realised.

Department and general merchandise stores suffered most, but pre-VAT sales in the first week of April helped furniture and household appliances, office equipment, clothing, footwear and pharmaceuticals.

However, lower sales volumes of food and beverages were confirmed.

A net majority of 16% of retailers surveyed expect lower sales in the third quarter.

Particularly pessimistic are those in department and general stores as well as the non-durable sector. However, retailers expect better semi-durable business.

Retailers of electronic equipment, furniture and household appliances are highly optimistic.

Wholesale volumes have fallen in the current quarter. Wholesalers are pessimistic about the third quarter. Expectations are better for non-consumer goods, particularly building materials and hardware.

Disposable income should show positive growth next year.

# Be brave — branch out and become the boss

C/Press 20/6/93

## Avoid the pitfalls, get advice from a professional before you take the big step

THE steps you need to take to set up your business depends on the type of legal structure you have chosen.

Whether you decide to set yourself up as a close corporation, partnership, sole trader or limited company, you should seek professional help from an accountant and/or an attorney as there are many pitfalls.

Most important after the choice of the legal structure are the requirements for registration with government authorities.

The registration required covers things such as income tax, pay as you earn (paye) tax, Regional Services Councils (RSCs), Value Added Tax (VAT), Unemployment insurance Fund (UIF) and Workmens' Compensation Insurance (WCA).

The registration is done with the Receiver of Revenue, the Department of Manpower (who is the UIF Commissioner) and the WC Commissioner.

■ Setting up a close corporation is straightforward. Only one document called a "Founding Statement" needs to be registered with the Registrar of Close Corporations in order to commence business.

Limited liability is established, but the incidence of personal guarantees, which will be quite common, may negate a certain amount of this.

A close corporation may, under certain circumstances, give financial assistance to a new member to buy an "interest" in the close corporation and it may acquire the interest of a retiring member. There is no stamp duty payable on the transfer of ownership.

An "accounting officer", rather than a registered accountant or auditor, is required to approve the annual financial statements. A suitably qualified member of the corporation may be appointed as accounting officer.

The cost of setting up a close corporation is about R650. The affairs of close corporations are regulated by the Close Corporations Act of 1984, as amended.

The disadvantages of having a close corporation include that the maximum number of people that may participate in it is 10. The corporation may also not have a company as a member.

Members may, however, incur personal liability in certain circumstances. Thus every member can legally bind a corporation in respect of transactions with third parties.

■ With the exception of registering for taxation, there are no formalities involved in setting up a partnership or starting your own business as a sole trader.

You should not go into partnership with anyone without a formal partnership agreement.

If the rights and duties of the parties are specified in advance in a partnership agreement, serious problems may well be avoided in the future.

A partnership agreement should be prepared by a professional and should cover formation, profit-sharing arrangements, salaries, banking arrangements, changes of partners, dissolution and the responsibilities of partners.

The disadvantages of this type of business are that partners are jointly and severally liable for the debts of the partnership. This means that if the partnership fails to pay its debts, they become the responsibility of all the partners.

A partnership is restricted to a maximum of 20 people, except in the case of certain professions.

There is less flexibility in transferring ownership, thus in the event of death, permanent disablement or retirement of the sole trader or a partner there may be difficulties in maintaining the business structure.

There are other types of organisations (for example, trading trusts, limited partnerships) which could be used for carrying on your own business. Seek further advice if you consider these alternative structures suitable.

■ The average cost of setting up a limited company will be about R2 000. An accountant or company secretarial service will help you in this task.

A private company needs a minimum of only one member and must have at least one director.

Documentation needs to be completed to set up a company. The most important documents are the "memorandum" and "articles of association", which cover the name of the company, the objects of the company, the amount of the authorised share capital and the powers that the company is legally entitled to exercise.

In addition, various forms have to be submitted which deal with the appointment of staff.

Items which need to be considered at the first meeting are: appointment of directors and secretary, appointment of the auditors, the financial year-end, banking arrangements, arrangements for keeping statutory books and the allotment of shares.

You should consider whether the standard articles in Table A or B of Schedule 1 of the Companies Act 1973, as amended, are appropriate or need amendments (for example voting rights or sale of shares).

The Registrar of Companies may refuse to register the name of the company if it implies patronage of the state or is offensive.

When all the relevant documentation has been submitted to and approved by the Registrar of Companies, he will issue a certificate to commence trading.

It may however be easier and cheaper to acquire the dormant shell of an existing company. Contact your auditor or accountant for advice.

The choice between a private company and a close corporation as the appropriate business vehicle is normally determined by the ownership and management structure required, whether the operations of the corporation could lead to members becoming liable for the debts of the corporation, and whether a simpler structure will lead to lower costs.

■ This information was adapted from a series of four booklets which are available from the SBDC offices countrywide at R35 each.

# Advertorial 'clean-up'

BDay 22/6/93

MARCIA KLEIN

CAXTON Newspapers' marketing arm, Newspaper Marketing Bureau (NMB), has created an independent advertorial division to target below-the-line paid editorials.

Senior editor Cliff Buchler said more and more advertisers were considering using advertorial to complement traditional advertising.

Many editors believed "anything smacking of advertising dressed up as editorial" was tantamount to prostitution, he said.

"One can appreciate this abhorrence of free plugs, badly written and teeming with superlatives."

There was a time when freesheets were sitting ducks for this abuse, "perpetuated by unscrupulous space reps intent on filling their order books".

But Buchler said Caxton had cleaned up the act by taking a stance against free editorial appearing "willy nilly". Editors now had the sole right to decide what appeared in their papers.

In spite of this policy shift, advertisers still asked for write-ups. Buchler believed these could be newsworthy and of benefit to consumers. The advertorial division was established to fulfil this need.



# Corporations profit from sincere social responsibilty

BIDay 22/6/93

KELVIN BROWN

PROFIT considerations are likely to drive corporate social responsibility beyond the "hand-out" and "hand-up" phases that characterised the '80s, says Sandton-based ad agency FMC.

The agency recently carried out a study of worldwide corporate social responsibility developments.

MD Nigel Morris said the impulse to feel good had been superseded by the realisation that alignment with the wider community on social issues was "good for business as well as good for the soul".

The result was that communities learnt to appreciate the private sector's investment-and-return mindset, while the private sector learnt that sincere community orientation resulted in long-term benefits to the bottom line, said Morris.

He conceded that for many people, corporate social responsibility still meant wishy-washy liberalism that had no place in business, a luxury only big business could afford or a necessary diversion of resources to atone for past sins.

However, forward thinkers had spotted a new reality — that social responsibility could be an exciting point of difference that turned a company into a winner, said Morris.

180 172

"This type of corporate social responsibility shapes corporate culture, boosts productivity, brings a new dimension to product development and creates new market positions".

Rainforest Crunch — a US confectionery bar — was a classic example. It had proved popular because US consumers liked the fact that a portion of the price was targeted at saving the rainforests.

Other international retailers and manufacturers committed themselves to major programmes to help the unemployed, boost recycling efforts, save waste, preserve the environment and help the handicapped and minorities.

"Corporate social responsibility is not socialism in a new guise", said Morris.

It made good business sense and would be placed increasingly at the top of companies' agendas.

As a result, advertising agencies which functioned as extensions of their clients' business would have to provide information and consultancy in this field, he said.

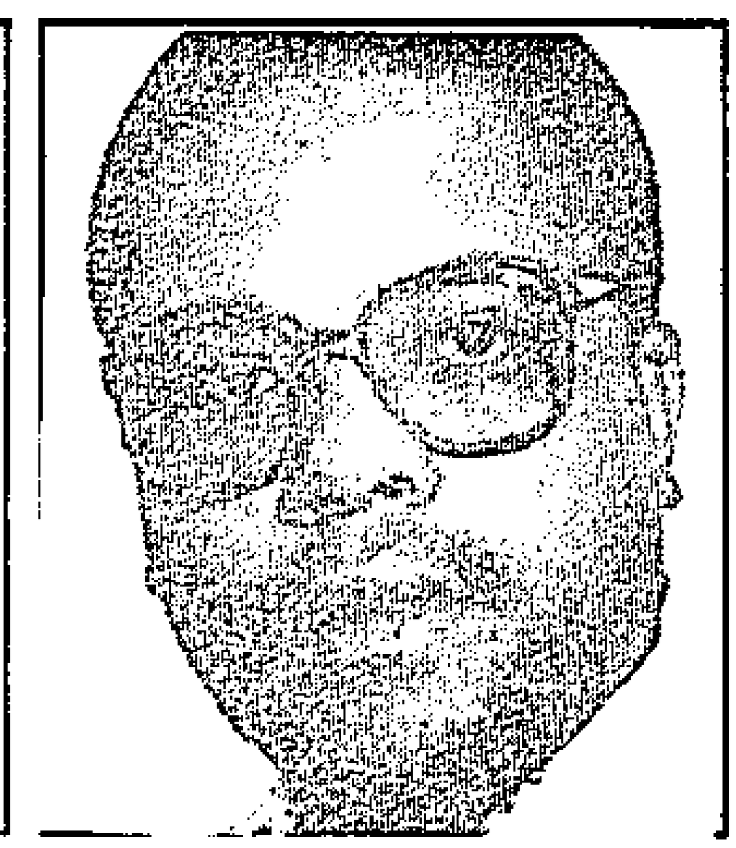
# *focus on* business

Sowetan 22/6/93

There has been a big increase in the number of blacks serving on the boards of companies. Concern is mounting over the fact that many of these appointees are non-executive directors. Business Reporter **Mzimkulu Malunga** reports:

Israel Skosana

Don Mkhwanazi



Mike Ntlatleng

(180)

A RECRUITMENT war appears to be looming as big business scrambles to appoint blacks to the board of directors.

In the past it was news when a black was appointed to the board of a company which was among the elite in the corporate world.

But the past year has seen a substantial increase in the number of blacks serving on boards of companies to the extent that monitors are quickly losing count.

Some companies have even resorted to poaching black managers from other enterprises to give their boards a black flavour. This is a practice discouraged by Black Management Forum executive director Mr Lot Ndlovu.

This practice prevented black managers from building up experience in their respective jobs, he said.

Though black representation on corporate boards remains a drop in the ocean compared to their white counterparts, blacks have, of late, been joining boards at a much faster pace than in the past.

Several opinions are being voiced regarding this sudden "change of heart" by those in the corridors of power in big business.

Some dismiss this development as nothing other than political window-dressing by the corporate world to curry favour with the politicians who are likely to be running the country soon.

Others suggest it is the result of relentless pressure from black business groups, who have been calling for more black representation of blacks at director level in major companies.

One of the highlights of this campaign was when former president of the National African Federated Chamber of Commerce and Industry, Mr Sam Motsuenyane, challenged Johannesburg Stock Exchange listed companies to reflect population demographics on their corporate boards.

## Reformation

Optimists view the trend as the beginning of the reformation of South Africa's corporate culture as the presence of black people in domains formerly "no-go areas" for them would dilute traditional attitudes.

There is another school of thought which believes corporate leaders are becoming serious about black advancement programmes and that the presence of blacks in their midst will make this task easier.

The executive director of the Institute of Directors, Mr Richard Wilkinson, admits there may be political motives behind the appointment of black directors but points to the fact that there are more qualified blacks today than in the past.

One of those who has been bargaining hard for an increase in the intake of black directors is the ANC's economic adviser, Mr Don Mkhwanazi.

Though he is pleased corporate South Africa is at last heeding their call, Mkhwanazi's is concerned about the big increase in non-executive directors while executive positions, from which the daily running of the businesses is determined, remain an "old boys club".

He attributes this to lack of upward mobility of blacks within companies.

"In recent months we have seen a dramatic increase — from 30 to 40 — of black non-executive directors drawing people like, Dr Oscar Dhlomo, Mr Enos Mabuza and Mr Perfect Malimela and so on, but there can never be enough black executive directors until we have a critical mass of top class senior and middle managers," said Mkhwanazi.

The usual explanations given by corporate leaders on the lack of blacks at senior executive positions are that there are not many around, few have qualifications in finance, technology, law as well as international business, and that the majority of black managers lack experience.

But Mkhwanazi remains unconvinced: "It is not enough to say qualified and experienced blacks are not available when they are not putting to good use what they already have.

"It is unbelievable that there are no more than 11 black executive directors in South Africa today."

Concern is mounting that companies go for the same people when appointing non-executive directors, as a result one person ends up serving on over five boards.

Mkhwanazi himself serves on five boards while people like Dr Nthato Motlana sit on over twice the number.

Some say it is not possible for a lone black out of a dozen or more whites to be fully effective. Hence, the accusation of political window dressing.

## Clear objectives

National Sorghum Breweries's executive director Mr Israel Skosana says blacks on corporate boards should have clear objectives "otherwise they end up being ineffective".

He says such people should champion the aspirations of black managers and business. "If they do not succeed in this regard they must pull out."

Mr Mike Ntlatleng, communications manager of the Foundation for African Business and Consumer Services, says he supports a company that realises that it has a problem then goes out to seek black advice.

"But I have a problem with a company which wakes up in the morning and says: 'We have problem, let's appoint two blacks'," he said.

It will be interesting to see which companies make their way into the heavyweight division when it comes to the employment of black directors.

BDay 24/6/93

# The jury is still out on Gencor's unbundling

180

**MATTHEW CURTIN**

SANKORP chairman Marinus Daling is unperturbed by the far from electric performance of Gencor shares since the group gave the green light to unbundling in May. "The jury is still out," he says.

It has been difficult for the market to assess the success of a manoeuvre which is yet to take place. The enabling legislation on which unbundling depends was tabled in Parliament only on Monday.

Daling says it is the question of market rating which has driven Sankorp's determination to separate and focus its industrial portfolio in Gencor, Murray & Roberts, and Malbak. The multiple uses to which the term "unbundling" has been put have perhaps obscured Sankorp's and Gencor's aims.

He says although the exercise has been geared towards the specific circumstances of the Sankorp investments, it is underpinned by a number of principles. Unbundling is neither a fad, nor simply a question of "horses for courses".

The initial impetus in the late '80s when Derek Keys took over as Gencor chairman may have been to unlock the significant discount to which Gencor shares trade to their net asset value. The issue was clouded by the perception of a political dimension to the issue, with talk of nationalisation followed by Sanlam's move towards spurring black economic empowerment.

"These reasons are not strong enough to justify an exercise as large as the one we have embarked on, if only because they would bring only one-off benefits," Daling says.

"Our deeper concern was to ensure the businesses could continue to add value, and for that they need a solid and sustainable market rating. That is the basis for attracting capital, and you need capital to grow."

He says institutions rather than the man in the street have determined the ratings of companies in the US and UK. The ordinary punter puts his savings into trusts and policies, funds which are then reinvested in equity.

"The institutional investor prefers to make up his own spread of investments. He does not need a listed company to make that decision for him," Daling says.

The crux for a business is therefore "focus". Institutions want shares whose behaviour is predictable in relation to the economic cycle. A conglomerate such as Gencor simply cannot meet that demand because, first, it performs at best at the same rate as the economy as a whole; and second, any major transaction it makes may suddenly alter its risk profile to the consternation of existing and potential investors.

Daling is convinced unbundling solves this problem. Sankorp has now established three distinct businesses: Gencor is the "commodities player", M & R is the gross domestic fixed investment stock, and Malbak the consumer-based business.

He says the rash of leveraged buyouts of conglomerates in the US in the '80s would have been impossible if they had been better focused. The buyouts led to the conglomerates being stripped down and refocused by new management.

Focus is also the best way to adapt to a fast-changing business environment where, Daling says, the old adage that a good manager can manage any business has become outdated. Successful businesses are driven by knowledge and decision-making, and the two — line management and the boardroom — have to be as close together as possible. "You can't centralise knowledge, you can only decentralise decision-making."

Sankorp has striven for a "decentralised culture" in its operations and those of its investments. Unbundling makes that claim more credible because Sanlam has swapped absolute for indirect control.

Daling says the change is not cosmetic. The Sanlam/Rembrandt voting pool will have at most a one-fifth representation on the boards of Gencor, Sappi, Malbak and so on. Any loss in the cross-fertilisation of ideas bred by having a number of different businesses under one roof will be compensated for by the addition of non-executive directors.

If Sankorp held an "ideological or political" stance on unbundling, it might have gone the whole hog, breaking up Genmin, Malbak, and M & R into their constituent parts. However, that would have compromised the companies' viability. Relevant size (Gencor has to be big to compete) and access to capital (Sanlam and Rembrandt retain that role) are the critical factors.

Daling says focus will also stimulate foreign investment. A potential partner for, say, Foodcorp must benefit from having to deal only with the Malbak board, rather than the existing Malbak, Malhold, Gencor, Gencor Beherend pyramid.

In addition, the new structure brings the Sankorp portfolio in line with structures prevalent in North America and the EC. "The easier it is for foreign investors to recognise the sort of businesses they are dealing with, the more likely it is they'll be ready to consider them as partners."

For the international institutional investor, the political climate and currency may be the principle factors influencing its investment in SA.

However, Daling is confident that "a North American investor, who would not have invested in Engen through Gencor when it could have bought a stake in a Shell or BP, may now be attracted by Gencor as a pure mining spread".

LAW REPORT

# Barlows 'looking at unbundling'

B/Day 24/6

MARCIA KLEIN

BARLOW Rand yesterday issued a cautionary announcement which pointed towards an unbundling of the multibillion-rand conglomerate. (232)

The group said it had examined proposals which, if implemented, would result in Barlow Rand shareholders holding interests in subsidiaries C G Smith Limited and Reunert, in addition to their existing shares in Barlow Rand. (180)

It was intended that Reunert would acquire "certain of the group's electronics and electrical interests not already owned by it". Barlows added that consideration would also be given to the disposal or listing of certain group businesses.

A Barlows spokesman said yesterday the group could not comment further. C G Smith and Reunert also warned shareholders to trade with caution.

According to market sources the announcement was lacking in detail but implied an unbundling. Although Barlows did not make it clear if it was looking at a distribution or sale of part or all of its holding in the two subsidiaries, an unbundling seemed certain.

C G Smith holds Nampak, Romatex and C G Smith Foods, which in turn holds Tiger Oats, C G Smith Sugar, ICS, Langeberg, Oceana Fishing and Adcock Ingram. These interests contributed R130m to Barlows' attributable profit of R384m at the March 1993 interim stage.

Analysts said C G Smith made up a significant portion of the group and represented about R18 of the R44,45 share price. If Barlows distributed its entire interest in C G Smith, it would become a considerably smaller group left with non-consumer-related businesses.

It made sense to start with the unbundling at this level. But a further unbundling of C G Smith, which could also be described as a conglomerate, was also possible, they said.

Reunert was much smaller, but it was not clear what businesses it would acquire.

The analysts said the possible candidates for listing were Plascon, the Caterpillar interests held in the capital equipment division and Barlow Motor Investments. It could dispose of Federated Timber, smaller mining and industrial interests and possibly some of its listed sub-

☐ To Page 2

## Barlows

B/Day 24/6/93

☐ From Page 1

sidiaries.

Analysts said it was likely to retain offshore vehicle J Bibby & Sons, as well as most of its remaining mining interests and Caterpillar. (232) (180)

There was some concern that if Barlows had to distribute its entire 60% holding in C G Smith, the market could be swamped with C G Smith paper that could result in some selling pressure. There would be a large demand for Reunert shares as it became more tradeable.

An unbundling would follow recent announcements of unbundling by the Gencor group and could place pressure on Anglo American Corporation to follow suit.

Sources said there was speculation that Barlow Rand MD Derek Cooper could be appointed to C G Smith.

# Barlows remains top industrial company

B/Day 25/6/93

MARCIA KLEIN

BARLOW Rand has retained its No 1 position in the Financial Mail 1993 Top 300 industrial companies rankings.

Released yesterday, the FM's 27th edition featuring industrial companies on the JSE showed that Barlows topped the table in terms of total assets and turnover, but slipped from second to third in the net profit ranking, behind Sasol and Remgro.

Sasol, which retained its net profit top ranking from the previous year, retained second position in terms of total assets and third position in terms of market cap. SA Breweries remained with the largest market cap, and held the third place ranking both in terms of total assets and turnover.

In terms of total assets, Iscor was fourth followed by C G Smith, Amic, Remgro, C G Smith Food, Sappi and Safren. (180)

Namsea showed the biggest upward move, improving its ranking by 116 to 201 from 317. Other big upward movers were Ceramic, Namfish, M-Net and Decovo. On the downward side, Usko lost 83 places to 178. Cullinan, ISG, Unidev and JD Group also lost some ground.

Trencor headed the top performers category in terms of total return to investors over a five-year period. It was followed by Remgro, Cadswep, Tradegro and Utico.

There were only 12 new listings in 1992, the leanest year for new listings since 1983.

 FM 25/6/93. 

# The cheque isn't in the post

180

**A box** of chocolates was all a small businessman used to need to sweet-talk a customer's accounts clerk into pushing his payment ahead of the queue. Now that no longer works. Chocolates have given way to threats, debt collectors and law suits as small businessmen fight to get their money out of tight-fisted customers, including some of the biggest companies in the country.

After four years of recession, something had to give. Cash flow is drying up as each business tries to pass some of the pain on to the next. Liquidations for the first quarter of the year rose 4,1%, to 683, compared with the same period a year ago. Forced insolvencies were up 3,3% to 1 004 in the same comparative period. Last year 1 142 close corporations were liquidated, 60% more than in 1991.

Obviously not just the small fries are suffering. Credit specialists say some big companies are on the verge of insolvency and will take some innocent bystanders down with them.

"The morality of business has changed over the past few years, co-incidentally together with the enduring recession and uncertain political future," says Credit Guarantee senior economist Luke Doig. "Lack of security has forced many to operate on a short-term horizon only and strength is the key to survival.

"Ethics are on the back burner and a rape mentality exists, for example survive the day. The small enterprise can rarely compete, let alone prosper, in such circumstances."

For a small businessman, remaining competitive often means letting unfinished work slide while he tries to get paid for jobs already done. Nobody wants to list names for fear of making enemies, but all agree it's rare for a company to pay its bills on time.

"I spend half of my days collecting debts. You have got to thump on desks," says Clint Husemeyer, the MD of Pictech, a Johannesburg firm that imports air-conditioning equipment. "Every company has instructed all of its people to lengthen the period of payment."

Husemeyer says there's always a run-around these days; it's part of the system. The company needs a statement from the surveyor — in Rustenburg. With that piece of paper in hand, the company then decides it needs a statement from the accountant — in Rosebank. Then it needs three weeks to prepare the cheque. At the end of the three weeks, you're told the paperwork simply disappeared and could you please deliver duplicates?

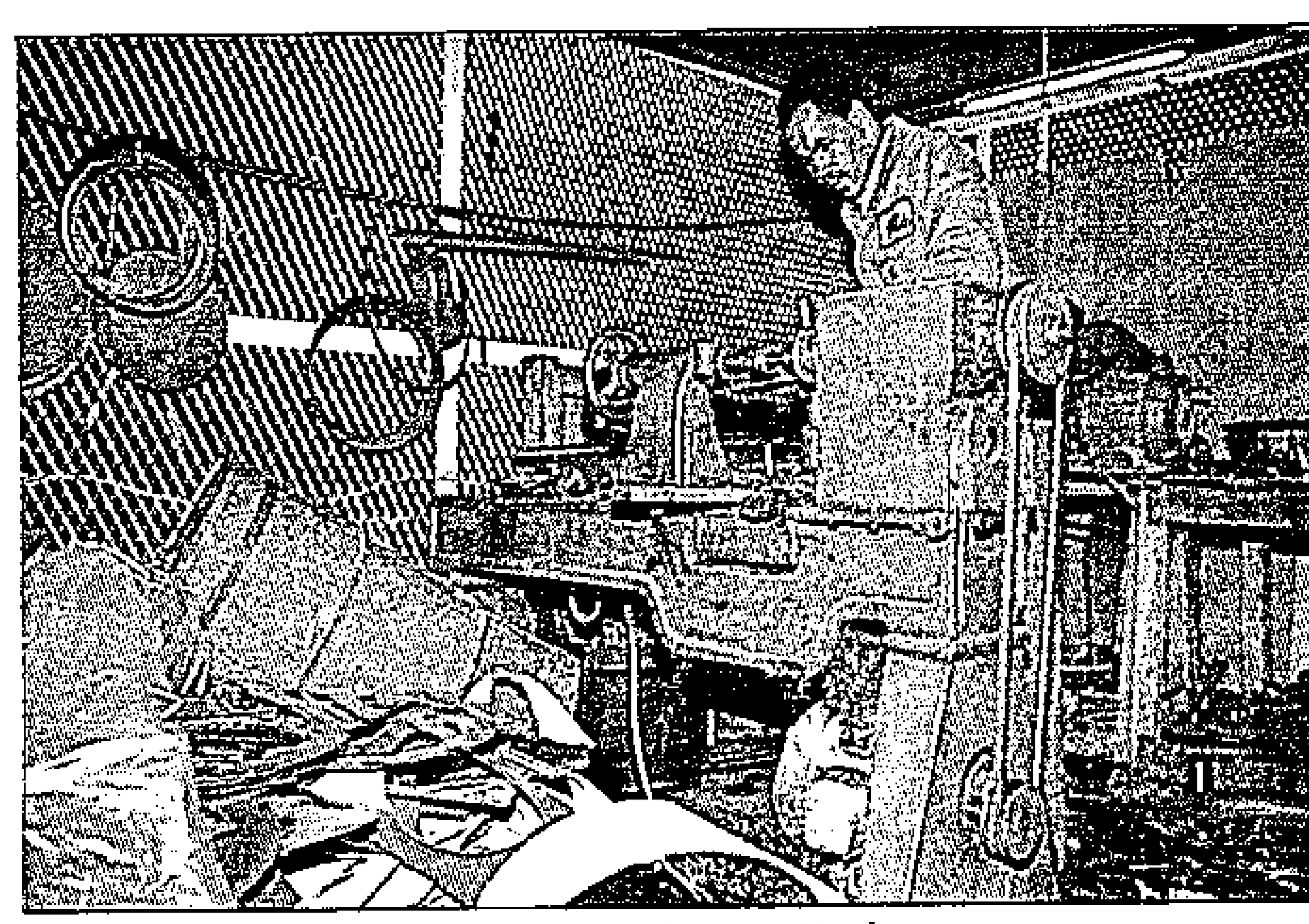
The cycle begins when those on the receiving end of the slowdown have no choice but to delay paying their own creditors and suppliers.

"Big businesses pay very slowly but collect quickly," says Small Business Development Corp (SBDC) assistant GM Dawie Crous. "We advise small businessmen to do the same."

SBDC senior GM Jo Schwenke says the song-and-dance routine is typical and comes down from the highest corporate levels. "When the economy goes into decline, two directives go out. The first goes to the sales staff to cut back on credit terms. The second goes to buyers to take longer credit. Small, private firms can put up little resistance in the face of such an onslaught.

"The decision is usually made in some boardroom. The board says terms must be increased from 60 days to 90 and if suppliers won't play ball, find new ones. And the managers carry it out because it makes the bottom line look better."

But Kreditinform MD Ivor Jones scoffs at the notion that the big, bad conglomerate is taking advantage of the poor, unsuspecting small business owner. He says it's a problem of too-high expectations among the little guys, many of whom are playing with the A-team for the first time.



**Working for a living** ... *but will the customer pay?*

"All companies are not paying on time. Few pay right on the nail. Most extend their terms. As the recession has worsened over the past few years, they have begun to look at their creditors as a means of finance. But they must be educated to believe that they will not get away with nonpayment."

Jones says the problem is that small businessmen fear rocking the boat of a big business by demanding payment on time. He says the "nice little letter" after 90 days gets thrown in the bin.

And, he adds, too few small businessmen are willing to demand interest on overdue accounts, even if that condition is included in the contract.

His advice? "When the cheque is due, be there. Take a tough line. You have to be upfront. Let them know that you will be on their doorstep. After a while, the clerk will remember the nagging woman from XYZ who's on his back again."

But small businessmen, who are usually workers as well as bosses, argue that they are often too busy doing a job to pester the accounts clerk. On a Friday at the SBDC hive in Johannesburg, many of the work stands are empty because the proprietors are out hunting down their money. And, if truth be told, they are, indeed, afraid of the consequences of being that squeaky wheel that demands its oil. They can't help but ask themselves: What if?

Husemeyer has his own way of eking out payment. He drives around in a battered old bakkie and pretends he's just one of the humble employees instead of the MD. "I get them to feel sorry for me by telling them my boss will fire me if I don't collect."

Jones, naturally enough, suggests enlisting a credit information bureau to provide background on potential customers. A credit report sets out a company's ability to pay debts and tells you whether it pays on time. Armed with this, a businessman can make deals knowing what to expect.

Like many other entrepreneurs, Husemeyer depends on personal judgment rather than a professionally prepared credit investigation, which he believes often contains dated, irrelevant information. He has his own tricks. For instance, he is wary of taking on new clients because it could mean their credit has been cut off elsewhere. One strict rule is that he never deals with a customer who drives a Porsche or doesn't haggle over price. "He doesn't haggle because he has no intention of paying you, no matter what the price."

Schwenke acknowledges that it's not practical or even possible to find additional customers now; so it's important to learn to live with the ones you have. "We would urge the small businessman who is being squeezed to have an open, honest discussion with the company at the highest level and to have a good go at it."

He says it might be possible to compromise with a recalcitrant corporate client by offering enhanced service or perhaps some concessions in exchange for prompt payment.

"The wise companies take a reasonable approach," Schwenke adds. "They use their muscle with discretion. They know that without suppliers which offer good quality on time, they don't have a business. Suppliers are not something to screw left, right and centre."

**OPERTY**

# Lease the offices, own your factory

S[Times[Buss] 27/6/93

(80)

IT makes more sense for a business to lease premises than to own a building.

A well-endowed company need not plough its cash into a building, says Seeff leasing broker Peter Rowell.

This might seem nonsensical. After all, property is said to be an excellent inflation-beating investment. Why pay rent when you can own the building and pay off a bond?

Mortimer Property Group director Paul Maddison says the acid test is whether a business can obtain a better return by investing its cash in a building or using it to run the business.

Mr Maddison says many companies would expect returns far greater than 20% to 25%, the internal rate on a property over 20 years, if they ploughed their funds into their businesses.

Mr Rowell says Seeff has a computer model that uses all the variable factors to calculate which is the best option for a particular company.

He says that it mostly pays the company to buy its offices if it intends to keep them for more than 10 years.

The problem is that few businesses know what size they will reach or what office space they will require 10 years down the line.

## Fair

Mr Rowell gives an example of an office unit of 900m² in Maitland, Cape Town, with open parking for 30 cars.

It can be leased at a fair rent of R15/m², resulting in a yield of 12% with escalations of 15% a year.

The business has the option of buying the building for R30 000 at a bond rate of 18% with repayments over 15 years. The opportunity cost of the cash deposit is 15% and the discount rate is 15%.

The example presumes the building is sold after 10 years.

Looking at it in today's money, the investment shows attractive returns of R414 000 after three years, R986 000 after five and R3,7-million after 10.

However, the canny investor would look beyond this.

Negative cash flows accumulate as the bond repayments exceed the rent the business would have paid in the initial years. Discounting this to the net present value shows the business has lost money on the building.

It would lose R193 000, R212 000 and R40 000 after three, five and 10 years.

Thereafter it would start to make a profit.

Mr Maddison says 95% of people wishing to buy their own building decide to lease after looking at the figures.

Before a company even considers buying a building, it should consider whether it can afford the deposit, which can be as high as a third of the buying price.

The business must also be able to handle the strain of the negative cash flow. In the first five to six years the bond repayments will exceed the rent that would have been paid for the space.

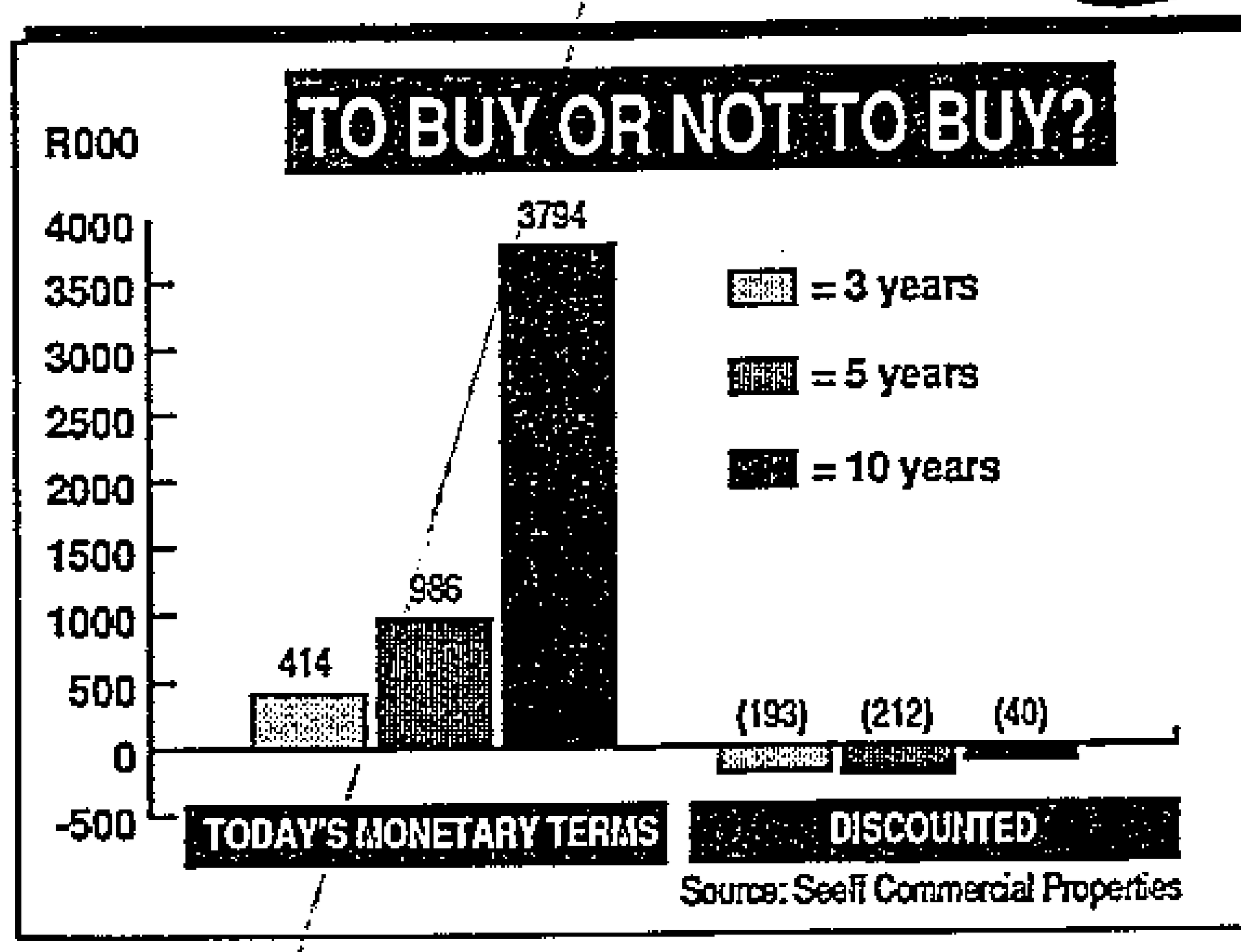
Apart from the number-crunching aspect, if the company grows it will need different premises and be forced to sell the property.

Property usually goes at a discount when the sale is forced.

Other advantages of leasing are that on the expiry of the lease, the company is able to move into premises that have been refurbished at the landlord's expense. The company would have to pay for refurbishment if it owned the building.

Mr Rowell says: "Leasing office space becomes even more attractive once you take cognizance of incentives offered by landlords. They include rent-free periods, relocation allowances, naming rights and the fact that lessors often modify the premises for the tenant."

External factors to take into consideration include the effects of the political and social environment on the building and how they could affect the property's value.




Other factors include rents, escalations, the size and price of the property, the opportunity cost of the deposit, discount and bond rates and the term of the loan.

Mr Maddison says the decisions to be taken are entirely different for industrial space. In this case it is far better for a company to own its premises.

The main difference is that industrial premises have to be user specific. A company must be able to make changes to its plant without asking for the landlord's consent.

"The landlord can have the industrial company over a barrel because he knows it is not that easy for it to simply shift its plant if it is unhappy with the terms of the lease," says Mr Maddison.

# Why we need those 100 white men

SKTimes 27/6/93

(180)

**BRIAN KANTOR says the group system in South Africa ain't broke and doesn't need fixing**

I AM not quite sure what to make of the oft-quoted remark about the 100 white men who control our economy. The men referred to are presumably those directors who sit on the parent board of six or so groups of companies which dominate the listings on the Johannesburg Stock Exchange by share market value.

Are those receiving this message meant to take it as self-evident that not only are they the wrong colour and sex, but that there are also too few of them?

Surely much more important than their number, colour or gender is to understand what these men actually do and for whom; how well they perform and also how they are selected.

A large South African group is an alliance of a number of legally independent companies who operate the important mines, factories, shops and financial institutions quoted on the JSE.

The parent or group holding company, an Anglo-American, Rembrandt, Anglo-Vaal, Sanlam, Old Mutual or the linked Liberty Life-Standard Bank group — through its own directors and managers, the first 100 — will exercise shareholder control over the managers of the group's operating companies.

## Ability

The operating companies, which typically will share some directors with head office, have to report to group headquarters on every major issue. The group directors have the essential power to appoint or replace the management of their operating subsidiaries. They are ultimately responsible for the performance of their group subsidiaries.

But of course the successful and proven senior managers of their key operating subsidiaries are exceptional men of outstanding ability who know their own worth. They also believe themselves to be engaged in a co-operative effort with the other leaders of the group and appreciate the technical and especially the financial support the group can offer.

Strong shareholders are clearly better than weak ones, especially in South Africa where small shareholders taken together cannot in effect be called upon in any meaningful way for finance.

That is not to say that the groups always get their strategies right. They may drain financial strength and management talent from their successful operations to support what turns out to be a poor investment decision.

Nor are the right people always given the important jobs at group or operating company level. It is for this reason that groups wax and wane and even disappear.

Two of what were once South Africa's most powerful groups, Rand Mines and Consolidated Gold Fields, finally bit the dust recently. Among the most powerful of the first 100, the Ruperts, Gordons and Menells and Hersovs are men who now have power and wealth that were mere figments of their imagination 30 or even as little as 20 years ago.

## Worth

The group system has proved its worth and not only in South Africa. It is also an important form of business organisation in Germany, Japan, Korea and Hong Kong.

Groups of banks and operating industrial and commercial companies were once important in the US until they were forbidden in a wave of populist resentment in the 30s.

A number of leftist luminaries in the US, like Lester Thurow, now believe that one of the key advantages the Japanese corporation has over its American counterpart is the opportunity group membership gives managers to take the long view.

A central problem of modern capitalism is the inevitable separation of ownership and control. Financing an efficient and therefore often very large business is beyond the capabilities of even the richest and most competent owner-managers.

Outside capital and managers have to be engaged if the enterprise is to grow. But few of these suppliers of capital will have enough at stake or enough competence to exercise the full responsibilities of ownership.

As in the American examples of GM and IBM, severe punishment delivered by the share market may not easily bring managers to serve their shareholders.

The group system is one where some important and possibly a small minority of shareholders are permitted to act as the agents of all shareholders.

This agency role performed by the group headquarters helps resolve the potential conflict of interest between managers and owners.

The group benefits from economies of scale in performing the control function for shareholders in a variety of unrelated enterprises. By diversifying its interests the group also gains a degree of independence from the business and capital market cycles to pursue its investment strategy.

To prosper, the leaders of any group have to be able to achieve two essential and difficult tasks. That is, first, to persuade many people to trust them with their money, and second, to invest it for them successfully.

Those who start a business of their own will have this ambition, but it is realised by few. The leaders who have built up and sustained the large South African groups have survived a stringent selection test.

The millions of South African shareholders, the owners dependent on the management of the groups, who are now largely members of pension funds and owners of insurance policies, have every reason to be satisfied.

In difficult times, savings invested in the share market and therefore managed by the large groups, have achieved outstanding returns.

It is inevitable that a few groups will tend to dominate the JSE if allowed to. Because large groups such as Anglo and Rembrandt are heavily involved and have prospered internationally, the value of their shares is bound to be a large proportion of the JSE which otherwise reflects the limited scope of the South African economy.

But control of the JSE is by no means synonymous with control of the economy. For example, it is doubtful whether Anglo-controlled companies employ more than five percent of the labour force.

However important the groups, it is possible to expose them to effective competition at every level on which they operate.

## Attack

The whole notion of too much economic power is absurd if the market is allowed and recognised to be the world market. This is why the Swiss or the Swedes worry very little about the size of their large companies. They are well aware that they have to have large firms to compete effectively.

The attacks on the groups have come from various organisations not normally aligned with each other.

Some stockbrokers want to break up the groups to generate more share market turnover. The Left seems to distrust the groups because they are uncomfortable with the controllers — those white men.

At the same time some of the groups' managers would seem to want group control to be dissipated because they wish to avoid such tight control being usurped by what they regard as unqualified economic novices with a different culture.

The issue of the groups in South Africa is surely too important to be decided by adherence to these hidden agendas.

☐ *BRIAN KANTOR is professor of economics at UCT.*

● **Ken Owen is ill**

# Barlows sheds top dog spot in unbundling

**By CHERILYN IRETON**

BARLOW RAND will surrender its position as South Africa's largest industrial conglomerate when it is dismantled over the next three months. St Times

The world's 30th largest employer signalled this week that it would split into at least three units in an attempt to focus management and add value to shareholders' wealth. (Buss)

Barlows controls more than 35 major subsidiaries encompassing 400 operating companies in industry, mining, packaging, textiles, food and pharmaceuticals. (180)

Details are being worked out, but sources suggest that much of the holding function will be eliminated. ([illegible])

CG Smith will keep all the food, packaging and pharmaceutical interests. Reunert will house electronic and electrical engineering.

Barlows will retain the remnants that are not sold or floated separately. This includes Barlows Manufacturing.

Speculation at the Barlow Park headquarters is that chairman Warren Clewlow will remain at the helm of Barlows. Managing director Derek Cooper will resign his seat on the Barlows board and move to CG Smith.

Robbie Williams and Brian Connellan who respectively chair CG Smith and Nampak will also quit the Barlows board.

A brief statement this week indicated that shareholders would be given stakes in CG Smith and Reunert proportional to their holdings in Barlow Rand.

The disposal or listing of certain group businesses is also being considered.

Analysts suggest the motor interests and Federated Blaikie will be sold. The ommission of Rand Mines and J Bibby & Sons in the statement suggests they may not be part of the plans.

One analyst says controlling shareholder Old Mutual has finally accepted criticism that Barlows is too big and unfocused and that the cumbersome structure is distancing it from the rewards of operating gems CG Smith and Tiger Oats. 27/6/93

However, the proposal being considered stops short of untangling CG Smith.

The analyst say two major mistakes in Barlows recent history could be the cause of its failure to optimise value.

The first was the expensive and disasterous foray into platinum through Barplats and the second the purchase of London-based J Bibby & Sons.

The Barplats fiasco — it resulted in mothballing a new platinum mine — was one of the reasons why Barlows decided to wean itself off commodity-linked profits. This led to the sale of Middleburg Steel & Alloys.

A key question in the unbundling is what will happen to the R1-billion cash Barlows earned from the sale.

The cash-flush group this week retained its spot as the Financial Mail's top industrial company, a position it has held for 21 years. Its assets of R21,58-billion are almost double those of Sasol and SA Breweries.

Last year directors and management fees cost Barlows R15-million.

# SABS issues warning on quality of SA products

(180)

MZIWAKHE HLANGANI

THE poor quality of SA products would make the country uncompetitive in international markets, SA Bureau of Standards president Jean du Plessis said in his 1992 report.

Du Plessis said the high costs of capital and labour placed limitations on industrial growth.

Growth was further limited by lack of capital investment, frequently outdated capital equipment, illiteracy and a shortage of trained workers and managers.

He expected the decline in growth rate to get worse in the year ahead.

The recession, the longest since the Second World War, had an adverse effect on overall business activity. As a result of SA's economic structural problems there was little prospect of an early turnaround in conditions.

Bldm 28/6/93

Du Plessis attributed the limitations on industrial production to continuing harsh economic conditions.

He said the nature of SABS's activities had insulated it from the recession. But declining production activity and price resistance among customers would make 1993 more difficult than 1992, he said.

The subdued state of the trading partners' economies would exacerbate the situation, he said.

Investigations, tests and services had remained the backbone of SABS's income.

These had contributed a 16,4% increase to R39m (R33,5m) in income. Self-generated income had risen to R73m (R60,7m).

Other important revenue sources included levies for compulsory specification, permit fees for standardisation marks, listing schemes and assessment services.

180

B/Day 29/6/93

# Merger, acquisition values increase by 7%

MARCIA KLEIN

DESPITE the severity of the recession, SA businesses increased their takeover activity in 1992 with a 7% rise in the value of publicly announced mergers and acquisitions to R13,4bn (R12,5bn).

Ernst & Young corporate advisory services director Dave Thayser said the figures showed that the local business community's appetite for creating mergers and acquisitions "continued undiminished" in the year under review.

The upward trend, identified in Ernst & Young's annual mergers and acquisitions survey, stood in contrast to the UK "where takeover activity has fallen to a third of the level experienced in the 1991 boom.

A significant trend was "the rapidly accelerating involvement in offshore activity by local companies".

A major deal was the R2,17bn acquisition by Royal Corporation of Del Monte Foods International.

Other notable cross-border transactions were Sappi's acquisition of Hannover Papier and Mondi's acquisition of Austrian company Frantschach.

First National Bank, Standard Bank and Investec all acquired UK banks during the year.

But all this activity, as well as several deals which were being negotiated at the time, "came to an abrupt end when the Reserve Bank announced its reluctance to sanction further offshore transactions towards the end of last year", Thayser said.

The future ability of companies to invest overseas had been severely restricted.

According to the survey, acquisitions by foreign buyers continued to represent less than 1% of the total value of merger and acquisition transactions.

While R4,7bn was invested offshore, publicly announced inflows amounted to only R111m.

There were 57 delistings from the JSE, a third of which arose as a result of financial difficulties or voluntary winding up.

More than 20 of the merger and acquisition transactions announced last year had led to or would lead to delistings.

Unbundling was likely to represent a new trend in the survey for 1993, Thayser said.

# UK broker forecasts SA export-led recovery

Star 30/6/93 (140)

By Neil Behrmann

LONDON — S G Warburg Securities, the large UK securities house, is recommending selective purchases of South African equities and bonds.

Following the revival of the gold price and steep depreciation of the rand against the dollar, Warburg predicts that there will be an export-led recovery in the SA economy.

## Contraction

After the contraction of 2,3 percent in 1992, the economy will grow by 0,5 percent this year, says Warburg in a lengthy report.

Growth will improve in the fourth quarter and gain momentum to 2,5 percent in 1994, Warburg forecasts.

Prospects for an upturn before the end of 1993 will not be dependent on export growth alone.

Net foreign outflows of capital must be arrested and private sector capital investment resumed. A further reduction in interest rates would also boost the economy.

Warburg, brokers for Anglo American, "believes firmly that a deal on federalism will be made, even though uncontrolled social unrest poses a serious potential threat to negotiations."

Assuming negotiations remain on course, Warburg forecasts:

- Normalised international commercial relationships.
- Access to foreign capital from the IMF and possibly the World bank.
- Partial relaxation of exchange controls.
- An increase in overseas demand for SA bonds, mining, industrial and financial equities.

Warburg says there are fewer than 10 out of more than 100 listed rand bonds with sufficient liquidity for international investors.

Weakness of the rand, particularly against the dollar, implies that the bonds require a yield of around 20 percent for the international investor.

The volatile financial rand is a further disincentive, although the discount to the commercial rand might narrow in 1994.

Bonds recommended for the overseas investor are Eskom E158, E168 and E169, Govt RSA 150 and Transnet T004.

Warburg is concerned about the poor marketability of SA equities.

## Capitalisation

The total market capitalisation of 70 mining and mining financials is only $39 billion, and $55 billion for the 70 leading industrials and financials.

Only Anglo American and De Beers have a market capitalisation over $5 billion.

Four companies led by Richemont, followed by SA Breweries, Gencor and Liberty Life trade on market capitalisation of $3 billion or more.

The majority of companies have capitalisations of well under $1 billion. These are tiny amounts in the huge international capital market.

Since a large proportion of the shares are tightly held, the market liquidity of these companies is a disincentive for foreign institutions.

The financial rand market, through which the securities must be bought, is also very narrow.

The total finrand pool — total value of foreign holdings in South Africa — is estimated at a mere $15 billion to $20 billion.

Warburg contends that gold shares are less attractive following the remarkable run this year and that the industrial sector appears fully valued and "remains vulnerable to short term correction".

Financials in the banking and insurance sector, however have the attraction of "solid earnings growth prospects and good relative value".

The brokers recommend purchases of Amgold, Freegold, Vaal Reefs, Randfontein, Barlow Rand, Kersaf and Liberty Life.

# Merger, acquisition appetite undiminished

Star 30/6/93

Business Staff

The business community's appetite for creating mergers and acquisitions continued undiminished in the 1992 calendar year, says Ernst & Young's director of corporate advisory services, Dave Thayser.

(180)

Publicly announced transactions worth R13,4 billion were recorded in E & Y's annual Mergers and Acquisitions Survey for 1992. That's 7 percent up on 1991's R12,5 billion.

"The largest transactions in 1991 involved the creation of Absa and the refocusing by the larger industrial groups on core activities. In 1992 the significant trend was the accelerating involvement in offshore activity by local companies."

Foremost of the cross-border deals was the R2,17 billion acquisition by Royal Corp of Del Monte Foods International.

The pulp and paper industry was particularly active in 1992, with Sappi acquiring Hannoversche Papierfabrieken and Mondi acquiring Austria's Frantschach.

FNB, Standard and Investec all acquired UK banks.

This offshore investment activity came to an abrupt end when the Reserve Bank declined to sanction further offshore transactions.

The survey notes that acquisitions by foreign buyers continued to represent less than 1 percent of the total value of mergers and acquisitions.

In sum, R4,7 billion was invested offshore in 1992, while publicly announced inflows amounted to only R11 million.

"Until there is an acceptable political settlement, the basis on which foreign companies do business in SA will be through strategic alliances and know-how agreements rather than by direct investment," says Thayser.

Another significant trend, begun in 1991, was the continuation of delistings from the JSE — 57 for 1992, of which one-third arose as a result of financial difficulty or voluntary winding up.

More than 20 merger and acquisition transactions announced last year led to or will lead to further delistings this year.

The remainder of the delistings arose as a result of minority interests in poorly performing subsidiaries being acquired and the companies being withdrawn.

# Tongaat expects 'profit growth'

BDay 1/7/93

MARCIA KLEIN

THE benefits of the Tongaat-Hulett group's initiatives to enhance performance would allow it to show profit growth in the coming year, chairman Chris Saunders said in the annual review.

Although the current financial year would be difficult for business, Saunders said significant actions taken to improve the competitiveness of its diverse businesses and to anticipate and adapt to challenges had made the group more competitive than ever.

180

The group, which has interests in sugar, building materials, foods, aluminium, textiles and starch and glucose, reported a 5% drop in earnings to R142,9m in the year to end-March despite a significant drop in the contribution of the sugar division on the back of severe drought conditions.

Turnover declined by 2,4% to R3,87bn, the first drop in more than 25 years.

Saunders said this reflected the deteriorating economy, its effect on customers and the effect of the drought on the sugar and food operations.

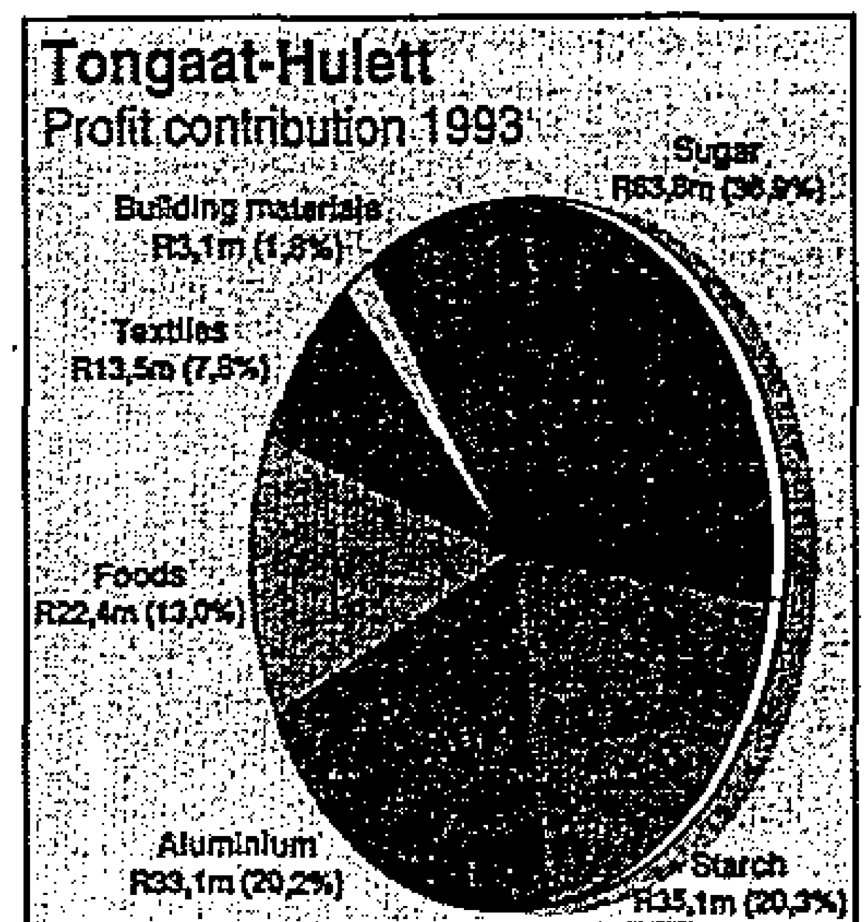
The group's priority was to focus on improving its competitive edge by concentrating on core businesses, which offered significant opportunities for profit growth.

The R200m expansion programme in the sugar, aluminium and starch and glucose divisions was being implemented. Tongaat-Hulett had held discussions with a number of international companies in its search for opportunities that would enhance core activities.

Fixed operating and administration costs were down 16% and various non-strategic assets had been sold to release funds for investment in core activities.

To counter the effects of the drought, which cost the sugar division R19m after tax, milling capacity was rationalised and major cost reduction programmes implemented.

The division continued to be the major contributor to profits, accounting for R63,8m or 36,9%.



Graphic: RUBY-GAY MARTIN Source: TONGAAT-HULETT

Sugar production was expected to be similar to the last season and earnings "should be maintained at a similar level to the previous year".

The building material division was affected by the slump in the building industry and was currently operating at about 50% of available production capacity.

But Saunders said it remained marginally profitable with a positive cash flow. The division was expecting some market growth and was budgeting for improved earnings.

The food division, which reflected mixed results, improved its contribution to overall profits. Attention was being given to under-performing operations and further profit growth was expected in the coming year.

The aluminium division had not met expectations and its secondary metals operations reported a substantial loss. But the division was trading profitably and its earnings would show some improvement.

The textiles division would benefit from improved local market conditions and export opportunities.

The starch and glucose division performed well, increasing its profit contribution during the year. The 1993/94 maize crop would be sufficient to meet local demand and this would enable the division to re-enter traditional export markets.

Next year would be difficult for business and would demand a high level of management competence. Tongaat-Hulett was in a position to meet these challenges, Saunders said.

BARLOW RAND FM 2/7/93 ·

# Is there logic in dismemberment?

(180)

**Why is** Barlow Rand planning to dismantle itself? This plan signals an almost revolutionary change of thinking for an industrial and mining group whose management has spent more than a quarter of a century chasing — and singing the praises of — size and diversity.

How far the process will be taken has yet to be spelt out. It's plain though that Barlows will be split into at least three smaller and entirely separate groups, each focusing on distinct sectors of the economy.

Two groups — one in its present form and the other a new, enlarged entity — will cut ties with Barlows. These will be: C G Smith, which holds the food, packaging and pharmaceutical activities and depends essentially on consumer spending; and Reunert, which will hold electronic and electrical businesses probably including African Cables, Persetech, ISG and Barlows Consumer Electric Products.

A third group — run by chairman Warren Clewlow — will hold the rump of Barlows' industrial interests. These will include Barlows Equipment, Barlow Motors, steel company Robor and building materials suppliers Federated-Blaikie and Plascon. All these are wholly owned and linked primarily to fixed investment or infrastructural expenditure.

The international arm, 79%-held UK-based J Bibby, will remain in this group. Another logical component could be Pretoria Portland Cement, which also relies on infrastructural spending and is part of the mineral resources division.

An intriguing question is whether the mining activities will fit in at all. Last week's announcement conspicuously made no mention of these. With mining interests cleaned up after last year's asset sales and unbundling of Rand Mines, the same approach could be taken as was adopted with Middelburg Steel & Alloys (MS&A).

When Barlows decided some years ago it wanted to reduce the impact of cyclical commodities on its earnings, the initial plan was to list MS&A. The wholly owned MS&A was being tentatively valued at R550m-R750m; when the Columbus consortium offered R1,1bn, Barlows sold the lot.

Given the structure and focus now proposed for Barlows, the preferred option may be to sell the remaining mining operations if an acceptable offer is made. Most interesting of these is 70%-held Randcoal, with a market capitalisation of about R900m. However it is done, Barlows could realise considerable funds from these holdings.

If the logic of being "focused" has been indeed fully accepted for Barlows, then it should apply equally to Bibby, another conglomerate. That could imply sales of Bibby divisions that do not fit clearly with companies in the new Barlows. This, again, would bring in cash.

But what does Barlows — and major shareholder Old Mutual (34,5%) — hope to gain, and why now? Politics has driven the debate about unbundling and, in some cases, a rush to translate ideas into action. In this instance, as with Gencor, the extent of the political motivation is unclear.

**Barlows' Clewlow** ... *facing revolutionary change*

From inside Barlows, the message is: the political motivation was not the primary objective; if it had been the approach would be different; but it's hoped this plan will help defuse political pressures. The objectives are being presented as primarily commercial — and as having been initiated not by Mutual but by senior management who held sway at last week's board meeting in the face of lively resistance from some directors.

Except that Barlows, now with total assets of about R21,6bn and market capitalisation of about R8,8bn, will be shrunk, there is not much here to satisfy political demands. There is no indication the control structure will change. Investors who now hold shares in one group (Barlows) will instead hold shares in several smaller groups.

While domestic politics has obscured the issues, the principle of shrinking and focusing businesses has become fashionable internationally. The split of ICI in the UK and the dismantling of IBM are two prominent cases. Internationally diversified Anglo American, with top quality assets such as De Beers, and involved in huge projects, argues the virtues of being big. But Barlows' market rating has certainly suffered because of its unfashionable conglomerate image.

Analysts and institutions have persistently levelled criticisms: questionable acquisitions; deployment of cash generated by good performers for investments with weak returns; the large, centralised head office; and poor performers perennially dragging down earnings. Portfolio managers say they prefer to select stocks specialised in particular sectors rather than buy a holding company whose mix of assets they may not like; the ratings of C G Smith and Tiger have long been better than that of Barlows.

More to the point, investors and Barlows' management may reflect that the group's results have become bogged down. In the early Eighties there were four years of pegged dividends; 1993 will be the fourth year of static or falling earnings.

Perhaps management has recognised that old formulas simply aren't working, and has given up waiting around for economic recovery on which this widely diversified group depends. There is little point now looking for the big acquisitions that drove growth in the Seventies and early Eighties. An alternative apparently is to go back to Barlows' roots. But what, then, will happen to Barlow Park?

For now, the market has reacted positively. As the *FM* went to press the share had gained 280c or 6,3% since last week's rather cryptic announcement. But, while value and efficiencies may be added, there must be questions about the timing and the extent of a recovery in what will remain of Barlows.

It remains to be seen too whether Mutual will join the unbundling bandwagon with the same alacrity as Sanlam. If so, then perhaps Safren — with its holdings in Kersaf, Safmarine and Rennies — is another candidate.

*Andrew McNulty*

# Business confidence rises marginally

BiDay 7/7/93

SHARON WOOD

BUSINESS confidence lifted slightly in June, suggesting a possible bottoming out of the economic recession, Sacob chief economist Ben van Rensburg said yesterday.

The chamber's monthly Business Confidence Index rose a small 0,1 percentage point to 94,1 from 94,0 in May. This turned around a substantial 1,1 percentage-point drop in May.

"Although the overall economic picture remains mixed, there is statistical evidence to suggest that the economy may have bottomed-out," said Van Rensberg.

He added the improvement was partly due to positive, but limited, trends in some of the key economic indicators. Sacob's manufacturing survey had shown two consecutive rises in activity levels.

But he warned there would have to be a substantial improvement in economic activity in the last two quarters of the year. GDP would have to rise by 4% a quarter if growth for the year was to be 0%.

Growth during the latter half of the year would stem primarily from agriculture and slightly from mining.

"We are not looking at an improvement in living standards but at the economy lifting its head out of a very deep recession," he said.

He stressed that economic recovery remained vulnerable to events in the political arena and to balance of payments developments.

Sacob believed the case was mounting for a further reduction in Bank rate soon, he said. "This will not be an enormous economic stimulus, but will allow small businesses to catch a desperately needed lifeline."

He said the National Economic Forum would be a confidence-building exercise and was an important step in the process of trying to reach consensus. He also said the forum was desirable if SA wanted high economic growth.

(180)

During June there had been five negative influences on the confidence index and eight positive. Negative influences included the sharp deterioration in the commercial rand, the decline in imports and exports, a sharp increase in insolvencies and a decline in manufacturing production.

Positive influences were the lower rate of inflation, the slight decline in BA rates, the higher expected real value of retail sales, the marginally lower unemployment rate, a firmer gold price, slightly more passenger vehicles sold, a rise in the number of building plans passed and an uptrend in share prices.

# Business groups call for fewer new regions

BlDay 7/7/93

**BILLY PADDOCK**

ORGANISED business yesterday called on the Commission on Demarcation/Delimitation of Regions to restrict the number of regions to a minimum for economic stability and coherence.

Sacob and the Afrikaanse Handelsinstituut (AHI) submitted proposals saying they would not present detailed maps of how the country should be divided as there were differences over this among their memberships.

But Sacob submitted several criteria for deciding the regions, calling on the commission to produce a variety of scenarios.

In order to minimise the taxpayers' burden, it said a minimum number of regions should be set up endowed with extensive administrative structures and functions.

Sacob director-general Raymond Parsons said the chamber hoped regional boundaries would be irrelevant in "a number of essentially commercial respects" so that they would not "obstruct the existence and future development of a fully integrated South African economy".

Sacob suggested the regions:

- Minimise the need for creating government infrastructure, recruiting public servants and duplicating services;
- Be held fully accountable for balancing their budgets under supervision by the central treasury, the central bank/banking network and the auditor-general;
- Be viable economic units capable of raising revenue commensurate with the services they were expected to provide;
- Bring political decision-making closer to the people and business;
- Promote healthy rivalry through equivalence of financial status and economic potential so that a political "market" could emerge; and
- Use shared public services through linked databases to offset possible negative implications of decentralised power.

It called on the commission to give due weight to economic considerations including unified markets, equity, all-round efficiency, business opportunity, wealth creation and long-term employment growth.

A joint delegation of the Johannesburg Chamber of Commerce and Industry and the Johannesburgse Afrikaanse Sakekamer submitted proposals arguing that the PWV should not be one region as it was too complex, diverse, and bulky.

180

# Business confidence shows some signs of improvement

Star 7/7/93

By Claire Gebhardt

South Africa may finally be emerging from its longest recession ever, according to the South African Chamber of Business (Sacob).

Chief economist Ben van Rensburg said yesterday the economy could register positive growth in the second and third quarters of 1993 as a result of a considerable improvement in the agricultural sector and the higher dollar price of gold.

Overall, however, growth of gross domestic product would be zero, or at best nominal.

The fragile business mood also took an uptick in June with Sacob's business confidence index (BCI) registering a 0,1 percentage point increase to 94,1.

This followed a sharp decline of 1,1 percentage points in May in the wake of Chris Hani's assassination.

180

### Tentative

Van Rensburg emphasised that the signs of recovery were tentative and vulnerable to reversal if the political situation deteriorated.

Sacob said that without the firmer gold price, which was helping to reduce pressure on the balance of payments (BoP) and reserves, the level of gold and forex reserves would have been critically low, with negative implications for monetary policy and for growth.

"The seriousness of the situation is partly illustrated by the recent sharp deterioration in the exchange rate of the rand."

At yesterday's meeting . . . Sacob's Keith Lockwood, Ben van Rensburg and Raymond Parsons.

But a declining rand would make exports more competitive in international markets, said Sacob.

Together with the higher dollar price of gold, it meant that returns for South African gold mines had effectively risen by 27 percent since the beinning of the year.

"Non-gold exports will, however, continue to be constrained by a sluggish world economy."

Sacob said the unexpected drop in the inflation rate indicated not only the effectiveness of monetary policy, but also the depressed state of the economy.

Calling for a further reduction in the bank rate as soon as the BoP situation allowed, Sacob said it could be argued that very high real interest rates were inappropriate for a country in deep recession.

"The combined effect of high real interest rates and a contracting economy have had a significant impact on the small business sector, as evidenced by the continued high number of insolvencies and liquidations, with accompanying job losses.

"Access to IMF financing, which will give the Reserve Bank greater leeway in managaging the reserves position, is urgent."

Some of the positive influences on the BCI in June were a decline in the consumer price index (CPI) to 10,6 percent from 11 percent the previous month, a decline in the number of registered unemployed, an increase in the number of new cars sold and a continued rise in the price of shares on the Johannesburg Stock Exchange in response to the higher gold price.

# Manufacturers take a dim view

CT 8/7/93 (180)

By AUDREY D'ANGELO
Business Editor

MANUFACTURERS in the Western Cape are now the least optimistic in the country, according to the latest SA Chamber of Business (Sacob) manufacturing survey.

A majority of 59% of manufacturers, throughout the country, expect sales and production volumes to rise in the next 12 months.

This compares with 61% who thought so in the May survey.

Sacob economist Keith Lockwood says in his commentary that the decline "is probably a response to expectations of increased political action, with possible implications for the stability of the workplace, in the run-up to the elections.

"It may also reflect a growing realisation that the final elements of SA's integration into the world economy could depend on such elections taking place and not, as was previously expected, on the announcement of an election date and the introduction of a Transitional Executive Council."

Lockwood says that only 54% of Western Cape manufacturers expect higher sales and production in the next 12 months, the smallest proportion in the country.

He said yesterday that he was surprised by this apparent change in mood, particularly in view of the help the weakening rand must be giving to exports.

A survey earlier this year showed manufacturers in greater Cape Town to be the most optimistic in SA.

However, the survey shows that exporters are finding conditions tough in a sluggish world economy. "The 1993 World Competitiveness Report confirms that there has been a relative decline in the international competitiveness of the SA economy.

## Lowly rank

"This country is now ranked eleventh out of 15 developing countries in terms of competitiveness."

Lockwood says there is growing uncertainty about how soon the upturn will come, with a big decline in the number of manufacturers who expect it within two months.

A majority expect it to be slow and relatively weak in its initial stages, and 61% expect further de-stocking to take place.

Throughout the country 51% expect to increase capital expenditure on existing plant and 53% expect to spend more on creating new capacity.

"The small extent of the majority is indicative of the present state of uncertainty, and suggests there will be only a marginal recovery in investment in the sector over the coming 12 months."

DURBAN FM 9/7/93 (180)

# Looking for a handout

**Durban's property** market, as in most cities, is depressed. To make matters worse the local authority has been taken to task for doing little to attract industry, such as offering rates holidays.

The criticism comes in the latest biannual industrial, commercial and retail survey by J H Isaacs Natal (JHI). Only 10% of listed company head offices are in Durban but it is the hub of the second-largest industrial conurbation.

According to the survey, there are about 255 000 $m^2$ of lettable industrial space available in Durban. This is 27,5% more than a year ago but reflects only a 6,25% rise in the past six months. The highest rental for 1 000 $m^2$ is R10/$m^2$ at Springfield and the lowest is R5,50/$m^2$ at Phoenix. The biggest demand for space has been in the 300 $m^2$-500 $m^2$ range.

Retail rentals have held up in the CBD but softened on the periphery. "Typically, the eastern end of West Street (dependent on tourism) has seen asking rentals of R75/$m^2$-R80/$m^2$ fall to R40/$m^2$-R60/$m^2$."

Those retailers able to expand are holding back to assess the impact of Natal's first regional shopping centre, the Westville Pavilion, which opens in October. The office market is no better. JHI director Guy Levene says vacancies in CBD A-grade space are still rising — 27,7% (35 259 $m^2$) this month compared with 27,38% in November. Asking rentals have dipped, with the minimum for A-grade space dropping from R28/$m^2$ to R26/$m^2$ since November (the top remains at R32,50/$m^2$).

The strongest demand is for small (50 $m^2$-150 $m^2$) parcels of B-grade space. There are, he adds, encouraging numbers of blacks seeking office space, mostly one or two offices in the lower B and C grades. Even so, B-grade vacancies have also edged higher in the CBD, from 8,84% to 9%. Vacancies have also increased in decentralised office nodes. ■

AMIC FM 9/7/93. (180)

# A real nose for money

**"I can smell** money everywhere," South Korean conglomerate Daewoo chairman Kim Woo-Choong told US business magazine *Fortune*. It seems he's caught an intriguing whiff of it, courtesy Anglo American Industrial Corp (Amic), in SA.

Last week, Amic chairman Leslie Boyd announced the signing of protocols leading to the establishment of Daewoo-Amic Joint Venture, for the time being a private company owned equally. Hard on its heels, Daewoo-Amic announced its first venture in SA — the purchase of a 29,9% interest in Gentech (previously Picapli), which makes and distributes white goods — domestic and electrical appliances.

Daewoo is South Korea's fourth largest conglomerate, with 1992 sales of US$30bn. Products span heavy machinery, motor vehicles, electronics, shipbuilding and construction. Kim is reckoned Korea's most frequent traveller — it is said he spends half his time on the move, seeking new markets.

In the past two years Kim has structured a series of deals which will open previously taboo North Korea to Daewoo inventiveness — making garments, stuffed toys and luggage at Nampo, a container port — and been involved in a friendly divorce from General Motors, ending a $200m joint venture in Daewoo Motors while retaining technology co-operation.

Daewoo Electronics, the area in which Boyd is clearly keenest to invest, specialises in trying to get more out of existing technologies. Its president, Bae Soon-Hoon, a graduate of MIT, is quoted by *Fortune* as saying: "There's a lot of technology available. We're not running this business for glory but for making money." That's the kind of sentiment that will appeal to Amic's directors.

Seizing the opportunity Daewoo's entry provides, Powertech, effectively Gentech's

FM 9/7/93. (180)

controlling shareholder, has announced a R39m rights issue. After the issue, which will be underwritten by Powertech, Gentech Holdings (effectively Powertech) will hold 48% and Daewoo-Amic 30%. The issue will leave Gentech with a cash surplus and no long-term loans.

Boyd says the next probable Daewoo-Amic project will be a local TV colour picture tube manufacturing facility. Others are in the pipeline, though Boyd won't be specific: "I've no wish to give advance warning to future competitors."

The link will promote Boyd's aim of reducing Amic's reliance on highly cyclical commodity markets. Daewoo will bring to the party a substantial and advanced hi-tech base. If properly tapped, it will result in a significant transfer of technology knowledge and capability to SA.

Market analysts, however, are not especially enthusiastic. "It's all very well announcing a link with Daewoo, but will it really become meaningful in increasing Amic's consumer profile?" asks one sceptic. The prevailing view on the JSE is that SA simply doesn't have enough of a technological base to justify immediate optimism.

That attitude, coupled with the rights issue, goes some way to explain the lack of interest in Gentech over the past week. But that won't disappoint Boyd: his targets are grass-roots industrial development, increased job creation and greater diversification for Amic.

*David Gleason*

DIAGONAL STREET

# Ways to make the best of Gencor's plan to unbundle

S Times [Buss] 11/7/93

THREE stockbrokers' analysts offer contrasting views of Gencor's pre- and post-unbundling prospects.

Keith Bright of Edey, Rogers & Co firmly believes that selling pressure will lower the prices of shares in unbundled Sappi, Malbak, Engen and Genbel. They have historically suffered from a lack of tradeability. But this factor supported share prices and will be removed on unbundling.

## Cover

Mr Bright says the only measure by which Gencor appears underpriced is that of historical dividend yield — supported by the gradual decline in cover. Earnings growth has fallen for five years and has been negative for the past 18 months — a trend he expects to continue until 1995.

Mr Bright offers two recommendations to shareholders: sell Gencor and defer buying the group companies until after the unbundling; or as a hedge, sell any overweight holdings in Sappi, Engen, Malbak and Genbel and buy Gencor. By doing so you buy the same shares at a 20% discount.

By Julie Walker

The risk here is that after unbundling, Gencor shares could trade at a discount of 40% or more to net asset value. But that is an unlikely event.

Its assets will then comprise Genmin companies, cash and short-term investments. Genmin contributed 29% of Gencor's profits at the last interim results.

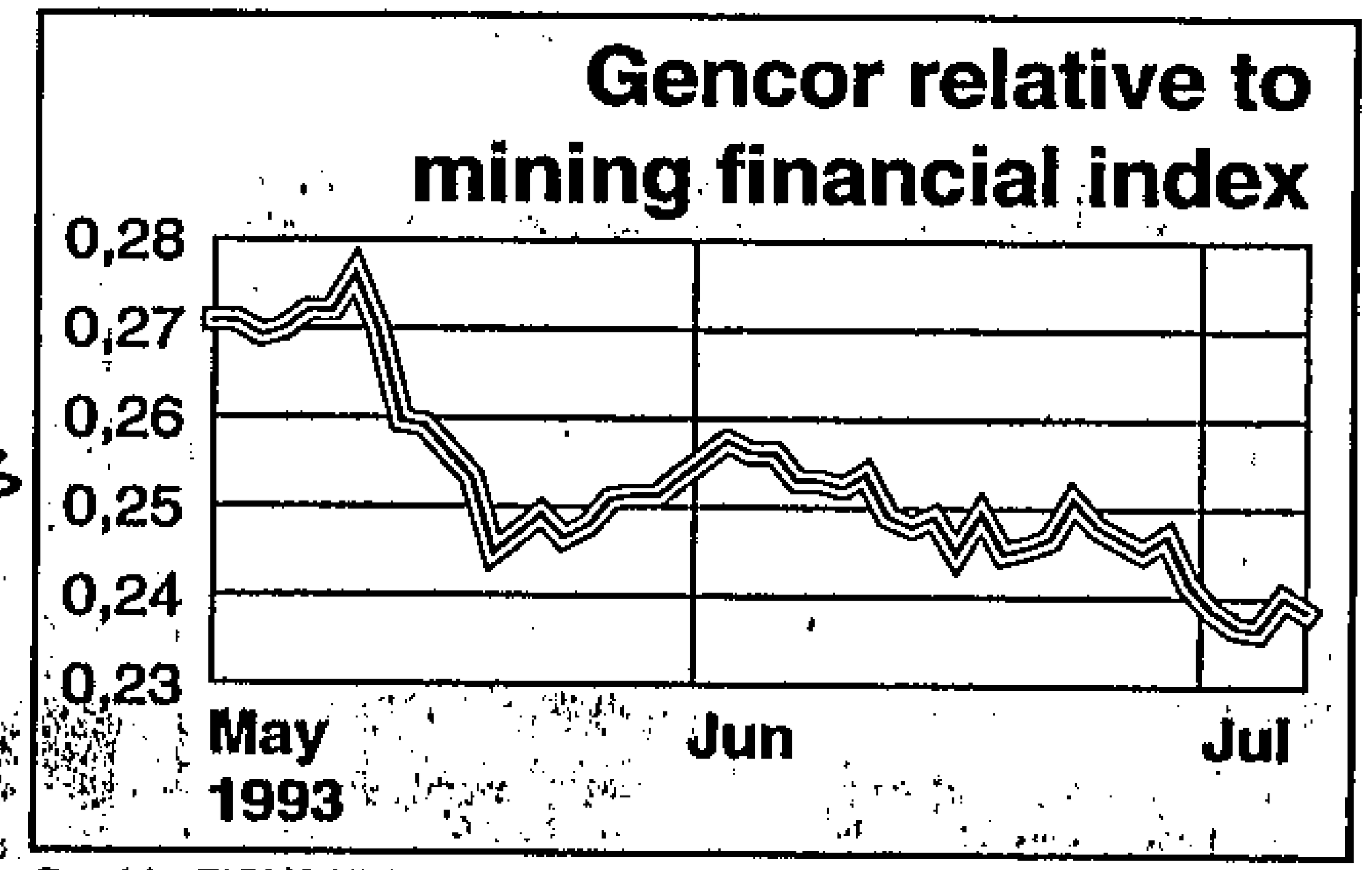
London-based SG Warburg Securities' Michael Spriggs takes a much more bullish view. (180)

He recommends buying Gencor at R11,95 (it is now R12, but has underperformed the mining and financial index).

Mr Spriggs says unbundling provides the key to unlocking shareholder value in Gencor — historically at an average 20% discount to net asset value.

Mr Spriggs refers to Gencor's announcement of negotiations with Royal Dutch-Shell to acquire its Billiton mining arm. If successful, says Mr Spriggs, Gencor would set up a listed international group, to be floated when appropriate.

Gencor itself could contribute some of its international assets to this vehicle, including its 25% stake in Consolidated Rutile and Brazilian gold producer Sao Bento.




Graphic: FIONA KRISCH Source: I-NET

Mr Spriggs holds that although the near-term earnings outlook is not bright — he forecasts an 11% drop with maintained dividend — this imaginative development will improve share tradeability. It will open an opportunity to add to Gencor holdings.

## Flow

A third view comes from Mathison & Hollidge's Barry Sergeant. His recommendation is to buy.

But holders of fewer than 1 000 shares could avoid the practical problems of unbundling by liquidating their Gencor holdings now.

Mr Sergeant forecasts that Gencor's unbundling strategy will contribute to a large increase in cash flow a share and earnings in the current year, resulting in a stronger balance sheet and a cash pool from which to fund future projects.

He says Gencor's planned investment transactions will lift attributable earnings by 43% to 86c a share in the year to August 1993. But operating income will be unappealing.

Until further announcements, there is no guessing the number of shares Gencor will distribute. It will need to offer a whole number of shares to avoid fractional entitlements, so might sell some of the companies earmarked for passing on to members.

Gencor has said it will undertake investment transactions to raise R1,5-billion cash. The deals will probably involve Genbel. More information is expected this week.

JOBS

# Bosses earn more as the company's profits increase

S/Times [Buss] 11/7/93 (180)

By CHERILYN IRETON

INSPIRING and keeping key executives is one of the trickiest tasks facing South African management.

Traditional incentive schemes, such as share purchases and options, have become obsolete in the past decade and are inadequate inspirational tools for senior management, says financial adviser Peter Curle, chief executive of issuing house Curle Securities.

## Stake

"The introduction of perks tax on soft loans means there is a tax cost to the employee regardless of how well the company does. Employees are also taxed on profits arising from share-option scheme," he says.

Five years ago, Mr Curle devised a scheme for EL Bateman, linking management's personal fortunes to the company's profit growth.

Its top people were given

PETER CURLE

what Mr Curle calls a golden handcuff — a preference share scheme where they could, over time, accumulate a sizeable stake in the group's two main operating subsidiaries, provided profit kept on growing.

The results speak for themselves. In five years the group's bottom-line profit increased from R8,4-million to R24,1-million at the end of June 1992.

The executives now own nearly 20% of the subsidiaries and their share of profit rose from slightly more than R500 000 in 1989 to R6,3-million last year.

This success persuaded another listed company, Mast Holdings, to follow a similar route.

"The scheme applies only to senior management," says Mr Curle, "because it is risk oriented and imposes penalties if there is no growth."

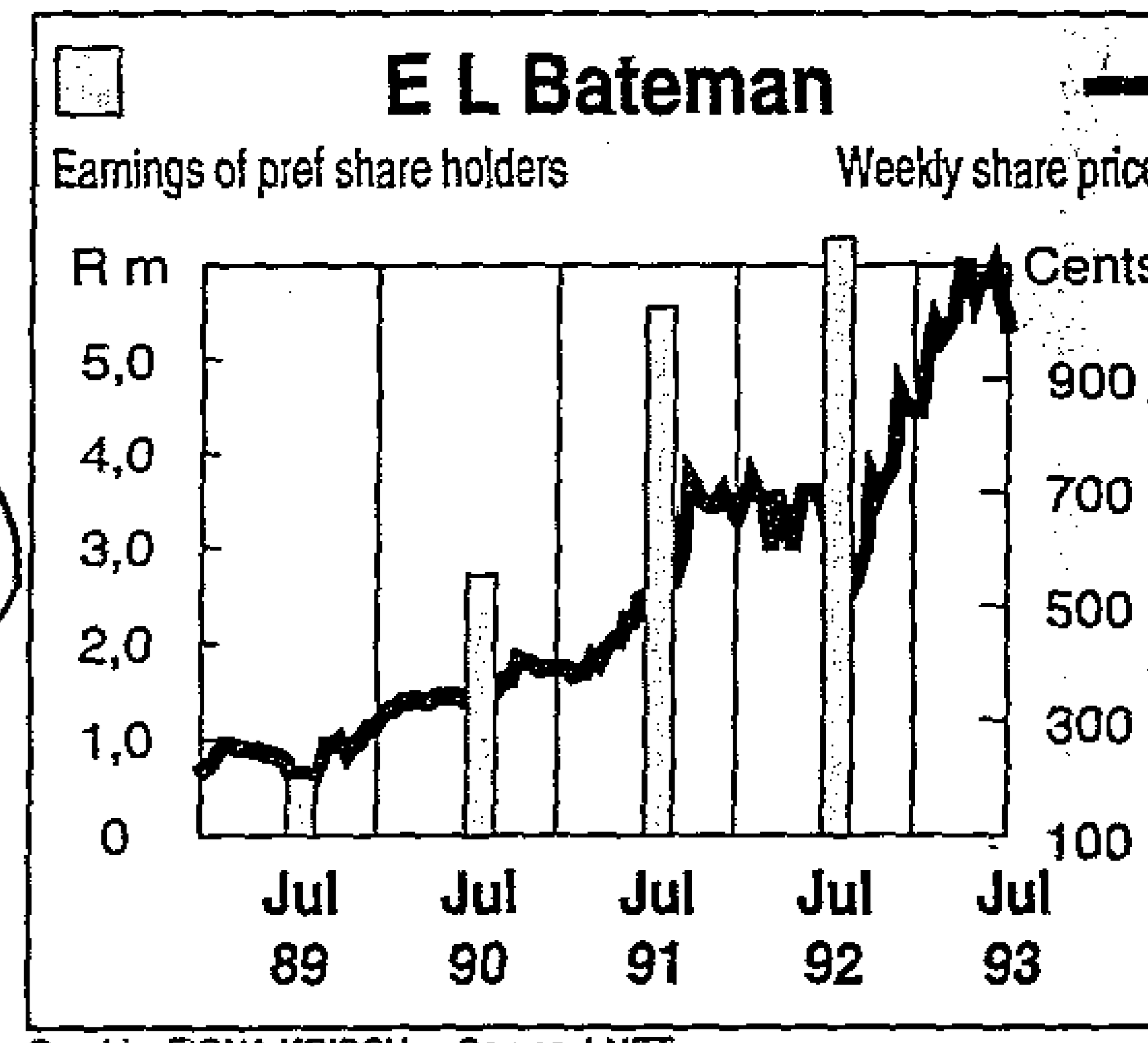
*He describes it as a management buy-in and says it* builds a strong partnership between management and the controlling shareholders.

"Management gets participating convertible preference shares which pay a dividend linked to the growth of the company. Simply, the better the company does, the better the participants do.

"The benefits are huge compared with a traditional scheme," says Mr Curle.

In many traditional schemes employees make money simply because the share price rises.

However, Mr Curle warns that most incentives tie up company funds — soft-loan schemes, for instance — dilute earnings and have a negative cash implication for thosing taking part.




Graphic: FIONA KRISCH Source: I-NET

Both EL Bateman and Mast executives had to find their own money to buy the preference shares. These are issued over five to 10 years, based on objective evaluations by auditors and merchant bankers.

## Generous

The shares, which convert into ordinary stock after a specified time, pay dividends only if the company's bottom line grows. If the company stands still or suffers a decline in profit, the shareholder loses out.

"It is ideally suited to companies that are highly dependent on the skills of key people. It is generous enough to stop high staff turnover.

"To achieve full payout the executives must beat minimum hurdles over a specified time of service."

Mr Curle says increasing importance has been attached to share-incentive mechanisms because:

- Capital profits are more effective than income-based incentives, arising from the higher level of personal tax.
- Senior executives are more aware of the possiblity of ownership in the business as a result of the recent *growth of management buy-outs.*
- Progressive companies realise they need to find ways to attract and retain top management.

Mr Curle says: "The wealth-creating impact of these schemes is great and the incentive effect is exceptional.

"At the same time, ordinary shareholders are protected because, unlike traditional schemes, there is no dilution unless the executives achieve growth."

# Public disclosure needed for efficient environment policy

Bus. Day 12/7/93 (180)

MARIANNE MERTEN

SOUTH Africa's managers are becoming increasingly colour conscious, and this time the colour is green. During the past two to three years, increasing numbers of SA companies have created environmental affairs manager posts or have increased the scope of their health and safety officials.

This has come at a time when environmentally aware business and industrial forums — such as the Industrial Environmental Forum (IEF), Sacob's and the SA Institute of Directors' environmental portfolios and the Council for the Environment — have been established.

In some cases, the newly appointed environmental executives are in charge of budgets worth millions of rands, but the question that must be asked is: are they anything but public relations officials?

Most of the largest companies — Anglo American, Consol, Coca-Cola and Nampak — and many of the medium-sized businesses have published mission statements declaring their environmental position. These statements have generally said the company has always recognised the need for environmental responsibility. To achieve this, most recommend a self-regulatory approach in which industry would look after its own ecological performance.

Such statements have also highlighted companies' long-standing annual donations to conservation organisations as one example of their commitment to the environment.

The only agricultural organisation to have even considered the environmental implications of its activities has been the SA Sugar Association. Its mission statement has provided recommendations to improve environmentally sound sugar cane farming methods and farmers' awareness of such issues.

The crucial test of whether a company is committed to environmentally responsible business practices is twofold. First, there must be top management agreement to implement responsible production systems which include the "cradle to grave" and the "polluter pays" principles. This requires companies to follow the path of their products from conceptualisation until disposal by the consumer.

The second criteria is linked to whether a company is prepared to implement managerial, operational and strategic policies and structures to filter the top level commitment down to the lowest level.

Overseas, this has meant publishing environmental audits and implementing clearly defined integrated environmental management (IEM) practices. SA companies have been reluctant to disclose such information. Nampak, Eskom, Shell, Consol and Coca-Cola are among those who have said they have set up, or are in the process of setting up, the necessary in-house procedures to conduct environmental audits. But they will not publish the results.

Eskom started its environmental management activities in 1978 and now has a budget of between R60m and R100m. It still does not publish its internal environmental audits, although Eskom environmental manager Otto Graupner says it is "moving towards full disclosure".

Public disclosure of a company's environmental track record is still perceived to expose the company to unnecessary criticism. This approach has undermined the environmental manager's position.

If a company finds that some of its plant level operations are ecologically unsound, the internal control system would provide for the correction of such a problem in secret. In this way the company may be able to avoid, if it wishes, dealing with consequences human beings or nature may have suffered.

This approach is contrary to IEM principles which try to balance the environmental, social and economic costs of any development in order to improve general living standards by wide-ranging consultation with all affected parties.

SA environmental managers are sincere in their attempts to improve their companies' environmental credibility, although at this stage environmental management is a new concept. In the case of Anglo American, former chairman Gavin Relly was instrumental in setting up workshops aimed at raising environmental awareness among the company's top managers.

The pressures of EC and other international environmental regulations which SA products must conform to to meet importing countries' environmental standards also cannot be discounted. This has created another difficulty for local environmental managers, because adopting those standards might not be appropriate in SA. Legislation forcing the recycling of paper, plastics, bottles and cans when a significant section of SA's poulation lives in informal settlements or in isolated rural communities would not be feasible.

When the majority of South Africans strive to copy consumption patterns of the privileged, warnings about the unsustainability of such patterns may be seen as yet another paternalistic attempt to block advancement.

The task of local environmental managers has been complicated by the fact that at least 17 national departments deal in environmental control measures. Responsibility has also been delegated to provincial and local governments.

For example, the National Health Department deals with air pollution, the Agriculture Department with soil conservation and pollution and the Water Affairs Department with river and water pollution.

The Environment Affairs Department has been accused of lacking political clout, skilled manpower and legislative ability. Its Minister has traditionally been a junior without sufficient political experience.

Government is drawing up national pollution legislation and a national integrated environmental management system, but these are long-term processes which might not be implemented after a change of government.

The setting of environmental standards has not been addressed by either government, the ANC or any other political party. Without such standards, it has remained difficult for environmental managers to propose policies and strategies that go beyond a broad mission statement.

As companies embark on cost-cutting exercises during this recession, it has been virtually impossible to justify expensive measures to improve environmental performance. Such measures may be considered inadequate by the next government, or they may exceed any new standards, and this could lead to accusations of overspending, some environmental managers have said.

In this context, all environmental initiatives have remained within individual companies. Action has frequently been triggered by bad publicity, as in the case of Eskom and Thor. Nampak also has had to deal with similar perception problems as people tend to associate packaging with litter, Nampak environmental manager Halvor Rosholt says.

Almost all of SA's bigger companies are members of the IEF, which has suscribed to the International Chamber of Commerce's Business Charter for Sustainable Development, and are aware of the IEF's 10-point plan for environmental managers, which include recommendations to achieve "cost-effective production, fostering openness and promoting the optimal exploitation of finite resources".

At this stage in SA, environmental managers still have a strong public relations function and almost inevitably their departments are linked to the media relations division. Their commitment to open business practices and be proactive remains to be proven.

The measures currently undertaken are in line with international trends and have definitely been steps in the right direction. However, if the public is not able to examine a company's environmental track record critically, mission statments will remain just what they are: an expression of intent without organisational backing.

# Nafcoc reversal on sanctions

THEO RAWANA

THE National African Federated Chambers of Commerce (Nafcoc), which caused a stir in 1986 by refusing to take an anti-sanctions stand, is now calling on investors to prepare for investment in SA.

President Archie Nkonyeni said yesterday that bodies such as the World Bank and the IMF should start feasibility studies for investment because "the mission has been accomplished". BDay 13/7/93

Nafcoc was slated when it refused to lobby against sanctions when foreign companies were disinvesting. (180)

"When we took the stand in 1986, we knew black business would be hurt as well, but we felt it was well worth it if the larger community felt sanctions should be used to liberate black people.

"Today that process of sanctions has brought government to look at evolving a process of liberating the people and we are looking to April 27 for the birth of a new SA," Nkonyeni said.

He said Nafcoc would support the call to free SA to trade with the outside world once a transitional executive council was in place.

"But investors should start doing their research and viability studies now. It would not do to have investors doing research after the council is in place."

# Mandela – working US crowds for cash

Star 13/7/93

By Peter Fabricius
Star Bureau

ATLANTA — Nelson Mandela left for South Africa last night after a 10-day low-key, high-profit fund-raising tour of America.

Compared to his debut tour in 1990 when he was mobbed by crowds and given the rare honour of a ticker-tape parade in New York, this was a much more professional and business-like affair.

The aim was to make a big dent in the $43 million (R141 million) the ANC estimates it will need to win the elections on April 27. And so, instead of the crowds, Mandela concentrated on working the corporations and the entertainment stars.

But he also focused on black Americans. Even then, though, he rattled the collection box to good effect. A man famous for his single-mindedness, he was laser-like in his concentration on the goal of raising money.

No source was left untapped, no occasion squandered.

An Atlanta newspaper believed the difference between his 1990 and 1993 tours was illustrated by the following anecdote. It overheard one of Mandela's entourage chatting to a visitor over lunch in the plush Ritz-Carlton where the ANC stayed.

They were debating about about who should pick up the tab. But not for long. "Oh, I'll just charge it to Coke," the newspaper quoted the ANC staffer as saying. Coke paid for the hotel bill and other costs and flew Mandela to and from Atlanta in one of its corporate jets.

The Atlanta newspaper noted the contrast between this new slick image which the ANC was now projecting and the revolutioary reputation it still had when Mandela visited in 1990.

Among the celebrities who kept Mandela company on this tour were Michael Jackson, Elizabeth Taylor, Dannie Glover, Sugar Ray Leonard, Barbara Streisand and black poet Maya Angelou who recited one of her works at the inauguration of President Clinton.

Just how much money he raised is hard to establish. One figure given is $1,4 million (R4,6 million) in actual donations — not counting pledges. That seems a conservative estimate. And ANC officials note that Mandela laid the groundwork for continuing fund-raising efforts which will continue to bring in cash after his departure.

Certainly the likes of Glover intend pursuing the ANC's election cause in the months ahead. "This election is the most important event in the world and there is a community of us here who want to make sure the world knows that' he said in an interview.

Star 13/7/93

## Clarify economic policy, ANC urged

DURBAN — Organised commerce is once more to take the ANC to task over nationalisation. (180)

The South African Chamber of Business at its regional congress in Maritzburg at the weekend undertook to get the ANC to state publicly whether it supported its alliance partner the Cosatu-affiliated National Union of Metalworkers of South Africa in its call at the National Economic Forum for a policy of nationalisation without compensation.

In addition, the business movement said it would call on the ANC to "state unequivocally" whether a recently reiterated call for a 50 percent wealth tax to fund socio-economic reconstruction was official ANC policy, although rejected by the ANC two years ago. — Own Correspondent.

# PPI drop to 7% bodes well for low inflation

(180) CT 15/7/93

By AUDREY D'ANGELO
Business Editor

THE Producer Price Index (PPI) resumed its downward trend in May, in spite of the weakening rand which caused a marginal increase in the imported component.

It eased to 7% year on year compared with 7,9% in April. There was no change between April and May, after an unexpectedly high increase of 1,2% between March and April.

The PPI for locally produced commodities fell to 7,1% year on year compared with 8,3% in April.

The PPI for imported commodities rose to 6,3% year on year, up 0,4% from 5,9% in April.

The month on month increase was 0,2% but, seasonally adjusted, it was 1,5%.

There were large drops in the monthly indices for mining and quarrying products — down by 3,2% — and for electricity, gas and water, which came down by 1,8%.

But non-metallic mineral products rose by 2,1%, metal products by 2,3% and transport equipment by 1,8%.

Describing these figures as encouraging, economists said yesterday that they would feed through to a lower consumer price index (CPI).

Old Mutual economist Johan Els said most people had expected the PPI to be 7,5%.

"I am surprised that the impact of the weaker rand is not coming through yet. But it will definitely affect the PPI soon, probably in the June or July figures."

However, Els said, he did not expect it to have a major effect. Oil was the major industrial import and its price had weakened.

"And the imported component makes up only 20% of the PPI.

"The fact that there was no increase at all in the domestic index between April and May is particularly encouraging.

"The domestic environment is disinflationary, with most manufacturers unable to put up their prices. I expect the PPI to average 7,5% this year."

Boland Bank chief economist Louis Fourie said the imported component was lower than he had expected in view of the fact that the rand had depreciated by an average of 6% a month over the past six months.

This was partly due to the fact that the PPIs of SA's main trading partners were still very low.

"It also looks as if manufacturers are absorbing their cost increases.

"The old belief in SA that all cost increases can automatically be passed on to the consumer has finally gone."

This, said Fourie, meant that Reserve Bank governor Chris Stals "is probably right when he talks about inflation dropping below 10%".

Sanlam economist Pieter Calitz said he had expected a higher increase in the imported component, in view of the weakness of the rand against the dollar and the yen.

But the recession and the lack of disposable income was preventing companies from putting up their prices.

"I think we are in for an extended period of low inflation."

Metropolitan Life economist Chris Visser said that even if the imported component rose in coming months any increase of less than 10% would have little effect on the PPI.

Star 16/7/93

# Big business to aid entrepreneurs

By Michael Chester

Big business yesterday offered a welcome handshake to budding black entrepreneurs to help them to launch mini-businesses of their own and join the economic mainstream.

The gesture came with the release by the SA Chamber of Business of a major new policy document that spelt out new guidelines to larger corporations on how to approach affirmative action programmes in a future non-racial society.

Sacob director-general Raymond Parsons told a news conference in Johannesburg that the first layer of assistance would include new business strategies to develop latent talents among black employees.

That, he said, should provide a training ground for potential entrepreneurs seeking to launch mini-companies of their own.

Next, Sacob planned to recommend that the government makes more funds available for the extension of credit to cash-strapped, informal ventures.

It also intended to encourage development strategies that offered easier loans, training schemes and post-natal care for new black micro-businesses.

Larger firms and corporations should also consider deploying a bigger share of social investment budgets to promote the development of small firms.

In addition, bigger companies could offer support by the allocation of sub-contract work to small business ventures for the supply of products and services – perhaps in partnerships with black entrepreneurs.

Human Sciences Research Council vice-president Professor Lawrence Schlemmer, added: (180)

"The small business sector is becoming more and more important in its contribution to economic activity in South Africa."

Parsons said Sacob was willing to establish a small task force of consultants to guide smaller companies seeking advice on employee advancement strategies.

● SA business given it straight — Page 9

# Barlows tops SA's giants

Star 16/4/93

(180)

By Claire Gebhardt

Four South African companies have made it into the Fortune magazine's list of the top 500 corporations in the world — ranked in order of 1992 sales.

Top of the South African tree is industrial conglomerate Barlow Rand, followed by diamond monolith De Beers Consolidated Mines, steel giant Iscor and fuel producer Sasol.

Despite a crippling domestic recession, Barlow Rand pushed its way to the number 115 spot among the world's largest industrial corporations. This is four places up on its 1992 ranking with sales 5 percent up at $12,1 billion.

De Beers Consolidated Mines took a knock, dropping 32 places to 392 from 360. Sales were 6,6 percent down at $3,6 billion.

Iscor, with a 7,7 percent increase in sales to $3,2 billion, made steady gains to a ranking of 455 from 484 last year.

Sasol dropped from 455th place to 490th with a 6,7 percent decrease in sales to $2,8 billion.

South Africa's companies also ranked very high in other categories.

## De Beers

In terms of performance De Beers featured at an impressive number four in the world when ranked on highest returns on sales. Its 1992 profits as a percentage of sales was 20,7 percent — Glaxo Holdings was ranked first in the world with a 24,2 percent return.

Sasol was highlighted at number 15 in the world with profits as a percentage of sales at 14,5 percent in 1992.

Barlow Rand took the honours as the 30th largest employer in the world with 145 000 employees. But this was just a drop in the ocean compared with General Motors' 750 000.

US companies took the top three spots in the world ranked in terms of sales.

General Motors topped the list as the world's most powerful company with sales of $132,7 billion. But tough times in the motor industry puts GM at the bottom at number 500 in terms of profits

Exxon Corp moved up to second place from third last year with sales of $103,5 billion. In terms of profit it ranks third.

Ford Motors also moves up a place to third with sales of $100,7 billion but is also near the bottom of the pile in terms of profit at 494.

Oil giant, the Royal Dutch/Shell, group is fourth with sales of $98,9 billion. When it comes to profits, it is number one in the world with 1992 profits 27,3 percent up at $5,4 billion.

Other US giants vying with two Japanese, one Italian, one German and one British-Dutch for the top 10 places in terms of sales were International Business Machines and General Electric.

Japanese motor company Toyota took fifth place and Hitachi 10th. Italy's IRI is placed sixth.

Underscoring the world's economic difficulties, 125 of the world's top 500 companies lost money. This is up from 77 in 1991.

Total sales worldwide, measured in dollars rose just 3,6 percent which is not much above inflation in much of the world, says Fortune.

In the US, 60 of the 161 companies listed lost money.

Sweden's Volvo motor company, ranked 85th, had its biggest loss ever.

The Japanese economic slowdown also had a sharp impact.

Twenty-one of the 128 Japanese companies listed reported losses.

Fortune notes that earnings dropped 69 percent at Matsushita Electircal Industrial and 42 percent at Toyota Motor.

The good news is that all 25 pharmaceutical companies were profitable. Brystol-Myers Squibb and Glaxo Holdings earned nearly $2 billion each.

## THE WINNERS AND LOSERS

### BIGGEST MONEY MAKERS

| | Global 500 rank | Billions |
|---|---|---|
| Royal Dutch/Shell Group, Britain/Netherlands | 4 | $5.4 |
| Philip Morris, U.S. | 10 | $4.9 |
| Exxon, U.S. | 2 | $4.8 |

### BIGGEST MONEY LOSERS

| | Global 500 rank | Billions |
|---|---|---|
| General Motors, U.S. | 1 | ($23.5) |
| Ford Motor, U.S. | 3 | ($7.4) |
| Intl. Business Machines, U.S. | 7 | ($5.0) |

### BIGGEST PROFIT INCREASES

| | Global 500 rank | Percent |
|---|---|---|
| Eastman Kodak, U.S. | 61 | 6,640% |
| IBP, U.S. | 107 | 4,602% |
| Warner-Lambert, U.S. | 271 | 1,751% |

### BIGGEST PROFIT DECREASES

| | Global 500 rank | Percent |
|---|---|---|
| Klöckner-Werke, Germany | 322 | (23,430%) |
| Mo Do, Sweden | 496 | (14,070%) |
| Dana, U.S. | 300 | (2,930%) |

### BIGGEST SALES INCREASES

| | Global 500 rank | Percent |
|---|---|---|
| Saint Louis, France | 225 | 248.9% |
| Matra-Hachette, France | 183 | 93.1% |
| Fried. Krupp, Germany | 86 | 62.3% |

### BIGGEST SALES DECREASES

| | Global 500 rank | Percent |
|---|---|---|
| Veba Oel, Germany | 254 | (51.6%) |
| Austrian Industries, Austria | 164 | (38.2%) |
| Oil & Natural Gas Commission, India | 444 | (31.1%) |

# Sacob rejects job quotas and state interference

B/Day 16/7/93

THEO RAWANA

SACOB has rejected quota-based affirmative action and the setting of rigid timetables for the appointment of certain groups of people as harmful and counter-productive.

The business organisation's policy guidelines on affirmative action, launched in Johannesburg yesterday, also stated that any prescriptive intervention by any new state institution would do more harm than good. (180) (Bus)

Sacob says any employee advancement or affirmative action programme should not be aimed at achieving fixed proportions or quantities of different kinds of higher level employees, but at rapidly improving the resources of disadvantaged groups to achieve success on merit or potential merit.

The quota system and setting of timetables were likely to involve either reverse discrimination or the lowering or erosion of performance standards in a company or organisation.

Arguments that employment quotas are necessary as a temporary measure to address racial, ethnic or gender inequality are "persuasive but have often proved to be wrong whenever quotas have been adopted", the document says.

"When social categories with above-average qualifications and talent are discriminated against, many of their members are forced into a condition of super motivation to exploit alternative economic opportunities."

Quota-based affirmative action is usually intended to be temporary, "but experience throughout the world indicates that vested economic and political interests are established which are fiercely defended. Such policies tend to become permanent."

Sacob says prescriptive intervention on the part of government will lower investor confidence and encourage devious strategies to create the impression of progress without the fundamental factor of employee development being adequately addressed.

It would also raise expectations beyond realistic limits, which would eventually result in problems for business and for government itself.

Sacob says it accepts a future government's interest in the socio-economic advancement of less-advantaged South Africans and would welcome the establishment of an appropriate institution to facilitate positive trends.

"Such facilitation, however, should be limited to establishing the resource needs of less-advantaged employees, and of businesses, and attempting to expand such resources in non-inflationary ways. It should promote rather than police the actions of business to redress inequality."

# CAN SA COMPETE?

FM 16/7/93

**A vibrant** manufacturing sector could be the key to SA's economic recovery. Local manufacturers will learn how their sector ranks against the competition in other countries when Deloitte & Touche releases its international survey of manufacturing competitiveness. (180)

In the past, SA relied on its mining and other primary industry sectors to sustain economic growth. Now, due to decreasing prices for raw materials, the significance of the manufacturing sector has grown substantially. Yet can SA manufacturing compete? The country's return to international trade might highlight how far local manufacturers have fallen behind their foreign rivals.

Deloitte & Touche says a company's competitiveness depends on its customer relationships. The survey's criteria included appropriate technology, flexibility, quality at minimum cost, customer-service levels, inventory levels and the firm's human-resource levels.

SA companies have been included in this survey for the first time. The results will appear in the *FM* on October 22.

# Beware the perils of cutting jobs

W/Mail 16/7 - 22/7/93 (180)

*People are not disposable assets, concludes a study of world competitiveness. South African business should take note,* *reports* **REG RUMNEY**

COMMON wisdom that being lean and mean is paramount in business is a threat to society and needs to be ditched. This observation comes from none other than Professor Stephane Garelli, director of the World Competitiveness Project.

"Today's obsession with reducing head count (currently raised to the level of management theory) is, in fact, a major threat to the foundations of an open and free market society," Garelli says in the *1993 World Competitiveness Report* — whose focus, one would imagine, is success at all costs.

The report ranks the competitiveness of 38 countries, including South Africa, according to 330 criteria.

Garelli's comment becomes less surprising when one realises the concern is sparked by a continuing wave of white-collar job losses. As Garelli points out delicately, out-of-work managerial staff tend to be vocal and articulate in questioning the logic of an economic system which kills employment.

He notes that pressures for remarkable growth in world economies in the 1980s have not helped create jobs; rather, the opposite.

"Public opinion, which is barely ready to accept that jobs can be destroyed in a period of recession, cannot understand why economic recoveries do not eradicate unemployment. Present recession in world economies will add a second wave of redundancies to the structural unemployment inherited from the past.

"The prospect that a future economic recovery may not necessarily regenerate employment produces all the ingredients for a formidable social time bomb."

Naturally enough, pressures for competitiveness are blamed. But Garelli argues three revolutionary trends have been at work in:

● Technology, where computers and the telecommunications industry have mushroomed.

● Management processes, with Japan leading the way in such processes as quality, speed and customer satisfaction.

● World markets, where wealth and production capacity have moved outside Europe and Asia to the United States.

These trends caused blue-collar job losses in manufacturing first, as companies streamlined and "de-localised". The 1990s, observes Garelli, are causing a further wave of structural unemployment, mainly among white-collar workers.

Despite huge investments in computer and telecommunication technology in offices, white-collar productivity has not kept pace with blue-collar productivity.

"During the Eighties productivity increased on average by 3,6 percent every year in manufacturing, while it stagnated at a poor 0,3 percent per year in the non-manufacturing part of the economy. It is estimated that one task out of three has still to be redone in offices today.

This statistic corresponds to a defect rate of 33 percent, which has to be compared to the 300 parts per million in manufacturing, he says.

Companies have decided to try to control white-collar productivity through "re-engineering" and large companies have begun sweeping "downsizing" operations, getting rid of entire departments and running HQs with limited staff.

Garelli asks: "Should this process of radical job cutting, logical though it may seem, be allowed to threaten the social fabric of modern economies?"

His answer is that systematic job reduction could harm competitiveness by damaging the system of values essential to the success of any business. Companies should think about the longer-term consequences.

"A well-educated workforce, as well as a strong value system, acts as a cement in a company ... This key success factor is at the core of most competitive companies today.

"Thus, the theory of competitiveness does not necessarily advocate the systematic reduction of employment whenever it is feasible. On the contrary, it underlines the importance of managing corporate culture and human assets as well as any other financial asset.

"It should not be forgotten that destroying a corporate value system can happen in only a matter of months; rebuilding one can take years."

However, at a media conference this week, Garelli noted that large companies cannot be relied on to be job creators any more, though they will continue to be locomotives of the economy. The jobs will have to come from small and medium-sized companies supplying goods and services to the large companies.

In South Africa, pressures for downsizing have been driven by dismal economic performance during the Eighties and, latterly, by four years of stubborn recession. White-collar and blue-collar jobs have been lost. But productivity overall has not benefited much.

The latest National Productivity Institute (NPI) *Productivity Focus* points out that unit labour costs — the gap between salary increases and productivity — have been rising, despite recession.

Unit labour cost applies to both blue and white-collar workers. "Although the salaries and wages of blue-collar workers increased at a faster rate (17,1 percent per annum) than those of white collar workers (13,1 percent per annum), blue-collar workers earned on average only about a third as much as their white collar colleagues," the institute notes.

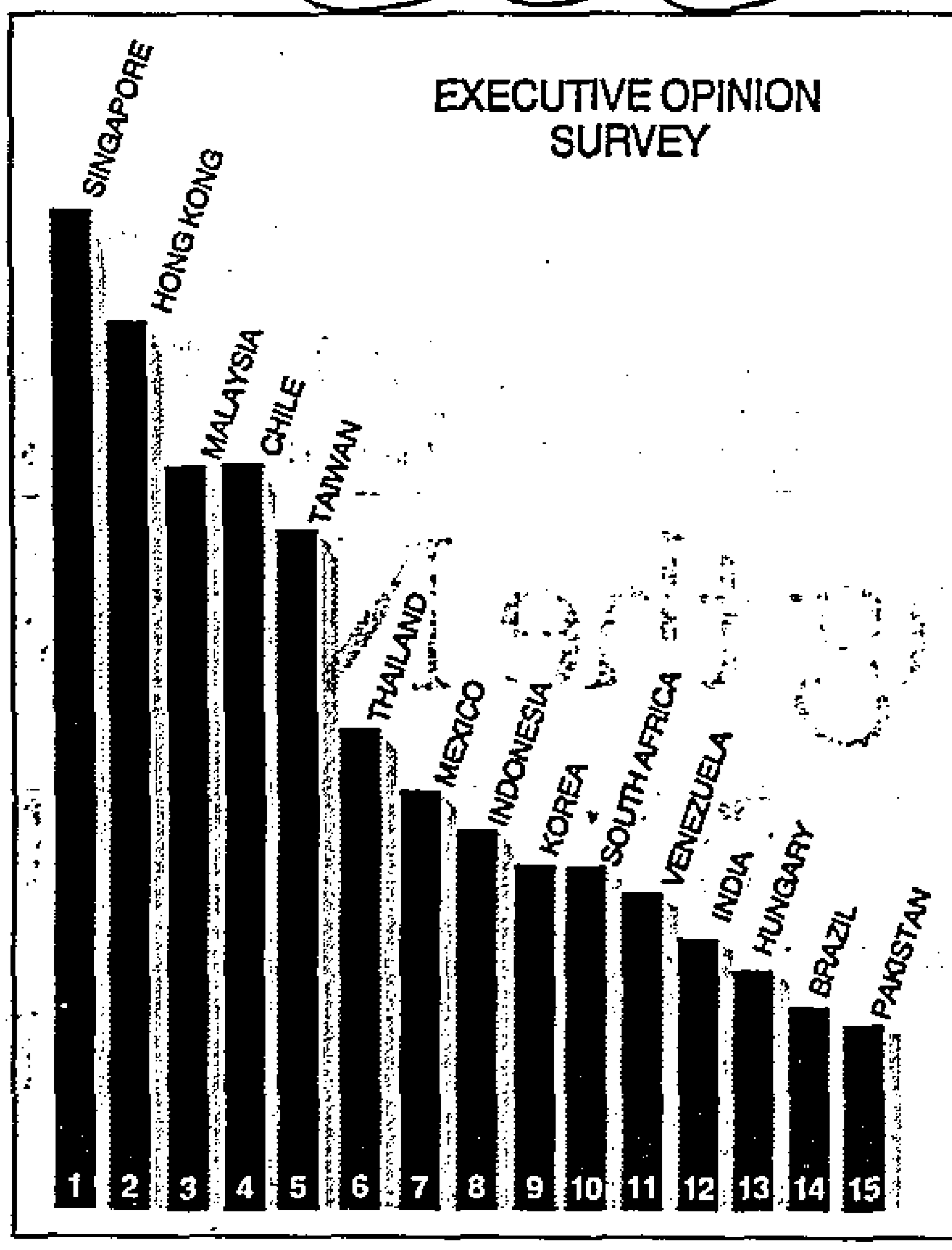
Low productivity is one factor which keeps South Africa on the low end of league tables of developing nations.

Could this portend the loss of even more jobs as a crude way of increasing productivity? Or lower wages as a way of reducing the unit labour cost?

The NPI appears to concur with the different emphasis contained in the latest *World Bank Economic Perspective:* that higher skills, rather than lower wages, are a solution.

"The permanent solution to the problem of low wages lies in compulsory schooling and technical training. Employee training should be one of the main objectives of an organisation because it is the surest way of raising living standards over the long term," the NPI notes.

Professor Stephane Garelli ... manage the corporate culture as well as the money




South Africa ranks 10th out of 15 countries surveyed in the World Competitiveness Report Executive Opinion Survey, which rates countries according to international business opinion. In its "Scoreboard" overall ranking, however, the report puts South Africa 11th, behind Singapore, Hong Kong, Taiwan, Malaysia, Chile, Korea, Thailand, Mexico, Venezuela and Indonesia. It is in front only of Hungary, India, Brazil and Pakistan.

FM 16/7/93 (180)

GENBEL FM 16/7/93

## Changing role

(180)

**A curious** cautionary from Genbel, supplementary to one issued last month about unbundling, suggests there's been a hiccup along the way. When asked, Genbel executives were tight-lipped.

Nevertheless, it raises another interesting aspect of Gencor's decision to divest itself of its non-mining assets: simultaneously with that announcement, Gencor disclosed it was considering buying Royal Dutch Shell's metal mining business, Billiton. The intriguing question then and now is how Gencor will finance such a purchase.

At the time, the *FM* canvassed the flotation of an international resources company, perhaps *a la* Minorco. More specifically, we suggested that Gencor's Sao Bento gold mine

**Gencor's Gilbertson** ... *a stronger hand*

in Brazil, its effective 25% holding in Consolidated Rutile (Australia) and its recent acquisition of 50% of Richards Bay Minerals might all be thrown into the pot.

Surprise! It is reported that Cons Rutile has just sealed an equity purchase in Sierra Rutile, based in Sierra Leone, the world's largest single producer of mineral sands. The company is controlled by Nord Resources; apparently Cons Rutile parlayed loan stock in Nord into shares in Sierra.

Reliable production figures are hard to come by but Roger Ellis of the authoritative London *Mining Journal* says Cons Rutile, Sierra Rutile and Richards Bay between them probably supplied about 340 000 t of rutile in 1991.

That, of course, puts Gencor in a strong international position when it comes to supplying mineral sands — ilmenites, zirconium and rutiles used in pigments and titanium metal and alloys.

And presumably it will strengthen the hand of Gencor chairman Brian Gilbertson when he talks to Shell about Billiton, a company with a lot of assets and a poor recent profit performance.

Meanwhile, Genbel is proceeding with plans to sell Genbel Offshore Investments (GOI) to Gencor for Sappi and Engen shares. GOI holds prefs and ords in Donny Gordon's TransAtlantic along with 30% of Gencor's exploration operation in Turkey. The deal will add more muscle to Gencor's overseas negotiating ability.

Sankorp is now involved in the transaction, though details aren't forthcoming. Presumably Genbel will pass on those of its holdings in which it considers itself to be overweight — a good guess is that Genbel will be uncomfortable with too much exposure to Sappi and Engen and will seek to trade these for other counters in Sankorp's locker.

Genbel's eventual role is also something of a mystery. Divorced from Gencor, its major shareholders will be Sankorp and Rembrandt though it's intended, apparently, that Genbel will act as financial advisers to both Gencor and Sankorp. Executive director Peter Cronshaw won't be drawn on Genbel's future role though he concedes some consideration has been given to expanding its activities to include other financial services.

*David Gleason*

The Star Friday July 16 1993

Star 16/7/93

# SA business given it straight

(180)

**The SA Chamber of Business has spelt out guidelines on how companies should tackle affirmative action programmes. It promises to give thrust to black advancement, without State intervention or quota systems, writes MICHAEL CHESTER.**

BLACK advancement in the business world was given a powerful boost yesterday when the SA Chamber of Business (Sacob) urged its 50 000 member companies to increase the tempo of affirmative action programmes, and weed out all remnants of discrimination in recruitment and promotion.

There was also good news for women employees — a set of business guidelines emphasising that employment policies should be placed on a non-gender as well as non-racial basis.

"Discrimination in any form has no place in the modern world of business," said Sacob in a policy document widely regarded as a blueprint for a new employment code for the private sector. "Historical patterns of disadvantage must be firmly and actively addressed.

"The potential for economic growth and business development in South Africa will not be realised in a climate in which (socio-political instability is) endemic and in which business — partly because of its composition — is seen as an appropriate target for protest in the form of stayways and boycotts.

"A shift in the composition at senior level of visible and rewarding positions in business is necessary in order to demonstrate that business represents the South African population at large."

Research showed that both economic growth and productivity threatened to be constrained in the future by shortages in the supply of management, professional and technical skills.

"Affirmative action which broadens the base of such skills beyond the white male component of our society is an imperative for business."

Sacob was aware of fears that affirmative action threatened white males with displacement or replacement by blacks or women. However, a growing economy would make the shortage of white male management skills even more critical.

"Scope for advancement and career development will be created by natural means," said the policy document. "There will be room for everyone."

However, Sacob advised caution to ensure new policies did not undermine either productivity and efficiency or the morale and confidence of existing management and professional staffers.

Though the principles of non-discrimination and equality of opportunity should be the cornerstones of employment policies, recruitment and promotion should be based solely on merit and potential merit.

"Every year, South Africa's economy experiences substantial losses of highly qualified manpower and womanpower through emigration as a result of political and economic uncertainty," Sacob noted.

"Affirmative action policies which are not sensitive to this danger will obviously not benefit the private sector and hence not even benefit the beneficiaries of policies of affirmative action."

Sacob was equally adamant that affirmative action programmes should not be based on fixed timetables and quota systems. Considerable international experience had proved that such approaches were harmful and counter-productive.

Where qualifications and experience were in short supply at higher management levels, such systems could even widen inequalities within disadvantaged groups by over-rewarding an "occupational elite".

Sacob also argued that any prescriptive intervention by the State would also do more harm than good. It would lower investor confidence and encourage strategies to create the impression of progress while real advancement was at a standstill.

"Although the setting of targets is considered an important element of any employee advancement or affirmative action programme, strategies should not be aimed at achieving fixed proportions or quantities of different kinds of higher level employees, but on rapidly improving the resources of disadvantaged groups to achieve success on merit or potential merit."

Sacob favoured consultation with trade unions about advancement schemes but did not believe that organised labour should be called upon to define or to veto strategies.

"Just as unions would justifiably resent management interference in the appointment of union secretaries or the election of shop stewards," it said, "so management is entitled to take responsibility for its own composition as part of its prerogatives."

"Programmes must be well planned, thorough and implemented with company-wide commitment," it added. "The negative reactions of black personnel to many existing programmes must serve as a warning against half-measures, tokenism and inconsistency."

Among the guidelines spelt out by Sacob are that:

- Employee recruitment and development aimed at improving the mixture of higher level personnel should be integrated into company business plans monitored by the chief executive.
- Obvious and covert discrimination should be eliminated without delay.
- Discussion forums should be created, bringing in senior line managers to give full explanations of the strategic reasons for affirmative action.
- Recruitment planning must be undertaken with specific jobs in mind — with reassurances to existing employees that their positions were not in jeopardy.
- Employers should avoid poaching from other companies to find suitable candidates, but instead implement recruiting and training policies to create their own pipelines of black and female staff for promotion into senior posts.
- Human resources managers should discuss with new staffers the planning of career paths as a boost to positive motivation.
- Companies that tackled affi[rm]ative action should be pr[e]pared to spend more on i[n-]house and extra-mural trainin[g].
- Experienced employees ar[e] managers should act as me[n]tors to coach candidates [on] route to promotion.

Businesses that launched a[f]firmative action programm[es] with enthusiasm and commi[t]ment were bound to be able [to] adjust to future challenges wi[th] ease, said Sacob.

"It is of cardinal importanc[e] that future policy makers re[c]ognise that all strategies to r[e]duce inequality yield the be[st] possible results if they ar[e] based on broad economic pol[i]cies which will stimulate ma[r]ket-related growth and compe[t]itiveness in the economy.

"Most especially, it is nece[s]sary for future developme[nt] policy in South Africa to reco[g]nise that the enhancement [of] the quality of basic educatio[n] for all South Africans is vital [to] the sustained development [of] the economy." □

JOBS

# By comparison, SA lags behind on most counts

ST Times [Buss] 18/7/93

**Competitiveness means growth and jobs. But, as CIARAN RYAN finds in reviewing the latest World Competitiveness Report, South Africa ranks dismally on these and most other measures of economic effectiveness.**

THE latest World Competitiveness Report ranks South Africa second last in the categories People and Government. Pakistan is last.

Overall, SA slipped from eighth to 11th in comparison with 15 newly developed countries.

The comparison is based on performance in eight areas: infrastructure, SA's highest score (fifth), domestic economic strength (11th), internationalisation (13th), government (14th), finance (sixth), management (seventh), science and technology (seventh) and people (14th).

SA's low "government" rating is attributed to interference in the economy, the need for political restructuring and high personal income tax which discourages the work initiative.

Personal income taxes in SA form 8,7% of gross domestic product, the most uncompetitive in the 15-nation comparison. SA ranks seventh for improper practices in the public sector. Pakistan scores least in the category and Singapore the most.

SA is 14th in the "people" category, scoring lowest points for worker motivation, alcohol and drug abuse, the brain drain, lack of equal opportunities and population growth. It has the second-worst dependency ratio, educational system and employment growth of the 15 countries.

STEPHANE GARELLI

SA managers are ranked 13th, but entrepreneurs are second.

Singapore tops seven categories. The exception is management, where it relinquishes top spot to Hong Kong, the second-most competitive country.

Taiwan is third overall, followed by Malaysia, Chile (included for the first time), Korea, Thailand, Mexico, Venezuela and Indonesia. SA does better than Hungary, India, Brazil and Pakistan.

Denmark is head and shoulders above the rest in comparison with 22 developed countries, followed by New Zealand, which zoomed up the ratings from 10th last year, displacing Germany and Japan, which slipped into third and fourth overall.

Publisher of the report and a professor at Europe's International Management Development Institute, Stephane Garelli, says the most competitive countries are those which add value and export.

"Cheapness of labour has very little to do with competitiveness," he says. "Singapore, Hong Kong and Taiwan have been very successful at internationalising their economies.

"Interestingly, very few of the most competitive economies are rich in natural resources. An abundance of natural resources tends to invite complacency. The fact that the gold price is going up is good for SA in the short term, but it could be dangerous in the long term."

Nearly half of Singapore's exports are produced by US-owned companies. Professor Garelli says a hospitable investment climate is a major contributor to competitiveness.

SA's "trade policies hinder the international activities of companies in the long term" says the report, which ranks SA second last in this category. Singapore has the most stimulatory trade policies and Brazil the worst.

Exports account for 26% of SA's gross domestic product, placing it 11th, way behind Singapore which exports 20,2% of GDP, but ahead of India with 6,7%.

SA ranks first in coal production, but poorly in terms of hydro-electric and thermal energy output. SA has the highest CFC emissions of the 15 countries.

SA's cost of capital is "too high for competitive development".

SA ranks fourth in the stock-market sub-category, reflecting the degree to which the JSE reflects. the real value of companies. It is ranked fourth for insider trading, behind Singapore, Chile and Hong Kong. Most insider trading occurs in Pakistan.

SA's financial risk rating is 36, says the guide, placing it third last. The banking and financial services sector is sixth overall.

Professor Garelli says: "Literacy and education are critical to the long-term success of countries. The report looks at which countries are investing in education and the type of skills being generated by the educational system.

"Although SA slipped down the ratings this year, this is not a static list. Parts of SA are First World, others are very poor. We do not prescribe to any country what it should do, but by looking at some of the more successful economies, you can see where they are channelling their energies."

SA corporations do not care enough about customers, says the report, placing it 11th on the list. Chile scores most for customer satisfaction and Pakistan least.

SA has the seventh-largest economy of the 15, but a GDP growth of only 1,35% between 1987 and 1991 places it 13th. Surprisingly, SA ranks fourth for inflation. Mexico has the lowest inflation and Brazil the highest.

"Successful economies maintain tight control over the manufacturing process," says Professor Garelli. "The biggest mistake the US made was to lose control of its manufacturing basis.

"The small-business sector played a huge role in the success of Korea, Japan and Taiwan. Although the large Japanese companies are household names, they are supported by a massive small and medium-business sector."

**World Competitiveness Report rankings**

| Newly-Industrialised countries | Domestic economic strength | Internationalisation | Government | Finance | Infrastructure | Management | Science and technology | People |
|---|---|---|---|---|---|---|---|---|
| Brazil | 15 | 14 | 15 | 13 | 11 | 11 | 14 | 10 |
| Chile | 8 | 3 | 6 | 5 | 9 | 4 | 6 | 5 |
| Hong Kong | 6 | 2 | 2 | 2 | 2 | 1 | 4 | 3 |
| Hungary | 14 | 10 | 12 | 12 | 10 | 14 | 8 | 9 |
| India | 9 | 15 | 10 | 15 | 14 | 12 | 12 | 13 |
| Indonesia | 7 | 9 | 8 | 9 | 12 | 13 | 9 | 12 |
| Korea | 2 | 11 | 9 | 10 | 7 | 6 | 3 | 4 |
| Malaysia | 3 | 5 | 4 | 3 | 6 | 5 | 5 | 6 |
| Mexico | 10 | 7 | 7 | 8 | 8 | 9 | 11 | 11 |
| Pakistan | 12 | 12 | 13 | 14 | 15 | 15 | 15 | 15 |
| Singapore | 1 | 1 | 1 | 1 | 1 | 2 | 1 | 1 |
| South Africa | 11 | 13 | 14 | 6 | 5 | 7 | 7 | 14 |
| Taiwan | 5 | 4 | 3 | 4 | 3 | 3 | 2 | 2 |
| Thailand | 4 | 6 | 5 | 7 | 13 | 8 | 10 | 7 |
| Venezuela | 13 | 8 | 11 | 11 | 4 | 10 | 13 | 8 |

Graphic: FIONA KRISCH Source: THE WORLD COMPETITIVENESS REPORT 1993

# Sacob reservations on affirmative action

S[T] Times [Buss]

## By TERRY BETTY

AFFIRMATIVE action has been given the thumbs up by organised SA business — provided it is applied in the proper manner. 18/7/93

SA Chamber of Commerce (Sacob) stated its policy on affirmative action this week, stressing that any type of quota system undesirable. Action should be taken by improving resources available to disadvantaged groups.

It says that even small businesses can help by providing on-the-job training. (180)

Sacob defines affirmative action as corrective intervention to overcome either the effects of, or compensate for, past factors that disadvantaged blacks and women.

Mere removal of discrimination is insufficient.

Sacob gives several measures that can be used. The policy should suit a company and its resources.

Affirmative action can be implemented through employers ensuring all discrimination, whether intentional or inadvertant, is eliminated.

The disadvantaged should be provided with special training, bridging programmes and mentoring to allow them to compete on equal terms with others.

Measures should be taken to recruit, train or prepare members of the target group in preference to others. This approach assumes that after the preferential recruitment, further promotion of people should be impartial.

Continued preferential treatment, regardless of performance, and setting of rigid timetables for the appointment of a fixed quota of people are harmful and counter-productive.

Sacob stresses that prescriptive intervention will do more harm than good because it will lower investor confidence. It will encourage companies to employ devious strategies to give the impression of affirmative action without getting to the root of the problem.

# Manufacturing offers silver lining

**Business Staff**

THE SA economy would grow by 0,6% in 1993 because of a number of positive domestic factors, according to Nedbank in its latest monthly economic profile.

However Standard Bank in its quarterly review warns that any expectations that an economic recovery is round the corner "is premature".

Standard Bank said that a one percentage point drop in the prime rate, from 16,25%, could be expected this year but Nedbank does not consider this a possibility.

For Nedbank, a local recovery rests largely on an uptick in world economic activity "and as yet world economic recovery has been slow".

Nedbank mentions that domestic agriculture remains on a positive growth path, although the sugar industry is struggling and there are concerns about the current wheat crop.

"The higher rand gold and platinum prices should have a beneficial impact on the mining industry but this has been partly curtailed by the extent of gold and platinum producers' forward sales."

The manufacturing sector is showing signs of stabilising according to the first quarter's manufacturing production index, although at relatively low levels of output.

"This is an encouraging sign, following the persistent downwardtrend in manufacturing, which has been evident since the second half of 1989."

Nedbank's economic unit points out that textiles, industrial chemicals, plastics, motor vehicles and rubber products are improving.

Standard Bank sees "very slim prospects" of a near term increase in gross domestic product even with the positive news in the production area. It points to among others the "continuing weakness at retail level".

Standard Bank said that the 1993/4 Budget "dimmed prospects" for a meaningful expansion in private consumption expenditure.

(180) CT 22/7/93

# Declining rand soaks up oil price benefits

BDay 22/7/93

EDWARD WEST

THE effect of lower international oil prices on local fuel prices was being offset by the declining rand/dollar exchange rate, a National Energy Council (NEC) spokesman said yesterday.

International oil prices have fallen since March. Yesterday the forward Brent crude spot price was quoted at $16,60 a barrel for September and $16,76 for October compared with $18,82 a barrel on March 1 for April and $18,88 for May.

The NEC attributed declining oil prices to Iraq's possible readmittance to the oil market, Opec countries producing above quota and Kuwait's production facilities coming back on stream after being destroyed during the Gulf war. (183)

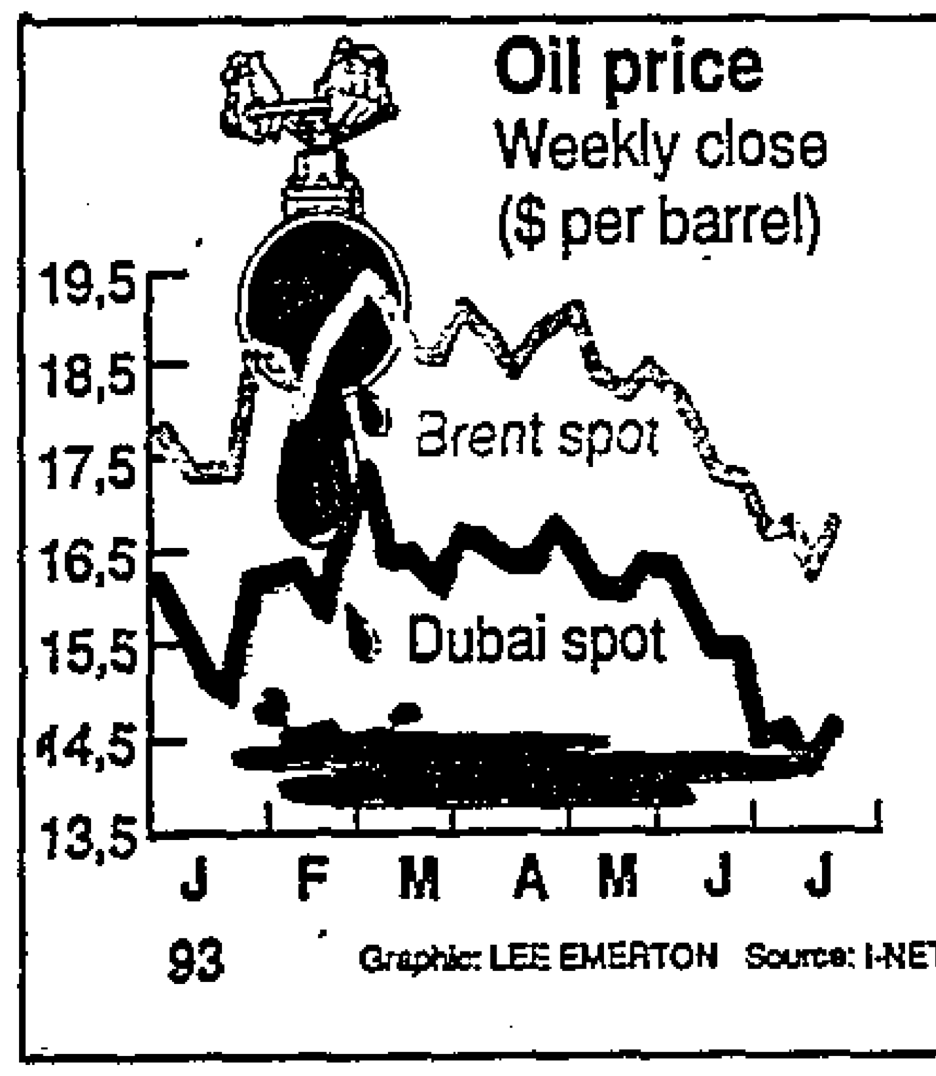
SA crude oil import prices were based on the prices of refined product postings at Bahrain and Singapore refineries.

The NEC said there were leads and lags between these postings and international oil price movements.

Furthermore, the declining value of the rand against the dollar was working against benefits accruing from lower international oil prices, the NEC said.

Sanlam economics spokesman Eric Coetzee said estimates in trade statistics showed SA bought less crude oil — at lower prices — in the first six months of 1993 compared with the same period in 1992.

Sanlam estimates showed SA imported 44,16-million litres of oil in the first six months of 1993 at an average price of $18,67 a barrel compared with 49,16-million litres bought in the first six months of 1992 at $18,97 a barrel.




Mineral and Energy Affairs Minister George Bartlett recently warned of a fuel price increase due to the depletion of the fuel equalisation fund.

The NEC said yesterday lower international fuel prices, which eventually would reduce the local fuel underrecovery and strengthen the equalisation fund, had not yet offset currency depreciation.

SA motorists were estimated to have paid between 5,5c/*l* and 6,5c/*l* too little during June for petrol compared with 3,8c/*l* in April, 8,5c/*l* in March and between 6c/*l* and 10c/*l* over the previous six months. The last time petrol was sold above cost in SA was in March 1992.

CORPORATE PROFITS

(180)

# Many are still bleeding

FM 23/7/93

## Weak sales and buckling trading margins continue to push profits downwards

**After the** palpable drop in political and business confidence and the resultant slump in domestic demand during the third and fourth quarters of last year, it was probably inevitable that the latest round-up of corporate profits would show further deterioration.

Signs of renewed weakness in the profitability of industrial companies were already evident when the *FM*'s last survey of industrial profits was published at the beginning of this year (*Leaders* January 15).

That showed average negative (nominal) growth in earnings per share (EPS) of 2,7% for the 162 large industrial companies tabulated — a 10-percentage point turnaround from the situation at the end of 1991 and by far the worst performance recorded in these surveys since the start of the recession.

If this seemed a bleak overall performance, from a sample that consists mainly of SA's largest industrial companies, the latest survey shows that things could — and did — get worse.

For the companies in the mid-year table, which to a much greater extent reflects the trading conditions encountered during the latter half of 1992, the average change in EPS was a negative 6%.

That's gloomy enough, but not as bad as the average declines in EPS posted by companies in the JSE Industrial index of about 20% and 15% during the severe — but shorter — recessions of 1983 and 1985 (see graph).

The approach with this survey remains the same as for previous ones. The table summarises results reported by listed industrial and commercial companies over the past six months. An effort is made to ensure consistency; the emphasis is on bigger companies, one of the selection criteria being an arbitrary cut-off mark at a minimum turnover of R100m.

Several factors may affect comparisons. One is that interim and preliminary year-end results (indicated by an I or P in the table) are included, so seasonality or timing of year-ends may have an influence. Another is that the past two years were exceptionally active for mergers and acquisitions — as well as corporate restructuring, which often included closures of operations as managers strove to adapt companies to a stagnant economy.

Averages throughout these surveys are derived from the percentage change in total turnover, profits and other data for the full sample. Slightly different results would be obtained by, for example, averaging the individual company percentage changes; another variation would result (as in the composition of share price indices) if individual results were weighted according to company size.

Despite the caveats, there remains much consistency in the sample and the data should offer interesting insights into trends in the real economy.

On the whole, earnings are being kept down by diminishing trading profitability rather than by excessive indebtedness. Slack turnover and further erosion of trading margins seem to have been the most common and the most serious problems. Average turnover growth was a feeble 10,7%, though many companies lagged this figure — the average being boosted by some steep increases resulting partly from acquisitions: examples include Pepkor and Shoprite, after the Tradegro deal.

Average growth in pre-interest profit was slightly negative, though here too, many are much worse. Even after the extensive rationalisation and shrinkage in the industrial sector, companies generally need a return to more vigorous sales if they are to reverse the deterioration in operating profitability.

The sound state of most big companies' balance sheets at the onset of the recession, as well as two record years for rights issues, have helped ensure that corporate debt has not been unmanageable this time. An easing interest rate pattern since early 1991 has also contributed to the average drop of almost 8% in finance charges.

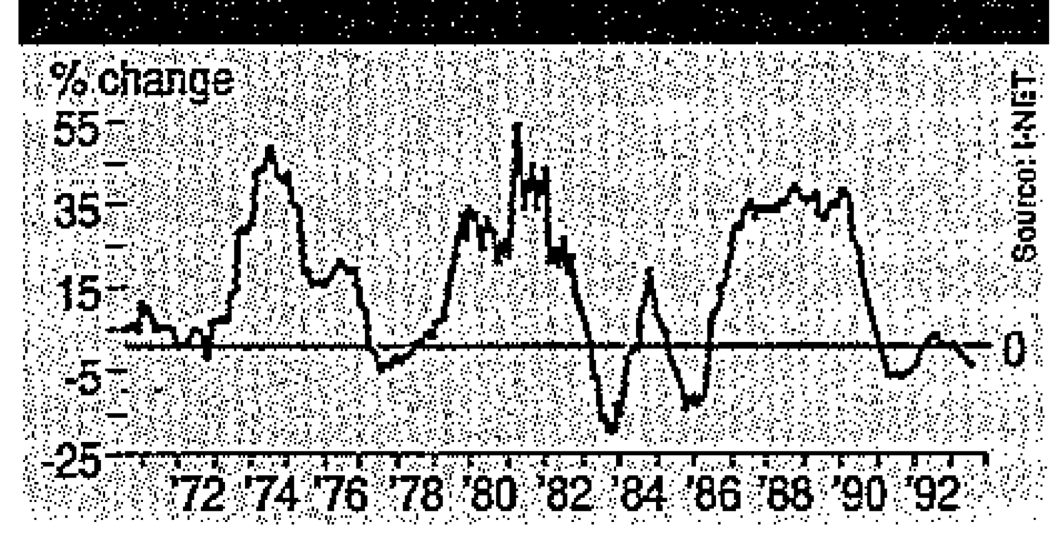
Two other sources of pressure on EPS are higher tax charges and the greater number of shares to be serviced after equity issues. For the first time, the latest table includes each companies' effective tax rate.

During a long and deep recession, equity may well be seen as a more prudent and attractive method of corporate funding than debt — but it remains a particularly costly form of finance. After rights or other equity issues, many companies are now paying the cost in that attributable profit is being spread over more issued shares.

So, of course, is the amount allocated to paying dividends. Notably, the dividend trend is inexorably following that of earnings: whereas the last survey showed there had been average dividend growth of 3,1%, this time there was zero growth on average.

**Negative growth**

**EPS on Industrial index companies**




Analysis of the sectoral results shows trends in underlying profitability are probably largely as expected from this standpoint. A number of the large, diversified industrials are plainly taking strain, but their financial strength often limits the extent of the decline. Thus Amic, for example, which is linked closely to commodity markets, posted operating profit down 32% for the year to December, but EPS fell by a less dramatic 15,6% and the dividend was held.

More specialised commodity companies — particularly those which are major exporters — show continuing decline. Outstanding examples are in the steel and allied sector: CMI lost R16,8m pre-interest for the six months to December, while Iscor's pre-interest profit fell 18,4% in the period; in the year to December Highveld Steel's pre-interest profit fell 31,9%.

Though probably the most startling, these figures are in line with the severe strain being brought to bear on many local manufacturing companies. Two other sectors show especially large declines: in the clothing, footwear and textiles sector pre-interest profit fell 17,7%, on turnover that was down by an average 1,6%; and in the motor sector (which includes distributors) pre-interest profit fell an average 42,6%, on sales that were up 2%.

If the emphasis is switched to EPS, then building and construction was another poorly performing sector — pre-interest profit was down by an average 6,2%, but EPS dropped 15,2%, owing to higher finance and tax charges. Engineering companies were similarly buffeted by finance charges and tax; their average EPS fell 27,9%.

Trading performances of companies which distribute consumer products (or services) have tended to be far more favourable.

Six such sectors stand out: beverages, hotels and leisure, where pre-interest profit grew an average 15,6% and EPS 5,3%; furniture and household, profit up 14,8% and EPS 15,1%; pharmaceutical and medical, profit up 15% and EPS 34,6%; retailers and wholsesalers, profit up 13,3% and EPS 4,1%; tobacco and match, profit up 5,9% and EPS 9,8%; and transportation, profit up 26,3% and EPS 24,2%.

One lesson is that profits of industrial and commercial companies are still being driven primarily by consumer spending, or the lack of it. Many of those that do not have enough exposure to these markets, or, like the clothing and textile makers, do not have sufficiently flexible cost structures and are vulnerable to imports, have not even achieved nominal profit growth.

cont'd

*(See table on pages 24 and 25)*

FM 23/7/93 (180)

# Corporate profits: Still going down

| Company | | Reporting Period | Turnover Rm | Turnover % change | Operating Profit Rm | Operating Profit % change | Finance Charges Rm | Finance Charges % change | Tax rate % | EPS cents | EPS % change | DPS cents | DPS % change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **INDUSTRIAL HOLDING** | | | | | | | | | | | | | |
| Amic | P | Dec 31 | 6 782,0 | 5,0 | 295,0 | −32,0 | 138,0 | 23,2 | 0,9 | 617,0 | −15,6 | 350,0 | 0,0 |
| Anglovaal Ind | I | Dec 31 | 4 198,9 | 6,0 | 371,4 | 0,6 | 41,7 | −3,0 | 41,2 | 464,0 | 9,2 | — | — |
| Barlow Rand | I | Mar 31 | 18 728,0 | 9,7 | 1 301,0 | −5,3 | 279,0 | −8,5 | 34,1 | 196,0 | −5,5 | 54,0 | 0,0 |
| Bidvest Group | I | Dec 31 | 383,4 | 37,1 | 35,2 | 17,4 | 10,1 | 0,8 | 27,8 | 245,2 | 20,7 | 98,0 | 22,5 |
| Bolton Ind | P | Feb 28 | 376,8 | −1,1 | •8,4 | 174,6 | n/d | — | 37,4 | 51,9 | 34,8 | 10,0 | −53,5 |
| BTR Dunlop | P | Dec 31 | 668,3 | −0,6 | 91,3 | −9,8 | 6,1 | −47,0 | 32,2 | 244,0 | 2,1 | 165,0 | 0,0 |
| CG Smith | I | Mar 31 | 9 497,8 | 7,1 | 718,6 | 0,9 | ▲67,8 | −27,3 | 35,8 | 461,0 | 3,8 | 117,0 | 0,0 |
| Cullinan | I | Dec 31 | 191,7 | −17,6 | 5,3 | — | 8,0 | −28,8 | 0,0 | −16,8 | — | 0,0 | — |
| Grincor | P | Dec 31 | 654,6 | 16,1 | 57,2 | 14,6 | 14,2 | 24,4 | 7,5 | 75,3 | −4,6 | 30,0 | 0,0 |
| HLH | P | Mar 31 | 758,4 | 9,3 | 113,3 | −8,5 | 31,5 | −5,0 | 34,7 | 28,1 | −65,7 | 21,5 | −33,8 |
| Imphold | I | Dec 25 | 498,3 | 32,5 | 42,0 | 30,9 | 4,8 | 4,3 | 44,9 | 26,0 | 20,4 | 10,4 | 22,4 |
| KNJ Group | I | Dec 31 | 165,6 | 28,8 | 4,5 | 64,9 | 6,6 | 64,2 | 0,0 | −3,8 | — | — | — |
| Lenco | P | Feb 28 | 594,1 | 30,5 | 59,3 | 3,6 | 14,1 | −5,1 | 0,4 | 59,8 | 24,8 | 14,0 | 21,7 |
| MacPhail | P | Dec 31 | 252,4 | 5,2 | •10,5 | −14,0 | n/d | — | 32,9 | 48,5 | −8,0 | 19,0 | 0,0 |
| Malbak | I | Feb 28 | 5 393,0 | 8,7 | 388,0 | 7,8 | 64,0 | −20,0 | 35,5 | 55,5 | 0,7 | 12,5 | 0,0 |
| M & R Hold | I | Dec 31 | 3 268,0 | 23,1 | 221,0 | 16,3 | ▲43,0 | 268,3 | 36,5 | 177,0 | −13,2 | 56,0 | 5,7 |
| Ozz | P | Mar 31 | 124,5 | −0,1 | 19,2 | 2,2 | 3,1 | 13,8 | 31,8 | 69,7 | 24,5 | 26,0 | 20,9 |
| Plate Glass | P | Mar 31 | 2 774,6 | 52,9 | 270,1 | 27,3 | §32,6 | 26,8 | 48,7 | 320,0 | 53,1 | 150,0 | 0,0 |
| Rentmeester | I | Dec 31 | 51,1 | 20,3 | 4,1 | 74,0 | 1,9 | −28,3 | 4,6 | −315,4 | — | 0,0 | — |
| SA Bias Hold | P | Dec 31 | n/d | — | •21,9 | −23,9 | n/d | — | 10,8 | 75,6 | −24,0 | 22,0 | −26,7 |
| Safcor | I | Dec 31 | 555,5 | 24,2 | •15,4 | 5,2 | n/d | — | 48,0 | 35,8 | 5,3 | 19,0 | 5,6 |
| Saficon | P | Mar 31 | 2 696,0 | 0,1 | 48,3 | −42,4 | ▲29,1 | −25,5 | 51,9 | 14,0 | −72,0 | 4,0 | −69,2 |
| Safren | I | Dec 31 | 2 371,2 | 2,7 | 334,6 | −0,9 | 46,6 | 6,4 | 28,1 | 202,0 | −18,5 | 65,0 | 0,0 |
| T & N Hold | P | Dec 31 | 423,7 | 8,9 | 48,5 | 21,6 | §19,7 | −5,3 | 28,7 | 86,0 | 6,8 | 34,0 | 41,7 |
| Toco Hold | P | Mar 31 | 191,2 | 24,5 | 23,9 | 16,0 | 4,5 | 73,1 | 9,3 | 21,7 | 12,4 | 3,0 | −61,3 |
| W & A Invest | P | Dec 31 | 3 189,0 | −1,2 | 217,6 | −35,1 | ▲164,1 | 8,1 | 12,6 | −6,6 | — | 11,0 | −73,8 |
| **BEVERAGES, HOTELS & LEISURE** | | | | | | | | | | | | | |
| Amalgamated Bev | P | Mar 31 | 1 091,9 | 9,2 | 146,6 | 19,3 | §6,9 | −1,4 | 45,9 | 77,0 | 19,4 | 37,5 | 19,0 |
| Distillers Corp | I | Dec 31 | 543,8 | 7,3 | 107,6 | −1,3 | §4,7 | 59,6 | 45,1 | 40,3 | 2,8 | 12,0 | 0,0 |
| Interleisure | I | Dec 31 | 220,5 | 9,5 | 35,0 | −11,3 | 2,2 | −23,6 | 38,9 | 10,1 | −9,0 | 5,3 | 0,0 |
| Kersaf | I | Dec 31 | 1 109,8 | 8,7 | 252,6 | −2,7 | 19,5 | 61,2 | 23,2 | 105,0 | −8,7 | 66,0 | 0,0 |
| M-Net | P | Mar 31 | 727,7 | 20,2 | 108,8 | 55,4 | 10,1 | 40,4 | 47,2 | 14,4 | −17,2 | 8,0 | 14,3 |
| SA Breweries | P | Mar 31 | 21 779,0 | 23,9 | 2 335,0 | 20,8 | §492,0 | 13,1 | 39,6 | 303,7 | 4,6 | 137,0 | 5,4 |
| Servgro | P | Mar 31 | 921,4 | 13,6 | 117,8 | 17,6 | 14,7 | 10,5 | 37,0 | 47,2 | 14,3 | 19,0 | 13,8 |
| SFW | I | Dec 31 | 573,5 | 11,5 | 63,7 | −10,8 | §3,8 | −15,0 | 46,5 | 22,3 | −12,9 | 3,5 | −12,5 |
| Sun Bop | I | Dec 31 | 556,4 | 15,1 | 140,9 | 0,3 | 4,6 | 2 730,7 | 19,0 | 93,0 | −3,1 | 64,0 | 0,0 |
| Sun Ciskei | I | Dec 31 | 54,8 | −7,9 | 12,9 | −25,0 | 0,2 | −77,9 | 0,0 | 15,0 | −28,6 | 11,0 | −26,7 |
| Suncrush | I | Dec 31 | 296,7 | 13,4 | 49,1 | 15,8 | ▲4,1 | 3 381,2 | 45,0 | 968,0 | 9,5 | 170,0 | 13,3 |
| Transkei Sun | I | Dec 31 | 102,6 | −2,2 | 26,0 | −18,0 | 0,5 | 3 011,8 | 20,6 | 14,1 | −24,6 | 11,0 | −21,4 |
| **BUILDING AND CONSTRUCTION** | | | | | | | | | | | | | |
| Anglo-Alpha | P | Dec 31 | 757,0 | 3,9 | 145,9 | 7,5 | 30,0 | 43,2 | 24,5 | 331,3 | −3,3 | 152,0 | 0,0 |
| Basil Read | I | Dec 31 | 192,8 | −16,6 | −8,5 | — | 6,4 | −14,6 | 0,0 | −104,1 | — | 0,0 | — |
| Boumat | I | Mar 31 | 1 221,7 | 5,0 | 24,7 | −37,1 | ▲8,2 | −52,7 | 51,9 | 25,0 | −41,9 | 6,0 | −40,0 |
| Everite Group | I | Dec 31 | 220,5 | 20,3 | 6,2 | −66,8 | 7,1 | 228,0 | 26,7 | 4,3 | −68,8 | 0,0 | — |
| Grinaker | I | Dec 31 | 1 082,6 | 6,1 | 30,9 | 24,7 | 8,1 | 53,3 | 38,7 | 22,0 | 23,6 | 5,0 | 0,0 |
| Group Five | I | Dec 31 | 749,1 | 40,6 | 16,1 | −32,2 | 10,6 | — | 8,2 | 10,4 | −71,2 | 0,0 | — |
| LTA | P | Mar 31 | 1 614,0 | −14,0 | 51,5 | 8,6 | n/d | — | 41,2 | 119,0 | 4,4 | 35,0 | 7,7 |
| Otis | I | May 31 | n/d | — | 12,2 | 10,8 | n/d | — | 49,5 | 31,4 | 28,7 | 17,0 | 41,7 |
| PP Cement | I | Mar 31 | 408,4 | 5,0 | 88,7 | 4,0 | 2,7 | −10,0 | 40,5 | 137,0 | 11,4 | 50,0 | 0,0 |
| Stocks & Stocks | I | Oct 31 | 613,2 | −27,0 | 19,6 | −24,7 | 9,4 | −25,6 | 32,0 | 8,0 | −57,9 | 2,5 | −50,0 |
| **CHEMICALS AND OILS** | | | | | | | | | | | | | |
| AECI | P | Dec 31 | 5 359,0 | 1,5 | 403,0 | 0,2 | 162,0 | 1,9 | 33,2 | 106,0 | −12,4 | 58,0 | 0,0 |
| Chemsve | P | Dec 31 | 437,5 | −8,5 | 45,5 | −24,0 | 4,9 | −50,7 | 47,4 | 318,9 | −25,8 | 140,0 | 0,0 |
| Engen | I | Feb 28 | 3 564,0 | 10,4 | 270,0 | 42,1 | §13,0 | −80,6 | 19,4 | 147,0 | 9,7 | 55,0 | 10,0 |
| Omnia Hold | P | Dec 31 | 487,1 | 11,1 | 51,2 | −19,1 | 28,5 | 1,7 | 13,5 | 51,1 | −38,5 | 40,0 | 14,3 |
| Sasol | I | Dec 25 | 4 080,1 | 2,9 | 822,3 | −5,4 | ▲64,1 | −46,3 | 20,9 | 99,0 | 4,7 | 38,0 | 4,1 |
| Sentrachem | I | Feb 28 | 1 330,7 | 13,3 | 114,6 | −1,9 | 37,4 | −39,0 | 32,8 | 32,3 | 25,7 | 7,0 | 16,7 |
| Wayne Manufacturers | I | Dec 31 | 59,7 | −3,0 | 1,7 | −67,2 | 0,3 | −17,7 | 48,0 | 1,2 | −75,5 | 0,0 | — |
| **CLOTHING, FOOTWEAR, TEXTILES** | | | | | | | | | | | | | |
| Amshoe | P | Feb 28 | 247,2 | 5,9 | 18,1 | −34,4 | 5,7 | −9,3 | 4,9 | 19,9 | −29,2 | 9,0 | 0,0 |
| Bolton Footwear | P | Feb 28 | 201,4 | 1,2 | 9,0 | −33,7 | 4,0 | −0,6 | 40,3 | 13,2 | −38,0 | 4,0 | −50,0 |
| Conshu | I | Dec 31 | 334,7 | 1,5 | 25,5 | −19,6 | 6,4 | −7,9 | 43,8 | 22,7 | −24,6 | 8,0 | −30,4 |
| Da Gama | P | Mar 31 | 254,1 | −1,9 | 25,1 | −32,9 | 0,6 | — | 17,9 | 41,4 | −29,7 | 18,0 | −29,4 |
| Frame | I | Dec 31 | 308,1 | −8,9 | 0,9 | — | ▲14,2 | −20,1 | n/a | −41,4 | — | 0,0 | — |
| Rex Trueform | I | Dec 31 | n/d | — | 2,8 | 49,1 | ▲0,6 | 8,4 | 0,7 | 56,6 | 65,5 | — | — |
| Romatex | I | Mar 31 | 330,0 | −9,3 | 19,3 | −8,5 | 1,1 | −88,3 | 48,4 | 38,0 | 42,3 | 13,0 | 30,0 |
| Seardel | I | Dec 31 | 585,7 | 1,8 | 32,3 | −9,7 | §18,7 | 10,1 | 24,4 | 34,9 | −29,1 | 4,0 | −50,0 |
| **ELECTRONICS** | | | | | | | | | | | | | |
| African Cables | I | Mar 31 | 122,5 | −6,4 | 12,7 | −16,7 | ▲0,0 | −97,0 | 42,9 | 19,0 | −14,4 | 8,0 | −33,3 |
| Allied Electronics | P | Feb 28 | 2 719,4 | 2,8 | 281,2 | −4,5 | n/d | — | 36,7 | 543,1 | 11,1 | 170,0 | 6,9 |
| Allied Technologies | P | Feb 28 | 1 023,0 | 10,0 | 131,3 | 9,0 | n/d | — | 40,2 | 857,0 | −2,6 | 297,0 | 0,0 |
| Datakor* | I | Mar 31 | 678,9 | 22,4 | 61,1 | −1,5 | n/d | — | 39,1 | 28,5 | 12,2 | 25,6 | 132,7 |
| Femco Tech | I | Dec 31 | 60,1 | 9,7 | 1,9 | −41,8 | §2,7 | 24,4 | 0,0 | 0,0 | — | 0,0 | — |
| Fintech | P | Feb 28 | 602,2 | 7,2 | 32,5 | 5,6 | n/d | — | 16,4 | 225,0 | 30,9 | 50,0 | 25,0 |
| Grintek | I | Dec 31 | 632,5 | 16,6 | 26,0 | −9,8 | 2,6 | 74,2 | 34,9 | 4,4 | −31,3 | 1,2 | −29,4 |
| SG | I | Mar 31 | 547,7 | 9,4 | 36,9 | 19,4 | n/d | — | 37,3 | 17,2 | 9,6 | 8,5 | 0,0 |
| Persetech | I | Mar 31 | 314,8 | 30,6 | 19,5 | 28,3 | n/d | — | 44,3 | 10,3 | 18,4 | 5,0 | 11,1 |
| Power Tech | P | Feb 28 | 1 093,0 | −5,1 | 104,5 | −10,7 | §1,3 | — | 41,7 | 33,9 | 5,0 | 9,2 | −5,2 |
| Q Data | I | Dec 31 | 88,6 | 36,3 | 8,8 | 65,6 | n/d | — | 56,9 | 23,4 | 31,5 | 7,5 | 25,0 |
| Reunert | I | Mar 31 | 1 164,8 | 7,1 | 113,5 | 18,0 | n/d | — | 43,9 | 145,8 | 25,2 | 33,0 | 22,2 |
| Siltek | I | Dec 31 | 525,5 | 26,6 | 30,6 | 17,1 | 2,1 | 10,6 | 38,0 | 36,0 | −1,6 | 10,0 | 0,0 |
| SPL | P | Feb 28 | 123,8 | 35,7 | 11,7 | 5,7 | n/d | — | 35,7 | 46,5 | 27,7 | 18,0 | 20,0 |
| Usko | I | Mar 31 | 90,4 | −17,5 | 3,8 | −59,5 | n/d | — | 8,5 | 0,3 | — | 0,0 | — |
| Voltex | I | Dec 31 | 632,3 | 8,8 | 43,1 | −4,7 | §17,6 | 10,4 | 20,7 | 5,7 | −18,6 | 2,8 | 0,0 |
| **ENGINEERING** | | | | | | | | | | | | | |
| African Oxygen | I | Mar 31 | 592,2 | 6,5 | 116,2 | 6,6 | ▲15,6 | −8,0 | 45,3 | 180,0 | 21,6 | 80,0 | 12,7 |
| Berzack | I | Dec 31 | 55,1 | 5,6 | 13,2 | 27,6 | 4,2 | 825,3 | 19,8 | 32,2 | −39,5 | 12,5 | −16,7 |
| Cementation | I | Mar 31 | 138,5 | 7,2 | 0,6 | −69,5 | ▲1,5 | −16,1 | 0,0 | 3,7 | 146,7 | 0,0 | — |
| Chubb Hold | P | Mar 31 | 176,4 | 5,1 | 16,3 | 19,1 | ▲1,7 | −56,5 | 37,3 | 165,2 | 32,3 | 34,0 | 36,0 |
| Dorbyl | I | Mar 31 | 1 289,1 | −7,7 | 47,1 | −31,4 | ▲20,6 | 21,5 | 15,0 | 70,3 | −47,2 | 20,0 | −28,6 |
| Ed L Bateman | I | Dec 31 | 322,4 | −19,0 | 16,9 | 3,5 | 1,7 | −43,2 | 13,4 | 35,7 | 1,4 | 8,3 | 0,0 |
| Fenner | I | Feb 28 | 115,7 | 1,8 | 9,8 | −27,0 | §0,8 | −46,6 | 42,1 | 24,2 | −23,9 | 6,0 | −20,0 |

FM 23|7|93 (180)

| Company | Reporting | Period | Turnover Rm | Turnover % change | Operating Profit Rm | Operating Profit % change | Finance Charges Rm | Finance Charges % change | Tax rate % | EPS cents | EPS % change | DPS cents | DPS % change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ENGINEERING (continued)** | | | | | | | | | | | | | |
| Fraser Alex | I | Dec 31 | 168,6 | −2,5 | n/d | — | n/d | — | n/d | 36,3 | −33,4 | 8,0 | −33,3 |
| Haggie | P | Dec 31 | 1 194,7 | 1,1 | 107,3 | 2,1 | ▲21,5 | 12,8 | 21,5 | 300,4 | 1,7 | 157,0 | 0,0 |
| Hudaco | I | May 31 | 265,5 | −5,2 | 25,4 | −18,0 | §2,6 | −34,0 | 30,4 | 46,0 | −9,8 | 23,0 | 0,0 |
| Metkor | I | Mar 31 | 1 372,2 | −11,6 | 46,7 | −24,4 | 22,9 | −4,5 | 19,9 | 3,7 | — | 5,4 | 12,0 |
| NEI Africa | P | Dec 31 | 582,2 | −27,0 | 34,2 | −6,0 | §26,6 | −8,6 | 14,8 | −288,8 | — | 0,0 | — |
| Scharrighuisen Hold | P | Dec 31 | 116,6 | 17,1 | •26,9 | 28,2 | n/d | — | 12,2 | 83,9 | 18,5 | 30,0 | 20,0 |
| Standard Eng | I | Feb 28 | 372,3 | 11,8 | 31,5 | 4,4 | 4,4 | −48,6 | 15,6 | 53,8 | 12,1 | 15,0 | 7,1 |
| Unihold | P | Dec 31 | 286,7 | 32,7 | 11,6 | −40,1 | 10,5 | 44,3 | 14,7 | 3,3 | −85,3 | 0,0 | — |
| **FISHING** | | | | | | | | | | | | | |
| Oceana Fishing | I | Mar 31 | 182,0 | −7,3 | 25,6 | 86,1 | n/d | — | 44,4 | 151,8 | 81,8 | 42,0 | 40,0 |
| **FOOD** | | | | | | | | | | | | | |
| Cadbury Schweppes | P | Jan 2 | 723,6 | 18,6 | 70,5 | 16,4 | 15,3 | 21,7 | 22,8 | 164,4 | 23,1 | 66,0 | 22,2 |
| CGS Food | I | Mar 31 | 6 842,3 | 8,8 | 431,2 | −2,4 | ▲56,6 | −1,0 | 32,3 | 152,1 | −8,0 | 36,0 | −7,7 |
| Foodcorp | I | Feb 28 | 1 303,0 | 7,7 | 86,0 | −4,4 | 14,0 | −22,2 | 36,1 | 95,0 | 14,5 | 23,0 | −29,0 |
| ICS | I | Mar 31 | 1 141,6 | −2,5 | 13,7 | −44,6 | 3,7 | −39,3 | 31,4 | 82,0 | 1,1 | 17,0 | 0,0 |
| I & J | I | Dec 31 | 869,2 | 5,1 | 43,5 | −13,7 | 6,9 | 78,2 | 28,3 | 100,5 | −18,6 | — | — |
| Langeberg | I | Mar 31 | 360,5 | 5,2 | 37,2 | −11,0 | ▲4,4 | −35,3 | 8,5 | 18,8 | −14,2 | 5,0 | 0,0 |
| Premier Group | P | Apr 30 | 10 151,1 | 3,4 | 438,9 | 4,5 | ▲23,6 | −59,3 | 35,8 | 283,0 | 16,0 | 94,0 | 16,0 |
| Rainbow Chicken | P | Mar 31 | 1 545,6 | 2,3 | −39,1 | — | ▲39,7 | 46,0 | 0,0 | −20,8 | — | 0,0 | — |
| Tiger Oats | I | Mar 31 | 4 946,2 | 11,2 | 320,5 | 0,8 | ▲37,9 | −6,2 | 32,4 | 106,0 | −2,8 | 28,0 | 0,0 |
| **FURNITURE AND HOUSEHOLD** | | | | | | | | | | | | | |
| Afcol | P | Mar 31 | 788,0 | −0,4 | 38,4 | −13,2 | 6,1 | −73,4 | 27,2 | 119,5 | 12,6 | 59,5 | 12,3 |
| Amrel | P | Mar 31 | 1 045,2 | 4,2 | 81,4 | −2,8 | §71,3 | −3,7 | 51,9 | 43,8 | −74,3 | 0,0 | — |
| Ellerine | I | Feb 28 | 409,4 | 45,0 | 57,2 | 59,7 | ▲2,2 | 195,0 | 46,0 | 408,0 | 60,0 | 136,0 | 60,0 |
| JD Group | P | Dec 31 | 457,3 | −15,7 | 33,7 | −26,3 | n/d | — | 0,0 | 110,2 | 21,2 | 22,0 | 0,0 |
| Mathieson & Ashley | I | Dec 31 | 75,3 | 1,0 | −0,7 | — | 1,5 | −22,8 | 0,0 | −6,4 | — | 0,0 | — |
| Protea Furnishers | P | Dec 31 | 158,2 | 20,2 | 26,3 | 13,8 | 14,9 | 16,7 | 41,5 | 6,0 | −17,8 | 0,0 | — |
| Rusfurn | I | Dec 31 | 856,2 | 0,2 | 43,9 | 247,3 | 39,7 | −2,5 | 24,1 | 7,6 | — | 0,0 | — |
| **MOTOR** | | | | | | | | | | | | | |
| Brian Porter | I | Dec 31 | 210,9 | 24,0 | 4,0 | 5,5 | ▲2,3 | 37,9 | 48,6 | 29,3 | −19,7 | 7,0 | −30,0 |
| Combined Motor | P | Feb 28 | 555,2 | 33,4 | 10,6 | 16,6 | ▲4,0 | 27,2 | 33,8 | 23,2 | 19,6 | 9,3 | 0,0 |
| Gentyre | P | Dec 31 | 521,4 | 7,6 | 37,7 | −28,5 | n/d | — | 7,7 | 346,0 | −11,7 | 112,0 | 0,0 |
| Martin Jonker | P | Feb 28 | 181,7 | 19,8 | 7,1 | 95,4 | §2,8 | −9,8 | 51,5 | 6,2 | 785,7 | 2,0 | — |
| Metair | P | Dec 31 | 365,7 | −6,2 | •12,0 | −55,8 | n/d | — | 26,4 | 144,0 | −47,6 | 40,0 | −45,9 |
| Toyota | P | Dec 31 | 3 452,6 | −0,4 | •140,0 | −46,6 | n/d | — | 55,5 | 151,6 | −49,0 | 28,5 | −40,0 |
| Vektra | P | Dec 31 | 484,7 | −1,8 | 23,9 | −6,4 | 16,7 | −16,1 | 26,5 | 43,7 | 16,2 | 15,0 | 15,4 |
| Wesco | P | Dec 31 | 3 452,6 | −0,4 | •136,2 | −48,1 | n/d | — | 57,0 | 261,0 | −63,4 | 86,0 | 0,0 |
| **PAPER AND PACKAGING** | | | | | | | | | | | | | |
| Carlton Paper | I | Feb 28 | 227,9 | 1,7 | 24,3 | −17,5 | 0,9 | −10,0 | 36,7 | 96,0 | −16,8 | 33,0 | −21,4 |
| Coates | P | Dec 31 | 176,8 | 11,5 | 20,6 | 16,2 | n/d | — | 47,6 | 317,0 | 14,6 | 83,0 | 15,3 |
| Consol | I | Dec 31 | 1 104,6 | 1,9 | 133,4 | −2,7 | n/d | — | 44,5 | 104,1 | 7,0 | — | — |
| Holdains | I | Feb 28 | 1 284,3 | 11,6 | 103,1 | 2,2 | 21,1 | 9,5 | 35,7 | 178,5 | 6,2 | 51,0 | 0,0 |
| Nampak | I | Mar 31 | 2 325,5 | 5,1 | 268,6 | 7,3 | 17,8 | −46,5 | 39,9 | 313,0 | 21,3 | 87,0 | 10,1 |
| Sappi | P | Feb 28 | 4 677,0 | 28,5 | 443,7 | −11,4 | §65,0 | −60,1 | 0,6 | 262,0 | −16,0 | 160,0 | −20,0 |
| **PHARMACEUTICAL AND MEDICAL** | | | | | | | | | | | | | |
| Adcock Ingram | I | Mar 31 | 478,6 | 11,8 | 71,6 | 21,3 | n/d | — | 42,2 | 160,0 | 35,6 | 42,0 | 27,3 |
| Premier Pharm | P | Apr 30 | 456,1 | 3,6 | 118,5 | 11,5 | n/d | — | 38,4 | 78,5 | 32,6 | 34,0 | 36,0 |
| **PRINTING AND PUBLISHING** | | | | | | | | | | | | | |
| Argus | P | Mar 31 | 1 653,0 | 14,1 | 149,1 | 17,2 | 11,1 | 90,5 | 45,4 | 220,0 | 3,3 | 55,0 | 0,0 |
| Caxton | P | Mar 31 | 583,7 | 3,7 | 67,6 | 0,4 | 2,6 | −33,2 | 44,3 | 85,4 | 8,1 | 13,0 | 14,1 |
| Perskorgroep | I | Dec 31 | 364,9 | 2,2 | •22,0 | 15,0 | n/d | — | 36,8 | 187,1 | −4,6 | 16,0 | 0,0 |
| Times Media | P | Mar 31 | 348,3 | 5,7 | 46,7 | −11,2 | 5,3 | 132,2 | 50,9 | 172,0 | −9,0 | 71,0 | 2,9 |
| **RETAILERS AND WHOLESALERS** | | | | | | | | | | | | | |
| Bergers Trading | P | Dec 31 | 166,7 | 1,0 | 0,4 | −96,3 | 6,4 | 32,9 | 0,0 | −7,7 | — | 0,0 | — |
| Clicks | P | Apr 30 | 949,8 | 28,7 | 55,1 | 17,2 | ▲0,7 | −83,0 | 42,5 | 138,0 | 26,6 | 46,0 | 11,8 |
| CNA Gallo | P | Mar 31 | 967,3 | 15,1 | 85,6 | 9,9 | §11,9 | 40,2 | 44,1 | 161,0 | 0,0 | 67,0 | 0,0 |
| Edgars | P | Mar 31 | 3 175,9 | 15,6 | 425,6 | 14,0 | §84,5 | −11,2 | 48,5 | 365,0 | 17,7 | 140,0 | 17,6 |
| Foschini | P | Mar 31 | 1 161,4 | 19,0 | 225,0 | 20,6 | 34,9 | −13,2 | 47,1 | 233,0 | 25,4 | 0,0 | — |
| Mas Hold | P | Feb 28 | 198,7 | −0,6 | −6,2 | — | 8,5 | 13,9 | 0,0 | −62,4 | — | 0,0 | — |
| McCarthy Retail | I | Dec 31 | 2 690,8 | 18,3 | 127,2 | −8,1 | 43,2 | 2,5 | 41,4 | 30,1 | −6,8 | 8,0 | — |
| Metro | P | Apr 30 | 5 202,9 | 6,4 | 73,2 | 33,0 | n/d | — | 32,9 | 34,0 | 63,8 | 14,0* | 94,4 |
| Morkels | P | Mar 31 | 318,8 | 3,7 | 26,7 | 25,7 | 15,0 | −4,7 | 16,2 | 23,3 | 128,4 | 6,0 | 50,0 |
| OK Bazaars | P | Mar 31 | 5 277,5 | 4,6 | 49,9 | −51,9 | ▲123,8 | 15,4 | 0,0 | −361,4 | — | 10,0 | −73,0 |
| Pep | P | Feb 28 | 1 356,1 | −10,7 | 181,5 | 10,6 | 12,3 | 88,5 | 39,4 | 43,2 | 0,9 | 19,5 | 8,9 |
| Pepkor | P | Feb 28 | 7 763,9 | 70,3 | 267,3 | 25,7 | 54,7 | 0,3 | 36,5 | 75,3 | 23,0 | 27,5 | 12,7 |
| Pick 'n Pay | P | Feb 28 | 6 423,5 | 8,7 | 146,2 | 11,4 | n/d | — | 42,3 | 59,3 | 10,0 | 33,5 | 16,5 |
| Shoprite | P | Feb 28 | 5 254,6 | 58,1 | 44,1 | — | §8,3 | — | 5,8 | 74,7 | — | 0,0 | — |
| Smart Centre | P | Feb 28 | 191,0 | 7,6 | 24,8 | −18,7 | 4,5 | 18,9 | 44,1 | 29,0 | −12,1 | 9,0 | −14,3 |
| Specialty Stores | P | Feb 28 | 368,8 | 25,6 | 33,0 | 0,5 | 8,6 | 17,6 | 42,3 | 84,9 | 1,7 | 31,5 | 5,0 |
| Teljoy Hold | P | Mar 31 | 176,8 | 1,8 | 32,2 | −7,5 | §9,5 | −27,0 | 21,6 | 30,6 | 0,3 | 13,5 | 0,0 |
| Waltons | P | Feb 28 | 788,1 | 5,3 | 83,9 | −15,5 | §15,9 | −10,1 | 46,1 | 43,3 | −9,0 | 15,0 | −21,1 |
| Wooltru | I | Dec 31 | 3 003,0 | 52,0 | •127,2 | 19,2 | n/d | — | 45,6 | 192,0 | 16,7 | 77,0 | 0,0 |
| **STEEL AND ALLIED** | | | | | | | | | | | | | |
| CMI | I | Dec 31 | 125,7 | −12,5 | −16,8 | — | ▲4,2 | −32,4 | 0,0 | −61,0 | — | 0,0 | — |
| Highveld | P | Dec 31 | 1 488,8 | 8,0 | •74,4 | −31,9 | n/d | — | 4,8 | 80,1 | −38,4 | 45,0 | −35,7 |
| Iscor | I | Dec 31 | 4 291,0 | 5,8 | 307,0 | −18,4 | 179,0 | −10,1 | 4,7 | 6,7 | −27,2 | 2,0 | −33,3 |
| **SUGAR** | | | | | | | | | | | | | |
| CG Smith Sugar | I | Mar 31 | 603,2 | 12,9 | 80,9 | −7,3 | 24,0 | 29,4 | 34,4 | 24,4 | −24,0 | 7,0 | −22,2 |
| Tongaat-Hulett | P | Mar 31 | 3 867,6 | −2,5 | 269,4 | −4,1 | §76,8 | −25,6 | 26,1 | 190,9 | −4,9 | 73,0 | 0,0 |
| **TOBACCO AND MATCH** | | | | | | | | | | | | | |
| Lion Match | P | Mar 31 | 294,7 | −10,6 | 41,8 | 6,3 | 6,9 | −45,3 | 41,7 | 33,9 | 22,4 | 14,0 | 21,7 |
| Rembrandt Group | P | Mar 31 | n/d | — | •1 238,1 | 5,5 | n/d | — | 38,7 | 182,1 | 1,0 | 36,2 | 11,0 |
| Utico | P | Dec 31 | 573,5 | 10,8 | 64,1 | 13,4 | 5,9 | 63,4 | 45,3 | 524,0 | 12,4 | 314,0 | 12,1 |
| **TRANSPORTATION** | | | | | | | | | | | | | |
| Cargo Carriers | P | Feb 28 | 175,4 | −3,6 | 9,2 | 1 270,2 | 5,8 | −22,1 | 31,9 | 11,7 | — | 0,0 | — |
| Putco | I | Dec 31 | 211,0 | 10,2 | 12,6 | 27,3 | — | — | 48,0 | 31,4 | 30,3 | ♣14,0 | 16,7 |
| Trencor | I | Dec 31 | 381,5 | 28,3 | 66,8 | 17,4 | 10,3 | −1,9 | 20,4 | 363,0 | 16,3 | 90,0 | 114,3 |
| Unitrans | I | Dec 31 | 176,9 | 3,8 | 23,5 | 10,6 | ▲4,0 | −2,3 | 21,6 | 44,3 | 5,7 | 10,5 | 5,0 |

I = Interim. P = Preliminary. n/d = Not disclosed. • = Income before tax. ▲ = Net interest. § = Net finance charges. * = 12 months. ♣ = Excludes special dividend. n/a = Not applicable.

GENBEL

180 FM 23/7/93

# Striking the right balance

**The proposed** shuffle of assets between Gencor and its investment holding arm Genbel should benefit both groups, but it appears there was some hard bargaining by Genbel to ensure it maintained a healthy balance in its investment portfolio.

There are two key effects for Genbel: it has maintained its overall exposure to gold shares at 24% of its portfolio; and, through an accompanying deal with Sankorp, it has avoided becoming excessively exposed to Engen and Sappi when acquiring large chunks of stock in these two companies.

Genbel chairman Tom de Beer says he is "fundamentally happy" with the outcome, though he adds his team will be taking another hard look at Genbel's portfolio over the next 12 months. "We may be a bit overweight here and there," he says.

De Beer says Genbel, when unbundled from Gencor, will maintain close links with the mining house, acting as an investment banker, but its relationship will be at arm's length. He foresees Genbel performing the same function for Sankorp. This, he adds, would be the culmination of a process started by former Gencor chairman Derek Keys, who envisaged Genbel taking a more market-orientated and independent stance.

In terms of the R860m-odd deal, Genbel will pass to Gencor 1,68m Impala Plat shares valued at R114,3m; 240 000 Kinross valued at R13m; 4,7m Samancor worth R107,6m; 3,2m Trans-Natal worth R30,4m; 1,6m Winkelhaak worth R84,7m and all its non-SA interests held through Genbel Offshore Investments, valued at R512m.

These include ordinary and "A" convertible preference shares in Transatlantic Holdings Plc, exploration interests in Turkey, cash and other assets which were valued by Genbel's directors at R388m at end-December 1992.

Genbel gets 8,9m Engen shares worth R381m; 12,4m Sappi worth R381m and 5,1m Beatrix valued at R100m. It has also arranged with Sankorp to exchange half the Sappi and Engen for 3,1m Murray & Roberts worth R143,6m; 800 000 shares in Mercedes Information Technology worth R40m; 3,5m Malbak worth R51,8m; 10,6m Absa worth R100m and R50m cash.

Main effects on Genbel's overall portfolio are that the finance/insurance/property component drops to 16% (21% before the asset swap), while forestry/paper products rises to 10% (7%) and precious metals/minerals dips to 51% (54%) — though the gold component remains unchanged.

Some analysts regard the last point as crucial. Genbel management showed considerable foresight last year in sharply increasing exposure to gold shares ahead of the surge in the gold price.

**Genbel's De Beer** ... *exposure to gold remains constant*

De Beer says Gencor wanted the Winkels and Kinross shares to bring its stakes in these mines up to 35%, the new level which the Securities Regulation Panel says constitutes control.

"We ensured our exposure to gold remained constant by acquiring the Beatrix shares," he says. "We were also concerned about the effect of the Sappi and Engen on our portfolio, which is why we did the deal with Sankorp,"

Strategically, the Transatlantic investment belonged in Gencor. Genbel had only acquired the shares when Gencor passed on its entitlement in a rights issue.

Both De Beer and analysts feel Genbel got a good price for its Transatlantic stake, while Gencor now has an additional bargaining counter and a source of funds for its offshore development plans.

Analysts also believe the deal is good for Gencor because the house is adding assets to its core mining business and reducing its industrial interests ahead of the unbundling whereby it will relinquish all its non-mining businesses.

*Brendan Ryan*

CHEMICAL SERVICES FM 23/7/93

# Better all round

**Chemical Services** (Chemserve)'s 28% increase in EPS in the six months to June is a far cry from its brush with recession during financial 1992 when EPS declined 38%, the first drop in a decade. FM 23/7/93

Management of the speciality and raw chemical maker and supplier has done much to avoid a repetition of that setback by instigating structural changes. The restructuring, says MD Lex van Vught, involved integrating some production units into manufacturing operations and shrinking the group by a tenth. He adds that it was achieved without losing market share. This translates into big savings, as is evident in the improvement in operating margin.

And, while investors may see this as a largely one-off event, it's notable that trading profit was boosted partly by the turnaround in underperforming assets. The volume of manufactured and traded goods sold, excluding those of recent acquisitions, increased by 4% and 6% respectively.

But the recovery at trading level is not as striking as it may at first appear. Excluding the positive effects of lower finance costs, which halved to R1,6m because of lower interest rates and substantially reduced capex, and the lower company tax rate, the EPS increase was a more modest 10%.

With turnover up 20%, the creditable 31% increase in attributable earnings to R10,8m was partly aided by better contributions from associates.

The four-fold increase in borrowing to R55,8m follows a number of acquisitions made during the six months. Gearing increased sharply to 42% from 10% at December year-end.

But Van Vught is not concerned about the increase, the target range being between 40%-80%. "Though there are definite advan-

**Chemserve's Van Vught** ... *no loss of market share*

cont-d

# Skills prime focus for Nafcoc

THEO RAWANA

THE challenge of economic reconstruction had moved Nafcoc to place the acquisition of skills, technological expertise and finance high on its agenda, Nafcoc vice-president Gab Mokgoko said yesterday.

In seeking to accelerate skills and technology acquisition, the organisation had stepped up the development of specific sectoral chambers which would ensure black business expansion into the broader industrial sector, Mokgoko said. BiDay

"This strategy is proving effective," he added. There were a growing number of industrial and manufacturing activities taking place at a more sophisticated level. 23/7/93

Mokgoko said with investment sorely needed in a capital-starved economy, it was appropriate that Nafcoc had invited World Bank southern Africa infrastructure operation division chief Isaac Sam to deliver the keynote address at its four-day annual conference starting at Sun City on Sunday. (180)

Nafcoc president Archie Nkonyeni's call for foreign investors to prepare for investment in SA marked a turning point in the position taken by black business. It demonstrated something of the urgency that was felt concerning the need to address the critical issues of the economy and black economic upliftment.

COMPANIE

# Big business faces up to the real world

Sowetan 29/7/93

(180)

By Mzimkulu Malunga

## NEW REALITY Sacob spells out its understanding of affirmative action:

ONCE AN UNPOPULAR PHRASE in big business circles, affirmative action is speedily becoming a reality.

A few years ago organisations such as the South Africa Chamber of Business would refrain from using the phrase.

But two weeks ago Sacob came with a detailed document many regard as a suggested guideline for companies addressing the issue.

Protagonists of affirmative action like Black Management Forum's Mr Lot Ndlovu give assurances that merit should not be divorced from any human resources development programme.

"We are not pushing for people to be put into positions they are not qualified for. Affirmative action and merit are intertwined," says Ndlovu.

### Economic destruction

However, custodians of big business say affirmative action is "economically destructive".

But it looks as if voices of resistance are diminishing by the day as the chorus in favour grows louder.

The first sentence of the foreword in the document containing Sacob's policy on affirmative action tells an onlooker which way the wind is blowing in corporate circles.

"From research commissioned by Sacob it was concluded that affirmative action in the business sector is necessary and desirable," goes the message.

As of now, black managers comprise less than three percent of the senior management community in this country.

Estimates suggest that less than one percent of companies listed on the Johannesburg Stock Exchange are black-owned while the bulk of black business is concentrated in the informal sector, once the darling of big business.

Another factor which necessitates the need for ruthless black management advancement programmes in the business world is the drastic shortage of managers in this country.

It is estimated that on average, there is only one manager for every 50 workers.

Implementation of affirmative action programmes remains a major problem. Even enterprises that have attempted to address this matter before the notion caught fire are still having problems.

Companies who pioneered this route discovered that while it is rela-

Black Management Forum's Mr Lot Ndlovu.

junior managers, it takes a skilful employer and an element of political will to have blacks occupying senior and middle management positions.

Black managers believe political will is the component most lacking in corporate circles. "Their attitude is: Will he conform? Is he one of us?" argues Ndlovu.

### White fears

Another factor that puts companies in a dilemma are the fears of white middle managers who entrenched themselves at this level during the old days when a call for affirmative action could be labelled "communistic".

On the forefront of the affirmative action campaign are organisations like BMF whose members have over the years been exposed to the frustra-

So far nobody is advocating a quota system to redress the imbalances of the past, but BMF has warned that should companies fail to adopt affirmative action programmes, the organisation could lobby for legislation to force them to do so.

Perhaps, as the business world crawls towards a consensus on the issue, people like National African Federated Chamber of Commerce and Industry former president Mr Sam Motsuenyane are heaving a sigh of relief as this is the song they have been singing for a very long time.

Motsuenyane said by the turn of the century companies listed in the JSE should have 30 percent of their board members drawn from the black community, while 40 percent of their shareholders would be black.

# QUALIFIED APPLAUSE

FM 30/7/93

**Businessmen** who support a liberal democracy should find some things to applaud in the latest constitutional proposals, says SA Chamber of Business (Sacob) chief Raymond Parsons.

"The proposals rest on respect for constitutional principles, regionalism, the rule of law and an independent judiciary. For the business sector, two key factors in any new set-up must be the retention of a common market and a common currency — both of which are included in the draft proposals. There is also recognition of the need for an independent Reserve Bank and Auditor-General. And the committee on fundamental rights during the transition has now included the issues of property, economic activity and labour relations."

All this is in line with submissions which Sacob has been urging upon the political negotiators for some time, says Parsons.

Whether the constitutional package will ultimately promote stability and predictability, he cautions, will depend mainly on whether the regional and other proposals are acceptable to "the main political players" and how inclusive the process remains.

From Sacob's viewpoint, however, "there are certain key economic and financial provisions which are not sufficiently entrenched": (180)

- □ Property and economic activity rights are entrenched only for the immediate transition and are subject to re-negotiation by the elected constituent assembly. There is also a danger of diluting the safeguard on free economic activity;
- □ On inter-governmental financial relations or "fiscal federalism", Parsons says that in spite of their economic importance, such provisions cannot be judged by economic criteria alone. They would be an essential part of the political bargain that has to be struck to reach "sufficient consensus" and are bound to influence the whole pattern of relationships between the central and regional governments. Fiscal discipline should be a major cornerstone and the new constitution should not increase the role of government in the economy nor the total tax burden;

- □ It is not clear whether the proposed shape of regionalism will be a satisfactory compromise from an economic and financial point of view. This depends on the commission on regional demarcation and on the definitive work on regional governments to be done by another commission, after the interim constitution comes into operation. And since the Fiscal & Financial Commission is yet to be created, "the proposals are permeated with vagueness and uncertainty";
- □ While a Fiscal & Financial Commission (which should be entrenched) is necessary, it must be impartial and non-political. To allow regional representatives on it could lead to political bargaining and regional financial conflict;
- □ Regional powers are too narrowly drawn in some respects, with a strong undercurrent still "that Pretoria knows best". With appropriate boundaries, says Parsons, regions should have sufficient financial muscle for development; and
- □ Interaction between political decision-makers and major economic stakeholders, such as business and labour, should be recognised and clarified.

DIAGONAL STREET

# Jeff and Brian — a tale of two fighters

SI Times [Buss] 1/8/93

BRIAN JOFFE: From top seat to top seat

By Julie Walker

TWO companies recently topped a market capitalisation of R1-billion — Bidvest and W&A.

The common thread is Brian Joffe, managing director of W&A until his resignation in May 1988, and executive chairman of Bidvest since its establishment a few months later.

Bidvest's value exceeds R1-billion as a result of the takeover of freighting and forwarding group Safcor in a R261-million deal. Bidvest settled by issuing paper in itself and pyramid Bidcorp to institutions.

## Changes

Early this year, Cape transport and manufacturing group Trencor acquired joint control of W&A, backed a R700-million rights offer and restored credibility to the group, seen to be debt-laden and hit by recession.

Mr Joffe became associated with W&A when his friend and the company's founder Manny Simchowitz left South Africa in the early 1980s. Mr Joffe and his team were involved in turning the businesses into a group worth R250-million.

W&A has a multiple-pyramid structure, capped by Walcor, FSI and FSG, controlled by Jeff Liebesman. Mr Liebesman and crew built up the business of Formscaff, renamed FSI, which in 1987 made a bid for control of Walcor (W&A's then pyramid) at R35 a share.

A few rands above the highest market price Walcor ever reached, it was a fairish offer — until the October market crash halved it. All Walcor's minority accepted the compulsory offer because the market value had fallen to R15 a share. This was the start of a debt burden FSI never shook off until now.

The R35 price is not directly comparable. It would have been reduced by about two-thirds because of the many structural changes in the past six years. After a 10-for-one share split, Walcor is now 80c.

Mr Joffe left W&A shortly after the takeover and looked for an opportunity to build a new business. He paid R6,7-million (about 310c) for control of the R8-million Iclef shell, injected the business of Walter A Chipkin and renamed Iclef Bidcorp. A year later, after taking control of the Currie Motors shell and undertaking a pyramid exercise, Bidcorp became the holding company and Bidvest housed the operations.

## Kitchen

(232)

Not even five years later, Bidvest is now worth more than R1-billion and the share price is R80. Along the way it has acquired Afcom, Crown Foods, Justine, Steiner Services, President Trading and expanded Chipkin into Cater Plus.

(180)

Bidvest's earnings a share climbed from 241c in the year to June 1990 to 412c in 1992. Its net asset value doubled from about R10 after the Safcor deal with cash in the bank.

In the same time, debt in the W&A stable piled up to R1-billion. The group underwent several changes of structure and holdings into the current four divisions — automotive, maintenance and site services, consumer and industrial.

It has not been without problem investments — Reichmans, Edworks and now Milstan.

It sold its Elcentre and pantihose interests at a big profit, and got out of pharmaceuticals and kitchen cupboards.

W&A's earnings a share fell from a peak of 110c in 1989 to 78,7c to December 1991. A change of accounting policy led to a loss of 6,6c in the year to December 1992 — after Trencor's prudent accounting policies were introduced.

Comparing apples with apples, W&A's net asset value a share in that time rose from 238c to 514c — before being adjusted for the rights issue and goodwill.

The group suffered from doubt about its debt even though the performances of the underlying companies and the profits from corporate deals were acceptable and dividends were maintained throughout.

The past is behind W&A with the injection of Trencor's and institutional money. Trencor is capitalised at R3-billion on the JSE. Although W&A's share price is struggling ahead of results, it could be the cheapest investors will get in what must be a recovery situation.



# Didata casts its net . . .

IT is becoming increasingly ... ities divided and accumulat- ... Since then, turnover has

# Nafcoc set to help shape SA

B/Day 3/8/93

THEO RAWANA

THE prospect of a new SA being formulated without the input of business has pushed Nafcoc to assert itself in a bid to achieve a major role in the transformation of the country.

At its 29th annual conference at Sun City, Nafcoc signalled that organised black business believed it had a contribution to make in hammering out an economic policy for SA.

Speakers such as ANC international affairs director Thabo Mbeki and World Bank southern Africa infrastructure operation division chief Isaac Sam stressed the importance of Nafcoc as a leading player in this task.

Seeing the lifting of sanctions as only a matter of time, Nafcoc president Archie Nkonyeni warned against allowing "future investment philosophies to entrench and widen the disparities of the past". He called on liberation movements to work with black business to formulate appropriate philosophies to guide programmes to attract foreign funding.

Nkonyeni suggested that national economic forum members be accorded observer status or be allowed to take part in the multiparty negotiation forum.

"The possibility is not remote that the 26 political formations involved in these negotiations without an economic interest group may tend to concentrate on political issues and even overlook the extent to which their decisions affect economic issues."

The business community had reason to question the wisdom of the limited interaction between political negotiations at the World Trade Centre and economic negotiations at the national economic forum.

"A greater degree of cross-pollination between these two would be far more productive than the present arrangement."

The fact that the other participants in the multiparty negotiating forum had not been included in discussions on economic policy between organised labour, business and government could affect the legitimacy of the economic forum. (180)

"It would not be very useful if the transitional executive council or the subsequent government of national unity were to withhold acceptance of decisions taken at the national economic forum simply by reason of their non-involvement.

"We should consider very seriously the advisability of replacing the government representation at the economic forum with direct representation from the negotiating forum."

Nafcoc intended to get involved in voter education programmes. "Business, particularly black business, cannot afford to sit on the sidelines when the nation is called upon to make the most momentous decision of its existence," Nkonyeni said.

To equip itself for the role of a leading player in SA, Nafcoc had begun a campaign to train blacks in every facet of economic life.

PREMIER GROUP

FM 6/8/93

# Earning a better share rating

(180)

**Activities:** *Food; pharmaceuticals; wholesaling; retailing and entertainment; and other activities.*
**Control:** *JCI 30,0%; Liberty Life 30,0%.*
**Chairman and CE:** *P G A Wrighton; Deputy CE: G M Utian.*
**Capital structure:** *82,6m ords. Market capitalisation: R4,2bn.*
**Share market:** *Price: 5 100c. Yields: 1,8% on dividend; 5,5% on earnings; p:e ratio, 18,0; cover, 3,1. 12-month high, 5 500c; low, 3 975c. Trading volume last quarter, 2,68m shares.*

| Year to April 30 | '90 | '91 | *'92 | '93 |
|---|---|---|---|---|
| ST debt (Rm) | 69,3 | 123,4 | — | 118,8 |
| LT debt (Rm) | 212,2 | 215,7 | 160,5 | 124,9 |
| Debt:equity ratio | 0,23 | 0,27 | 0,05 | 0,14 |
| Shareholders' interest | 0,52 | 0,50 | 0,43 | 0,47 |
| Int & leasing cover | 3,65 | 3,76 | 5,90 | 12,43 |
| Return on cap (%) | 14,2 | 14,8 | 11,8 | 11,7 |
| Turnover (Rbn)* | 4,34 | 5,09 | 9,82 | 10,2 |
| Pre-int profit (Rm) | 336 | 375 | 420 | 439 |
| Pre-int margin (%) | 7,7 | 7,4 | 4,3 | 4,3 |
| Earnings (c) | 180 | 210 | 244 | 283 |
| Dividends (c) | 60 | 70 | 81 | 94 |
| Tangible NAV (c) | 1 343 | 1 310 | 1 404 | 1 586 |

* 13 months annualised.

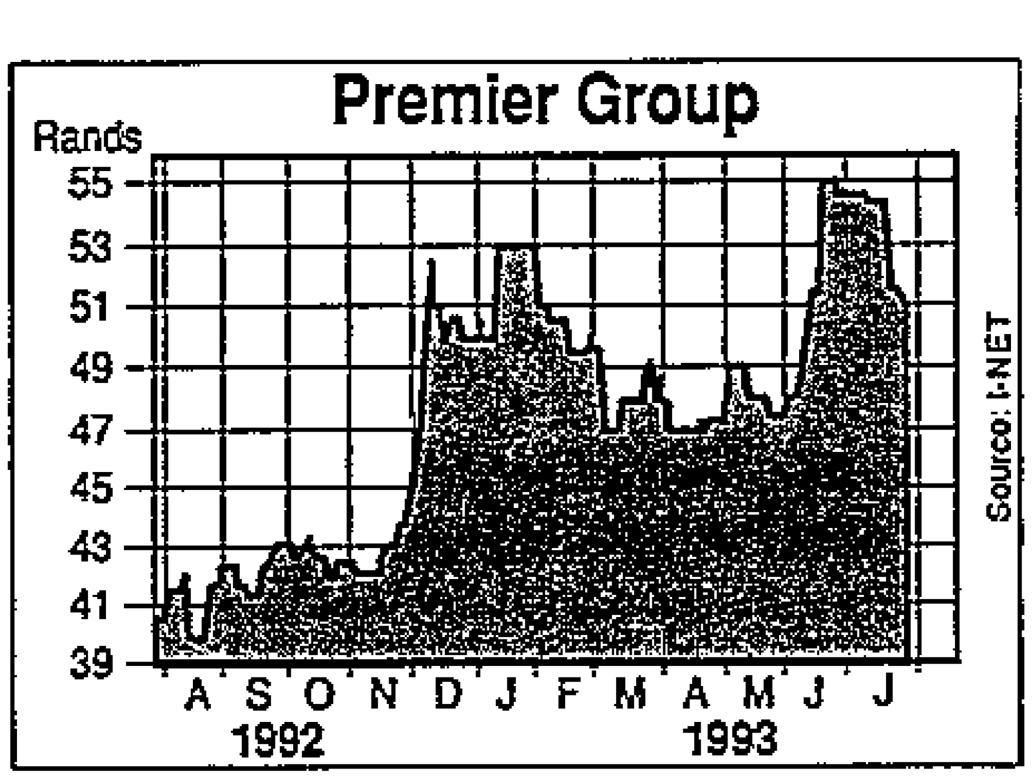
**Premier's Wrighton** ... *lower tax rate helped*

**Premier has** come a long way since the mid-Eighties, as shown by the favourable share rating. This rating has been largely justified by the superior earnings and dividend performance during the recession, with the counter becoming a favoured defensive stock in the food sector.

Though Premier has diversified into pharmaceuticals, wholesaling and, to a lesser extent, leisure and business systems, the food division — rejuvenated over the past five years — has remained the core business. It contributed 29% (R3,3bn) of turnover and 48% (R112,6m) of attributable earnings in financial 1993.

Since the unbundling of the 34% holding in SA Breweries five years ago, EPS have grown at a compound annual rate of 23%, while shareholders' wealth has risen at a compound annual rate of 63%. Executive chairman Peter Wrighton notes that market capitalisation, at just over R4bn, is now more than it was before the unbundling.

The 23% advance in attributable earnings to R234m for the year ended April, was achieved even though turnover rose only 3% to R10,2bn. But figures have been distorted by disposals, acquisitions and the consolidation of certain investments in which significant interests are held. Annualised turnover of comparable operations increased 13%.



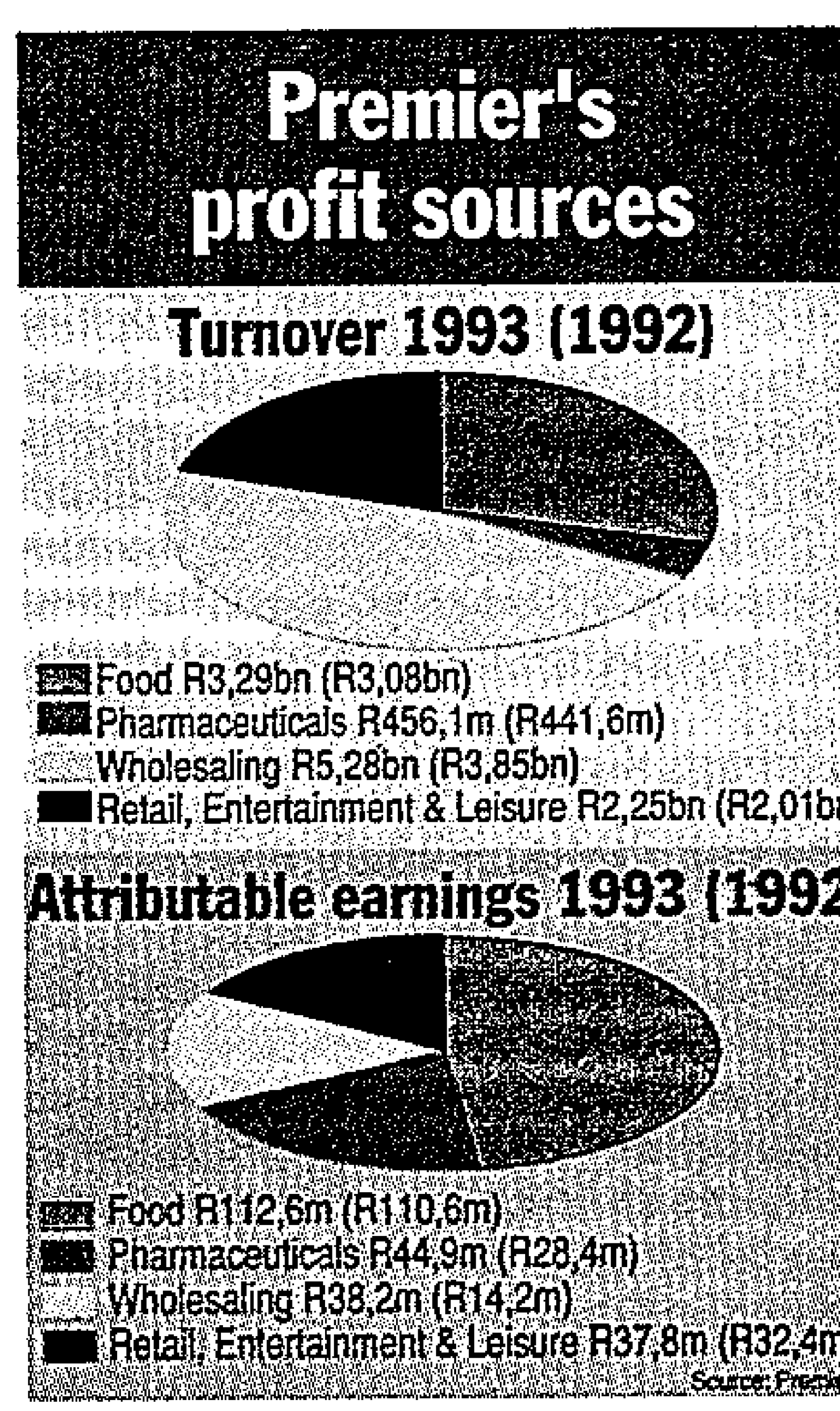

Net interest paid fell sharply from R58m to R24m. This is despite the 52% increase in borrowings which pushed gearing up to 14%, partly a result of Premier's active investment policy. Wrighton attributes the reduction in interest paid to the strong cash generation of Metro and says the drop in the company tax rate to 40% added eight percentage points to earnings growth.

Analysis of Premier's financial ratios should counter any lingering belief that Tiger Oats necessarily returns a better yield and offers consistently better prospects. Wrighton has produced results which compare favourably with those of his major competitor. Premier's latest returns on equity and capital are 18,3% and 11,7% respectively and Tiger Oats's (September year-end) 18,4% and 14,9%. Premier's positioning for the next year is probably better, especially since it has escaped from the unwelcome embrace of the poorly performing chicken, egg and animal feed industries.

Food, pharmaceuticals and cash-and-carry activities are expected to account for roughly 90% of earnings in the medium term. Of this, Wrighton believes, food will generate about half, some way down on the contributions of 58% and 74% in 1992 and 1991 respectively — the result of tough times in the industry and the new deflationary environment. The other two activities are expected to contribute about 20% each. For the year to April 1993, pharmaceuticals contributed 19% (R44,9m) and cash-and-carry activities 16% (R38,2m).

These figures disguise excellent performances by several operations. The wholesale division's R38,2m (R14,2m) contribution reflects the performance of Metro Cash & Carry, which exceeded market expectations. Earnings by retail operations increased to R37,8m (R32,4m), the good performance by Clicks more than compensating for the marginal improvement in earnings by CNA Gallo. Pharmaceuticals increased its contribution almost 60%, helped by Premier's increase in shareholding to 58%.

In addition to this increased stake in Prempharm, Premier acquired 44% in United Pharmaceutical Distributors (UPD) in a transaction which involved the disposal, to UPD, of its wholesale pharmaceutical interests housed in Gresham and PDC. Premier also acquired 39% in Bonnita Holdings, second largest producer of milk-based products. Since year-end, Prempharm has announced two further acquisitions, Leppin and Laser Pharmaceuticals.



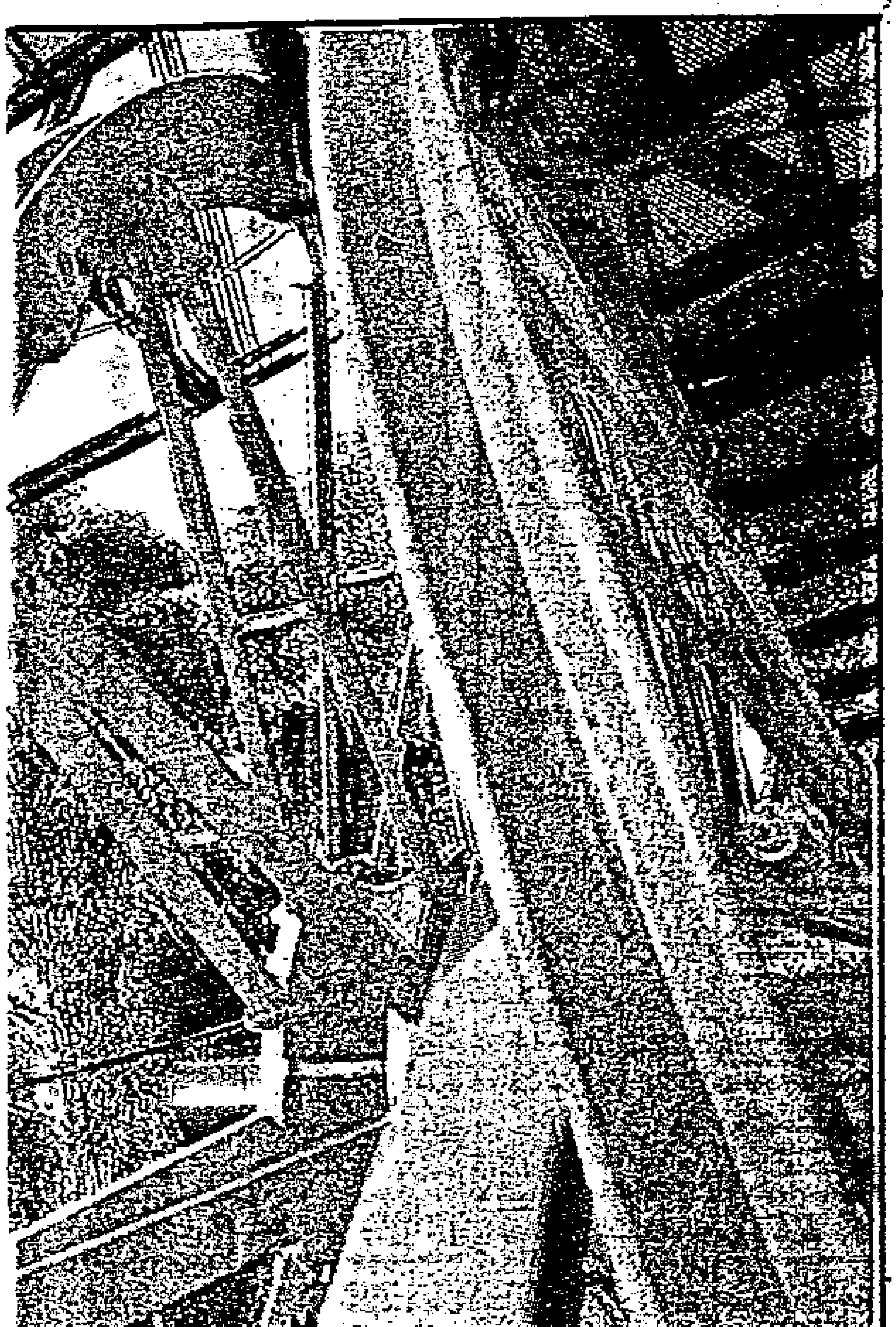

Wrighton concedes it is difficult to expand organically, particularly in a highly competitive environment. He expects growth to come from pharmaceutical interests Prempharm and UPD, some recovery in food sales and the expansion by Metcash into international markets.

Roughly a fifth of Metcash's turnover is derived from outside SA and Wrighton be-



Cont → P.T.O

ST Times (Buss) 8/8/93



ence for Gold Reef City Picture: CHRISTINE NESBITT

# SA loophole lets in trademark pirates

By ZILLA EFRAT

180

AMERICAN firms have been shocked to discover that their logos and trademarks are registered in South Africa.

The registrations have been made by trademark pirates who plan to hold American companies to ransom — legally because of what some lawyers call SA's archaic laws.

Attorney Michael Judin, a partner at Goldman, Judin & Werner, says the pirates hope to prevent US companies from operating here unless they pay a fee or enter a licensing agreement.

The loophole has also been used by Edgars and Truworths, who have beaten off court challenges but are not among those who wish to hold Americans to ransom.

Edgars successfully defended itself in an action brought by US women's underwear maker Victoria's Secret. It applied to register Victoria's Secret's name in SA first.

Spoor & Fisher partner Owen Dean says the case will now go to the Appeal Court in Bloemfontein.

Other disputes involving Edgars will also come before the Registrar of Trademarks.

A case brought by US casual wear maker Outback Red against Truworths last year was settled. The US manufacturer surrendered the SA market in return for other benefits.

Among Americans who found their trademarks and logos registered in SA by others were eight Major League baseball teams and World of Curls, which makes hair-care products for blacks.

Other US firms involved wish to remain anonymous, says Reggie Cook, president and chief executive officer of California-based Cook International which facilitates investment in SA.

The attempted registration by a Durban manufacturer of DKNY jeans is being contested by US fashion designer Donna Karan New York.

Mr Cook believes many more US companies face similar problems. He expects their numbers to grow rapidly after sanctions end.

He is aiding "angry" companies, with the help of the US Commerce Department, to urge the SA Government to change the law.

A class action law suit against the SA government, which demands an immediate release for US companies, is also being considered. Mr Cook says class actions may be taken because individuals are protected by SA law.

Mr Judin says SA trademark law is based on an outdated "territorial" concept.

ST Times (Buss) 8/8/93

# Gold's stumble dims prospects for a rate cut

Business Times Reporters

HOPES for an imminent Bank Rate cut stalled this week as gold dropped $22 and South Africa's gold and foreign exchange reserves weakened further.

But Reserve Bank governor Chris Stals cautioned against reading too much into the R157-million fall in reserves to R7,36-billion in July.

He said figures were affected by large repayments of public sector loans in the first week of the month. They had since stabilised and were now "encouraging".

He said the volatile gold price made any forecasts of what would happen in August difficult.

Following Thursday's dramatic fall, the gold price was fixed in London at $379,40 on Friday and was trading lower as New York opened.

Gold shares lost ground in hectic trade with the All Gold Index closing the week at 1 814 — 14% lower.

Gold's unpleasant drop was a sharp reminder that the recent $70 bull run is not 1980 all over again.

The near $30 drop to below $380/oz was no surprise to analysts canvassed a week ago when it breached $400/oz. The warning was plain: all the buyers belong to the same club, drive the same computer model, and receive and react to the same signals at the same time.

Active in the gold market in recent months are American managed-fund investors. They do not regard gold as a store of value or a safe haven in times of currency turmoil, but rather as a means to make a quick buck.

When their computerised models flashed a sell signal on Thursday, they all wanted to get out of gold at the same time. But there were no buyers, and market makers were obliged to mark down the price again and again. "They all wanted to go home in the same taxi, but they couldn't all fit," says one dealer.

Buyers of physical gold, such as jewellers and speculators, traditionally stand aside in a falling market knowing they need only wait to buy it more cheaply.

Reports from Europe, where the price dropped $6 to $396 on Thursday morning ahead of New York's plunge, were that George Soros was a seller of 50 000 oz-lots of gold, always asking a little more than the last trade. One of the high-profile pair behind gold's resurgence from below $330/oz, Mr Soros is thought to have sold 200 000 oz last week.

Gold's fall might be seen as a blessing in disguise for SA's mining houses struggling to negotiate wage settlements with miners.

# Stronger legal protection wanted for shareholders

Star 10/8/93

(180)

BY MARC HASENFUSS

## MINORITIES champion Issy Goldberg believes a bill of rights for the commercial sector is urgently needed.

Minority shareholders in companies are often viewed as lambs being led to slaughter — especially by controlling shareholders wielding the sharper edges of certain sections of the Companies Act.

But Shareholders' Association chairman Issy Goldberg reports that serious consideration is now being given to amendments to the more controversial sections of the Act.

He says major amendments covering Section 228 and the requirements of "fair and reasonable" statements are in the pipeline.

Goldberg insists that a bill of rights in the commercial field should be seriously debated by legal luminaries.

He points out that more than R1 billion was lost in the Masterbond and Supreme Holdings debacle by unsuspecting people who were led to believe that their investment was sacrosant.

"This type of exploitation by man's greed and cunning must be brought to account if this country is to emerge from the darkness it is plunged into."

Goldberg says the prohibitive cost of mounting an action in law makes whatever protection the Companies Act or common law purport to give virtually non-existent in practice.

When an aggrieved minority institutes an action against a company or its directors, that company is invariably entitled to use company funds to fight the action.

"It is being debated — and I would lend vigorous support to it — that a system be set up whereby the legal costs of the aggrieved shareholder instituting such action should be funded by the company concerned."

Goldberg recently outlined proposed changes to the Companies Act in a paper to the Research Institute for Corporate Law.

Goldberg ... levelling the playing fields.

He calls for:

- The legal costs of aggrieved shareholders to be funded by the company itself in certain cases.

But he emphasises that, to prevent abuse, applications for such funding would have to be screened by an appointed body of experts.

"Such screening would inhibit frivolous applications."

- The functions of the Securities Regulation Panel be widely extended over all company transactions.

He says the SRP should serve as a surveilance body and as a possible arbitrator on the rights of minorities.

- The JSE's contractual situation with its members be reinforced by rules having the force of law.

"The JSE, which until now has only a contractual relationship with its members, should be endowed with statutory teeth."

Other proposals tabled by Goldberg include call for class actions and contingency fees to be introduced as soon as possible and that the onus of proof in regard to Section 252 be reversed.

Goldberg says applications against oppressive and unfairly prejudicial conduct from companies are scarce — because of the cost of such applications and because the onus of proof was so demanding.

"I am of the opinion that if class actions were brought into being in our law this picture could change quite dramatically."

# Analysts' views differ on W & A Investment

ANDREW KRUMM

ANALYSTS differ markedly in their views of the W & A Investment Corporation's profitability for the interim period to end-June — and offer projections ranging from "small profits" to "significant losses". B/Day

Although a number of analysts canvassed yesterday said W & A would declare a small profit equivalent to between 5c and 10c in earnings a share when it announced its results on Monday next week, one market watcher disagreed entirely.

Predicting the group would make an operating profit of about R8,2m for the period, the dissenting analyst nonetheless forecast an attributable loss of between R12,1m and R18,8m in the first half. The group's operating profit would be eroded by payments to debenture holders and dividends to preferred ordinary shareholders totalling about R27m, he said.

W & A's share of "mediocre" profits from listed subsidiaries, adding up to R26,7m, would be dragged down by weak results elsewhere. 13/8/93

The analyst expected AAF would lose R7,5m, which was its share of losses from the underpricing of certain contracts. Foreign scaffolding operations would report a R6m loss.

In addition, a forecast R80m operating profit by W & A's unlisted domestic operations, SGB and Formscaff, would not cover the projected R85m bill for interest, tax, and minority profits, resulting in a R5m loss by unlisted operations.

The net effect of the above would be a R8,2m profit before interest of R20,3m on compulsory convertible debentures, and before ordinary preferred dividends of R6,7m. After paying debenture holders and preferred shareholders, W & A would make a R18,8m attributable loss on an undiluted basis. (180)(282)

"However, we expect the company to pass the ordinary dividend, in which case the attributable loss will amount to about R12,1m on an undiluted basis," the analyst said.

ST Times (Buss) 15/8/93

# Rock-bottom Barlows

The dismembering of industrial giant Barlow Rand appears to leave Barlows with the dregs of the conglomerate's portfolio, but don't write off the group ~~and its~~ management, writes **CHERILYN IRETON.**

180

THE new-look Barlows rising from the unbundling ashes of Barlow Rand will include a mix of companies whose fortunes are tied to the fixed investment cycle.

By their nature they are not glamorous companies and their recent performance has been rotten.

Barlows is also being stripped of most of its dynamic, high-profile directors, leaving Warren Clewlow and lesser-known executives Richard Mansell-Jones, Evert Groeneweg, Russell Chambers and John Gomersall to drive the firm.

New board appointments are expected.

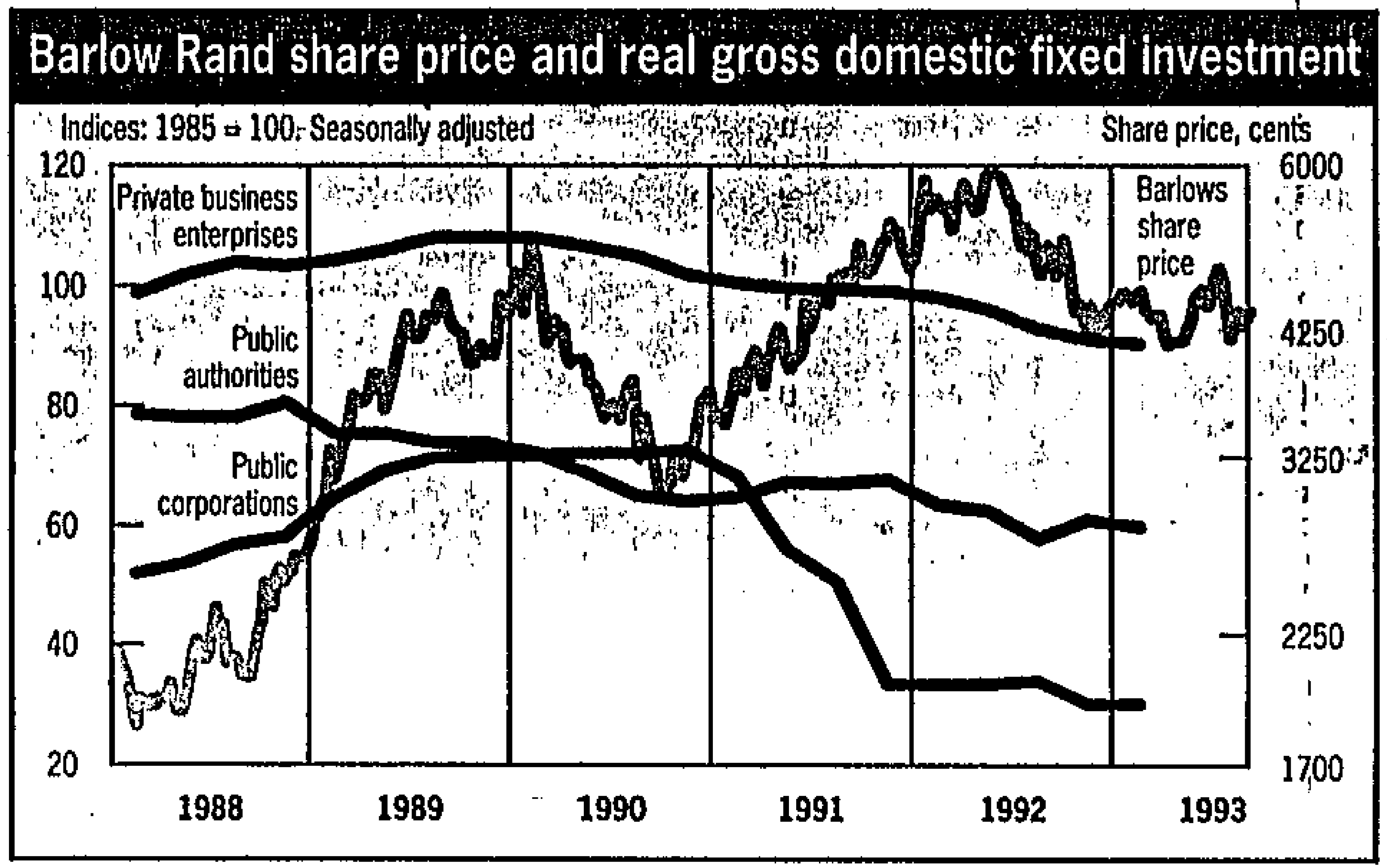
Nonetheless, these factors may be enough to convince some of its 17 500 shareholders that Barlows has had its time of greatness and that the future will be more rewarding with top-performing consumer-based group CG Smith or electronics firm Reunert.

The factors which count against it may well be the reasons for investors to stay with Barlows.

The remnants of the management team have been stung by the severe criticism of the past few months and want desperately to prove their worth.

The listed companies with which they have to work include cement producer PPC and foreign investment holding company J Bibby & Sons.

Barlows' other unlisted holdings are almost unchanged from the Punch Barlow days. They include paint




Graphic: FIONA KRISCH Sources: I-NET and RESERVE BANK QUARTERLY BULLETIN

BACKING THE TRENDS: Barlows will benefit from infrastructure spending

manufacturer Plascon, the capital equipment businesses, including Caterpillar and Barlow Handling, investments in Barlow Motor, the building materials stake held through Federated Blaikie, the tube-making business of Robor Industrial Holdings and on the domestic appliance side, Barlows Manufacturing.

Most of these divisions have taken a hammering with the progressive slowdown of infrastructure spending that has been a characteristic of the economy since 1990.

They are now at the bottom of their cycle and business cannot get much worse.

Because the companies will be coming off an extremely low base, it should be relatively easy to show good growth if domestic funds and foreign aid are injected into housing, roads and schools.

The brak remains Bibby.

Analysts estimate that its net worth — after debt — has shrivelled to about £10-million. Because it is based abroad, it is being recapitalised through its own profits, which have been marginal in the past few years.

Bibby's acquisition of Spanish earthmoving equipment company Finanzauto last year — bought after all Spain's infrastructure development for the Olympic Games had been completed — did not win any investor support.

Yet Mr Clewlow is still defensive about the deal, saying: "You must realise that companies like Finanzauto are not always available when you want them. We were very fortunate to get it and it gives us access to markets in Spain and Portugal.

"The big question is how quickly European economies will recover."

Mr Clewlow admits that he is disappointed in Bibby.

Reports that businesses that do not fit into the new Barlows' definition are likely to be stripped out, appear accurate. Clarity on the issue is not expected before the September yearend.

At that point Barlows will provide accounts showing the split between the four groups in order to provide a comparative base for their first year of independent operation.

One other plus for Barlows is that although it retains group liabilities, it also keeps the cash at the centre — some from the sale of Middelburg Steel, some from the disposal of R600-million in shares to Old Mutual.

It is expected to be ungeared and liquid.

Mr Clewlow says it is imperative that each of the four groups be conservatively financed when the umbilical chord is cut at the yearend.

"We wanted them to end up with no or low borrowings and good strong management. Some companies like Caterpillar have low stocks and will require working capital as and when — or if and when — the economy picks up."

The unbundling will not stop there, he says.

"There are groupings within groupings that will have to be streamlined."

Mr Clewlow says that 10% of the decision to unbundle is based on his gut feel.

Time will be his judge.

Star 16/8/93

# W&A chief confident of group recovery

180

**BY CLAIRE GEBHARDT**

W&A believes its R643 million rights issue should greatly improve prospects for the next six months.

Interim results released over the weekend show a stronger balance sheet and gearing down.

Executive chairman Jeff Liebesman is confident the cash injection from the rights issue will reduce interest payments and make figures look better in the second half.

But high debt levels and declining margins continue to knock the group.

Unaudited results to June show turnover 7 percent up at R1,6 billion (R1,5 billion).

But after a drop in operating margins from 9 percent in June last year to 7,8 percent in the period under review, operating profits are 7,6 percent down at R127,7 million.

The negative impact of high debt levels is evident in the 25 percent leap in interest payments to R99,5 million, which almost halved pre-tax profit to R128,1 million (R58,6 million).

Taxed profit dropped to R23,8 million (R59,8 million).

After attributing R22,2 million to outside shareholders, "conservative" accounting has produced bottom-line earnings of R1,8 million.

This is a sharp drop from June 1992's R40,3 million, but is a significant improvement on the R12,8 million loss reported at end-December 1992.

On a weighted average basis, earnings per share have gone from 26,6c in June 1992 to zero this year.

The interim dividend has been passed.

A below-the-line extraordinary loss of R19,5 million is attributed to an R8,8 million write-off of the group's investment in Milstan and R8,6 million for costs associated with the discontinuing or disposal of operations as part of the on-going refocusing of the group.

Metrotoy's Triang and Seagull operations were sold subsequent to the review period.

But the balance sheet is looking stronger — gearing is down to 65 percent from 148 percent last December and the current asset ratio is looking better.

The share of profits from associated companies has also moved out of the red.

# W&A in gradual return to health

B/Day 16/8/93

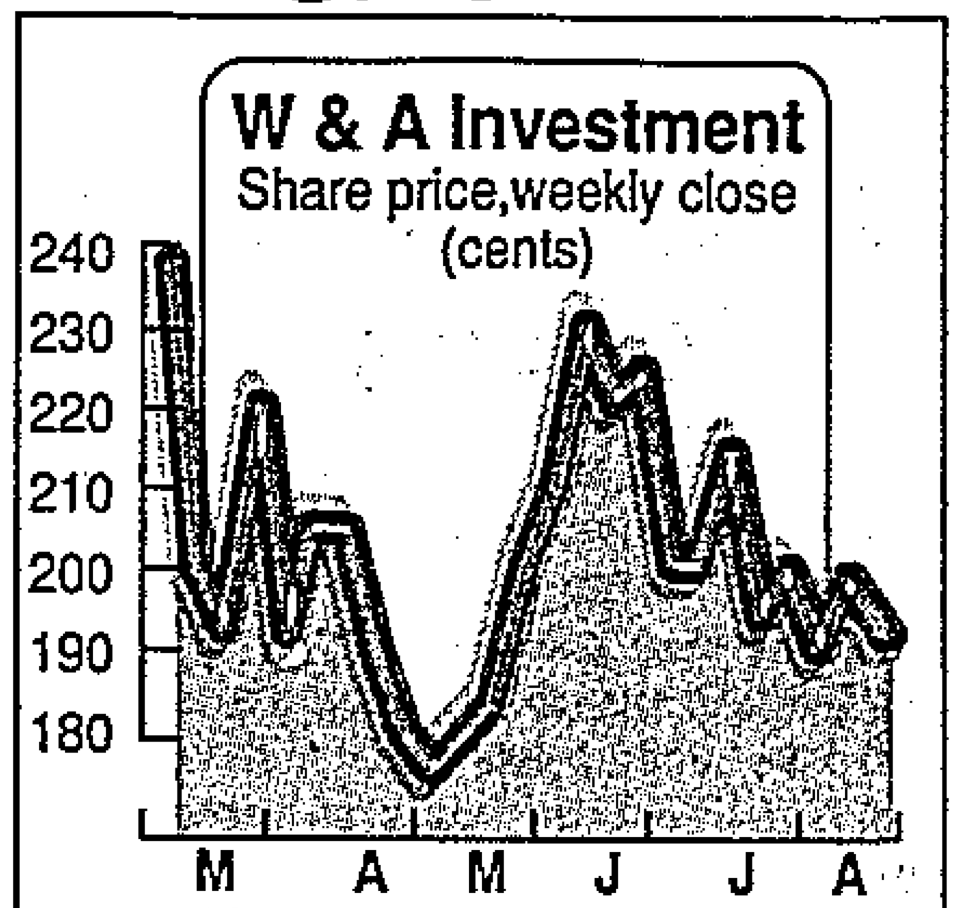
MARCIA KLEIN

W & A Investment Corporation's efforts to reduce gearing and return to profitability have resulted in a small interim profit in the six months to end-June.

The group, which has automotive, site services, consumer and industrial interests, has announced an interim attributable profit of R1,8m. This was well below the R40,4m of last year's first half, but up on the R11,8m (now restated as R12,8m) attributable loss announced for the year to end-December. (180)

Although no interim dividend has been declared, joint executive chairman Jeff Liebesman said the group was on course to return to profitability and to make a dividend payment at the December year-end.

He said results were not strictly comparable as the more conservative accounting criteria introduced at end-December, after Trencor took joint control of the group, were not applied at the previous interim stage. The first half's turnover rose to R1,63bn (R1,52bn), but margins came under pressure, and the interim operating profit dropped to R127,7m (R138,3m).




Graphic: LEE EMERTON Source: I-NET

Net interest paid rose to R99,5m (R79,6m). Liebesman said the R643m net proceeds of the rights issue in April were received on May 7, so the reduction in interest costs benefited the group only in the final seven weeks of the period. He reckoned that had the rights offer proceeds been received on January 1, the interest payment would have been R68,2m.

A R19,5m below-the-line extraordinary loss included R8,8m for the write-off of W & A's investment in Milstan, and R8,6m

☐ To Page 2

## W & A

☐ From Page 1

for costs associated with the discontinuation or disposal of operations.

Provision was made for the implications of an announcement by 43%-held AAF Industries that results to end-June would be sharply down. AAF, listed in London, is now equity-accounted as W & A's interest was reduced from 53% after an AAF rights offer earlier this year. B/Day

Since June, W & A has paid R15,3m to the Receiver of Revenue in settlement for film investment allowances. 16/8/93

Liebesman said there was a seasonal bias in the group's investment mix. Expenses were spread evenly through the year, but sales were generally higher in the second half. (180).

In the automotive division, Gentyre had performed ahead of budget, the Varex replacement parts business reported satisfactory results, and Vektra continued to improve profitability.

In the site services division, which includes scaffolding company Form-Scaff, some SA operations missed their targets while some foreign investments gained ground.

Among W & A's consumer interests, furniture retailer JD Group was affected by unrest in the second quarter, but managed to meet its half-year budget. Rationalisation with the newly acquired Rusfurn group augured well for the future, Liebesman believed.

Industrial interests were affected by tough trading conditions in the six months. Natbolt continued to rebuild its export business, but its capacity was underutilised. MacPhail came close to its budget, but Tarry Group's business was severely disrupted by trading conditions.

Liebesman said that now the group had been recapitalised, executives were able to focus on the operating businesses. "After two years of strenuous focus at the corporate level, we are relaying the foundation of bottom-up management. But the benefits take time to manifest, although we are optimistic in the medium term."

The group had a four-pronged strategy, including reducing gearing through the rights issue, selling non-core assets, more effective management of working capital and improving margins. This was expected to generate a better cash flow.

Star 20/8/93

# 'Clever general misled court'

Bloemfontein — Police forensics chief Lieutenant-General Lothar Neethling was "very clever and cunning" and had deliberately misled the Rand Supreme Court and the Harms Commission, the Appeal Court in Bloemfontein heard yesterday.

This submission was made by counsel for Vrye Weekblad and the Weekly Mail in the general's appeal against the rejection of his claims of R1,5 million for defamation, which he brought after the newspapers had published allegations linking him to police death squad activities.

The allegations, made by former security police captain Dirk Coetzee, were published in November/December 1989.

In the Rand Supreme Court on January 19 1991 Mr Justice J C Kriegler found that allegations published in Vrye Weekblad — that Coetzee had obtained poisons and knock-out drops from Neethling to be used in death squad activities — were true, on overwhelming probability.

Yesterday, R D Levin, SC, for the newspapers, said a crucial issue in the case was whether there had been contact between Coetzee and the general.

He said there was compelling circumstantial evidence that this had been the case. A captain in one branch of the police would otherwise not have had knowledge of the office, laboratory and home of a general in another police department.

Levin told the court that no honest witness who had studied the videotape, called Dispatches — which included footage on Neethling's house — could have given the evidence that Neethling had given, namely that the house did not have a veranda.

The appeal did not end yesterday, as was expected, and continues. — Sapa.

(284)

Star 20/8/93

# Constitution 'must boost economy'

**BY MICHAEL CHESTER**

The SA Chamber of Business yesterday urged the appointment of a special committee of experts to ensure the new constitution is framed to promote sound economic development and faster job creation.

Sacob director-general Raymond Parsons said there were still gaps in the revised draft Interim Constitution which needed to be closed to win the confidence of investors.

"It is vital that the new constitution as far as possible promotes — and at all costs does not hinder — the sound economic development needed to create more jobs and expand national wealth," he said.

"In order to strengthen the as yet fragile economic recovery, it remains essential to eliminate any matters of uncertainty and unpredictability facing businessmen and investors.

"What South Africa needs is sustained economic growth over a period of years, which requires that political factors do not inhibit the desire to invest.

(180)

"To achieve this, any new constitution must broadly inspire confidence in the business community and among investors."

There were a number of economic and financial issues which did not appear to have been given the necessary expert attention so far, Parsons added.

COMPANIES

# Klipton earnings plunge 94%

MARCIA KLEIN

PROBLEMS in newly acquired SA Castors, a month-long strike and the recession's effect saw Klipton's earnings plunge 94% to 2,4c (39c) a share in the year to end-June. The industrial holding group, which manufactures specialised industrial and security products, reported marginally lower turnover of R121,7m (R122,1m). Problems in the industrial division — which houses SA Castors — saw operating profit drop 56% to R3,7m (R8,4m) as margins throughout the group were squeezed. B|Day

Interest rose 6,9% to R3,1m (R2,9m), bringing pre-tax profit to R656 000 from R5,5m. Although the tax bill was lower at R243 000 (R753 000), a R75 000 minority share resulted in a 93% decline in attributable profit to R338 000 (R4,8m). 20/8/93

Directors said no dividend had been declared in view of the disappointing results and the high level of borrowings.

Joint chairman Nigel Matthews said attention to working capital management in the second half saw debt levels reduced to R4,4m (R15,6m) and gearing reduced to 75% from 82%. These levels were still higher than the previous year.

Matthews said the year had been traumatic. The extent of the problems in SA Castors had become apparent in the second half. "We paid too much for SA Castors. Their stocks were excessive and not worth the price. We also made some mistakes in rationalising it into Castor & Ladder."

But it had been "the right strategic purchase" and would make a significant contribution in the medium term.

Three of Klipton's industrial companies, Sapco, Castor & Ladder and Forlezer, would be restructured into one unit, resulting in reduced costs and and a strengthened management team. The cost had been provided for in the current results.

Sandton Sentry and safety equipment maker Campbell Gardwel reported real growth. Austen Safes traded profitably in a tight market.

Matthews said the group intended to develop and expand the security division in the short term. (180)

## NEWS IN BRIEF

BIDay

### Manufacturing up

MANUFACTURING production rose a seasonally adjusted 1,6% in June against year-earlier figures, the Central Statistical Service reported yesterday. 24/8/93

Manufacturing production was also 0,05% higher than in the first half of last year. The increase could be attributed to improved production of textiles (up 4,8%), plastic products (6,4%), motor vehicles (3,5%) and in "other manufacturing" industries (14,5%), the CSS said. Electrical machinery and transport equipment industries registered the largest decreases for the period. (180)

BIDay 24/8/93

### Decrease in strikes

MID-year strike statistics were markedly lower than last year's, the Manpower Department said in its August Labour Focus. (152)

Between January 1 and June 30 there were 160 strikes, compared with 219 for the same period in 1992. Altogether 19 534 workers went on strike, costing the economy 125 477 mandays and causing a R6,657 084m loss in wages.

BIDay

### Protea Chemicals

ABOUT 100 members of the Chemical Workers' Industrial Union (CWIU) embarked on an illegal work stoppage yesterday over wages and disciplinary action on demonstrations against Protea Chemicals' joining the Chemical Industry National Provident Fund, CWIU official Susan Tilley said. 24/8/93

Executive director of the Germiston factory, Tony Wetton, said management was trying to resolve the dispute. (153 ~~1467~~)

REPORTS: Business Day Reporters, Sapa.

# R1bn needed or farmers go bust

BIDay 24/8/93

DIRK VAN EEDEN

PRETORIA — Unless the livestock farming industry received an immediate injection of about R1bn in state aid, 70% of livestock farmers would go bust, Red Meat Producers' Organisation manager Gerhard Schutte said yesterday. (3 ~~Meat~~)

The organisation's economist Fritz de Jager said more than 70% of all livestock farmers owed more than 15% of their capital employed. Under current conditions it was impossible for these farmers to service their loans through farming.

Earlier this month Agriculture Minister Kraai van Niekerk announced an R81m government aid package for livestock farmers in extensive grazing areas to maintain core breeding herds. A further R50m was granted as low interest production loans.

This fell far short of the more than R1bn requested, but the meat organisation understood these subsidies had to come from an already strained national budget, Schutte said.

No statistics were available on livestock farming rentability, but farmers probably earned less than 2,5% profit on capital employed, making it far more profitable to leave capital in an ordinary savings account than to farm, De Jager said.

In real terms, gross income for cattle farmers in 1991 was about the same as in 1975 and had fallen since. However, production inputs had increased dramatically.

US and European livestock farmers received huge subsidies from their governments, making it cheaper for SA to import meat in the short and medium term. But, if current GATT negotiations were implemented, it would not be economically viable for these governments to continue subsidising meat production on the current scale. This would lead to substantially higher meat prices on the international market, making importation a less attractive proposition for SA.

Meat imports would not only have a negative impact on SA's balance of payments, but would also lead to the destabilisation of rural areas, De Jager said.

# Airlink announces 10% fare increase

BIDay 24/8/93

STEPHANE BOTHMA

AIRLINK Airline will increase fares on its Johannesburg-Richards Bay route by 10% to R660 from September 1. (269)

Escalating operational costs, including a rise in the fuel price, higher passenger levies at state airports and an increase in air navigational services charges forced the increase, Airlink sales and marketing manager Karin Egly said.

In January, Airlink gave an undertaking to absorb any operational costs on the route for a period of at least six months.

Egly said that now, almost nine months later, the airline faced a situation where it had no option but to pass some of the rising costs on to passengers.

# Cut-rate domestic airline on the cards

BIDay 24/8/93

STEPHANE BOTHMA

A CAPE Town businessman has set out to raise R50m from local investors to start a new domestic airline targeted at black and lower income white travellers.

Lionair would offer return fares between Johannesburg and Cape Town at R600, and at R300 between Durban and Johannesburg to compete directly with buses, trains and minibuses, MD Neil Robertson said yesterday.

Advance booking rates on the routes could be as low as R200 return to Cape Town and R100 to Durban.

Robertson said he was in the process of putting investor groups together to raise R50m capital to buy five 164-seater Boeing 727-200 aircraft from the US at R10m each.

Despite the existing excess capacity in the domestic market, with SAA, Flitestar and Comair already serving the two routes, Robertson said he was confident Lionair would be a success. (269)

"Figures we have run — only on a passenger service without any cargo — have showed us that we will have an annual turnover of R300m, of which R200m will be running costs and R100m profit," he said.

He said he intended to keep overheads low by leasing the aircraft to Lionair and by running a "no frills" all-economy seat service.

Robertson, who yesterday officially applied to the Directorate of Civil Aviation for a licence to operate the service, said he could start flying on November 1 if other airlines did not oppose his application to the Licensing Board.

Star 30/8/93

# Sacob chief points to need for foreign capital

Durban — The economy will achieve a growth rate of two percent at best unless there is a strong inflow of foreign capital, says Chamber of Business (Sacob) director-general Raymond Parsons.

He told the annual meeting of the Natal branch of the Institute of Bankers at the weekend that this economic growth rate was far too low to meet SA's needs. (180)

It was vital to ensure global investors were confident that a new political system would give them security over and above a return on their investment.

"Foreign investors will have to be satisfied... that a new constitution makes sound economic management of the country feasible. The need for peace is perhaps the most overwhelming requirement today.

"Furthermore, any new constitution must inspire trust and confidence — Sapa.

# Squeezed margins fail to impede Grintek

BiDay 9/9/93

(180)

EDWARD WEST

GRINAKER's listed electronics company Grintek's profit margins suffered in the year to end-June 1993, but earnings climbed 28% to R34,3m (R26,8m) after a substantially lower tax bill.

Earnings were influenced by the reduced tax rate, utilisation of tax losses from previous years, export incentives and a 55% increase in the group's share of associated companies' earnings to R4,2m (R2,7m).

Turnover increased 11% to R1,38bn (R1,24bn), but operating profit fell 7% to R69,2m (R74,2m), reflecting lower margins. Chairman Jack Saulez said the recession and economic and political turmoil had intensified competition, with inevitable effect on profit margins.

Pre-tax profit was 9% lower at R73,8m (R81,3m). The tax bill dropped by nearly half to R19,6m (R36,7m) and taxed income was 22% higher at R54,3m (R44,6m).

The dividend for the year was unchanged at 3,7c.

The final dividend was 2,7c (2c). Earnings amounted to 17,6c (13,8c) a share. Extraordinary losses of R30,3m related to goodwill written off in terms of group accounting policy. The write-off had no adverse effect on liquidity.

Listed information technology subsidiary Siltek lifted earnings by a quarter to R47m. Reduced margins lowered pre-tax profit 6% to R68m, offset by increased contributions from associated companies, particularly Q Data, and a lower tax rate.

Siltek's systems division performed well, with Hi Performance Systems, the sole SA distributor for Hewlett Packard products, again producing good results. Networking companies had a good year, as did software firms.

Saulez said new strategies were implemented to address changes in information technology. Operations needed to be repositioned in the market.

Grintek's other major subsidiary, Grinaker Electronics, raised its earnings 37% to R8m after maintaining turnover at R255m.

A 39% decline in pre-tax profits was alleviated by tax incentive allowances.

Specialised systems engineering operations achieved good results, but poor performances were recorded in project management, agencies and international operations. Manufacturing facilities remained underutilised.

Penetration of new markets had not yet replaced those lost when defence expenditure was cut back.

However, development of new products and systems in radio trunking, broadcasting, laser measuring devices, satellite and radio communication would enhance recovery efforts, he said.

Grintek subsidiary Cellstar Cellular Networks had applied to operate a cellular mobile telephone service in SA.

Saulez said the group could expect only modest growth in operating income in the current financial year.

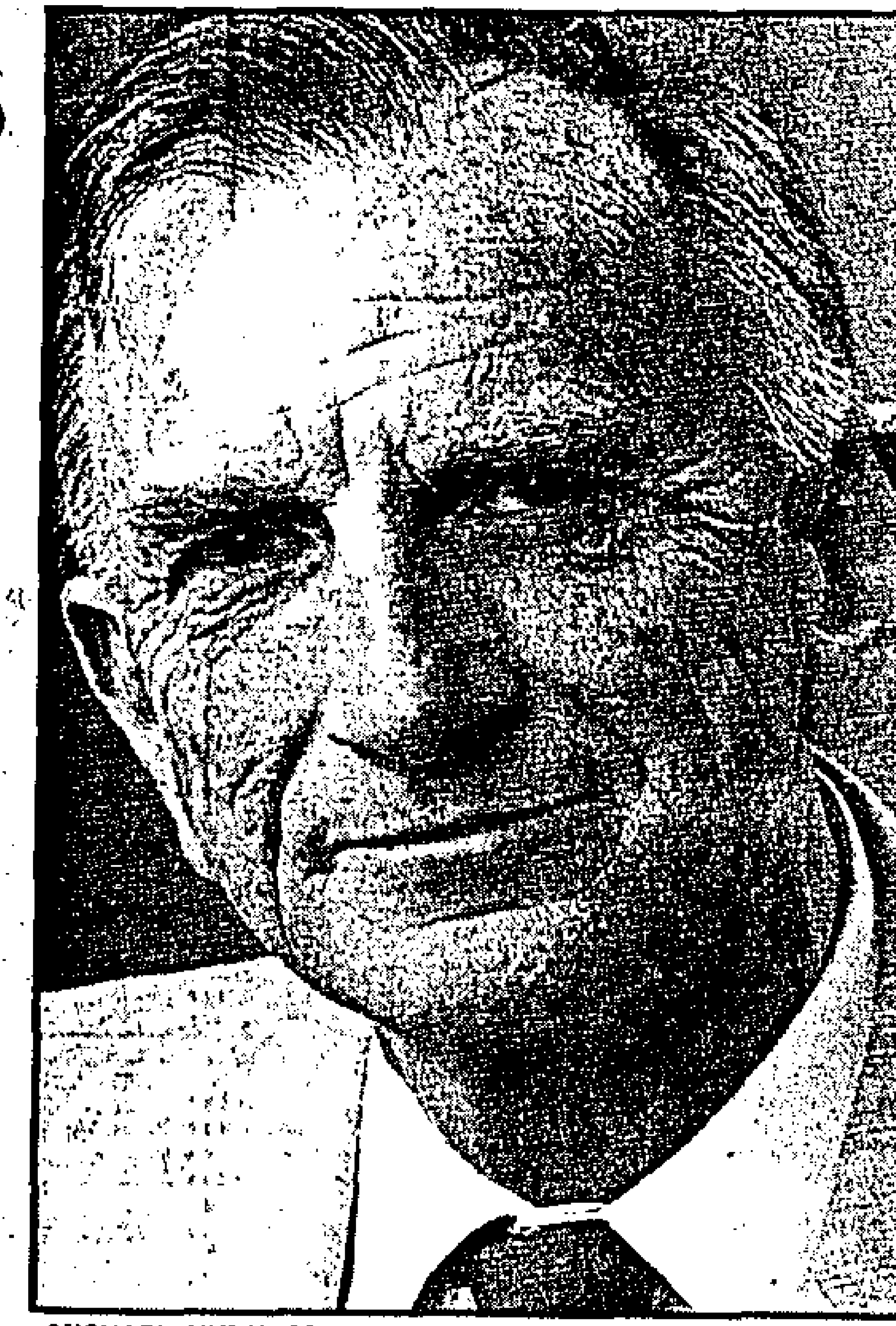
JOBS

S/Times [Buss] 5/9/93

# Designs for greater returns

(180)

**A manufacturing industry competitive in export markets needs to secure the ownership of its designs and brand names. Without this, the rewards of development will land up in foreign hands, argues MICHAEL HUNT.**



MICHAEL HUNT: Money earned by manufacturing is only a fraction of the product's selling price

HAVING realised that the national economy can no longer rely on the profits earned by gold mining alone, South Africa is gearing itself to the idea that the manufacturing sector can be developed to become the mainstay of future prosperity. However, a competitive edge can be achieved on world markets only through a sound design and marketing policy.

Many politicians and industrialists believe manufacturing facilities can be used and developed through the help of foreign companies and that this will happen as soon as sanctions are removed, heralding a wave of prosperity.

But this is a naive and ill-informed belief which, even if true, would lead at best to the products of SA manufacturers being sold at their lowest value. At worst, it would lead to further industrial decline because of lack of competitiveness.

The answer to the question, "How does one develop an internationally competitive business?", is clear: one must make products which are competitive on world markets.

But the real problem is that, under a typical licence agreement, products made in SA as part of import replacement policy would not normally be allowed to be exported competitively even if they could be manufactured at a competitive price. In any case the products are invariably obsolete and without design ownership they cannot be updated. The crux of the issue is the ownership of the design and the brand name.

International trade agreements come in all shapes and sizes. Taiwanese manufacturing built itself up largely by the simple process of making other countries' products at a better price than they could be made in their land of origin.

Many influential people in SA hope that this country could follow a similar route successfully and that "Made in SA" would become a term recognised worldwide. This is a dangerously short-sighted policy.

What is not generally realised is that the Taiwanese are frantically trying to live down the "Made in Taiwan" cachet in favour of a policy in which they fashion their own brand names through dynamic programmes of design and development. Every effort is being directed at a "Designed in Taiwan" campaign.

The reason is simple: the money earned by manufacturing is often only a fraction of what the product sells for under its brand name.

The differences in earnings can be considerable. An American brand of tennis racket made in a Taiwanese factory is sold throughout the world at five times the price that the identical racket from the same factory sells for without that particular brand name on it.

One SA-designed and developed product, which has been sold in 30 countries, has a selling price of more than 100 times the price which the SA manufacturing contractor was happy to receive for merely making it. SA ownership of the design ensured that in this case the added value came home. Had this not been the case the amount earned by SA would have been less than 1 percent of the potential.

Ownership of the brand name is the main factor in the value-adding process. If we forget this we condemn ourselves to a fate where our best possible achievement will be to become the frugally paid artisans for the more enterprising countries.

Most people are unaware that the cost of design has fallen considerably in the past decade because of the arrival of low-cost computers and software. In fact, SA happens to be one of the most cost-effective countries for design in the world — as some major foreign companies have discovered to their profit.

One firm does industial design for foreign companies and reports that it has a cost advantage of more than eight to one over its European counterparts. This is a powerful competitive edge, largely due to a favourable exchange rate. The full benefit, however, goes to the foreign customers who receive a very good deal. Ironically enough, one of the customers (a German motor company) sells the product back to SA at a greatly enhanced price for manufacture under licence.

SA firms which design their products for both domestic and export markets have achieved phenomenal success. The key to the striking success of Bell Equipment is acknowledged by Gary Bell, its managing director, to be the fact that it designs its products and does not make anything under licence.

Incidentally, it does not really matter who does the design work. It is the ownership of the design which counts. By all means hire an Italian or a Japanese designer if it will help to give the product a competitive edge. Japanese companies, for example, employ many European designers under contract.

A product does not need to be a high-technology one either, it *only* has to meet a market need.

Technological advances in design, in the form of affordable computer-aided systems, have led to opportunities for us. They put SA into a race which many of us never thought we could ever join. But we are discovering this fact all too slowly.

At an extreme end of the scale are some naive people who hope that SA can earn its future prosperity by making some major technological breakthrough. Although this is not impossible, one cannot afford to gamble on such a hope. Technological breakthroughs are relatively few and far between and are mostly made by countries with vast research budgets. Furthermore, history has shown that the best rewards do not always go to the discoverers of technology.

We need to develop design skills for all those products it is reasonable for us to try to export under our own brand names.

Many products could be competitively marketed under SA brand names. Among the existing SA products which are successfully exported one can list items ranging from pool cleaners (consumer products) to heavy machinery (capital equipment).

But we cannot have healthy growth in export-oriented manufacturers without a design culture and we cannot have the design culture without a manufacturing climate which stimulates it.

SA often fails to make proper use of the few practically trained graduates turned out by universities, in particular engineers, who take a four-year degree.

The scarcity of genuine entrepreneurs in SA manufacturing is a direct result of these apathetic attitudes fostered by the policies of protectionism, set up to support licensed manufacture. Furthermore, the existing tariff barriers are handicapping those entrepreneurs whose competitive products contain imported components.

Protectionism has also caused us to develop industries which are grossly overcapitalised for their actual production levels, which are based essentially on the home market. The whole philosophy of import replacement should be re-examined in the light of the urgent need to develop industries which are export oriented.

It is important that we do not export our products at their lowest value, as is the case when we are merely aiming at playing a workshop role, by manufacturing products whose design and brand name are owned by foreign companies. This would be to accept, unjustifiably, that we cannot compete for the big prizes. It would waste our manufacturing facilities at a low level of economic efficiency.

Instead, we must go for the value added by SA ownership of the design and the right to introduce continually design changes which will keep the products ahead of the competition.

The higher growth rate, which will ensue, will need to be accompanied by a much more equitable distribution of opportunities and benefits. The manufacturing sector's structure needs to be developed to allow increased entrepreneurial opportunities for the emergent businessmen and small industrialists. Furthermore, manufacturing should be encouraged to produce those goods required by the less-well-off sector which has not been adequately served by the market.

However, unless the spirit of design and entrepreurship is instilled at grassroots level — as is our consciousness of environmental problems (for example) — the future economic success and employment prospects for the country and the sub-continent will not be ensured.

*This is an edited extract of a paper presented by Dr Michael Hunt at the centenary conference of the SA Insitution of Mechanical Engineers this week. Dr Hunt, a former chief director of CSIR, is a consulting design engineer.*

# AVI does right by shareholders

Star 10/9/93 (180)

**BY STEPHEN CRANSTON**

Anglovaal Industries (AVI) achieved a commendable 19 percent rise in earnings per share to 1 083c in the year to June.

This was achieved without padding out the bottom line with the release of deferred tax after the change in rates.

The dividend is up 18 percent to 195c.

Operating income was almost unchanged. The operating margin dropped below eight percent for the first time since 1986.

Dividends from Anglo-Alpha, which is 25 percent-held, were included for the first time, leading to a R14,2 million increase in investment income and pushing up the share of retained earnings of associates by 58 percent to R23,6 million.

AVI's effective tax rate fell from 42,7 percent to 33,9 percent.

At the earnings level there was a surprisingly strong 27 percent improvement from AVI Diversified Holdings, in which the engineering and textile interests are housed. There was a strong improvement from Bearing Man in the first full year since it was merged with AVI's existing ball-bearing interests.

In textiles there were improvements from Risa Textiles and SA Fine Worsteds and Gelvenor remained strong.

Mooi River Textiles, which operates in the troubled cotton fabric sector increased operating losses. The acquisition of the company in the disinvestment era appears to be one of the group's few serious mistakes.

National Brands was the star of the group. Earnings increased by 45 percent and it is rapidly catching up with Consol as the largest contributor to the bottom line.

Its sales volumes increased because of an aggressive advertising and promotions strategy and the restriction of price increases below the inflation rate.

There was a substantially improved result from Pleasure Foods, which includes the Wimpy, Juicy Lucy and Milky Lane franchises, and from Yardley of London.

Tea and coffee producer Becketts had another successful year and there was sustained growth from biscuit maker Bakers.

Pakco, which makes canned curry products and sauces, suffered from reduced consumer spending and did not contribute to profits.

National Brands has moved strongly into the soya protein market and acquired the entire share capital of Nedan Oil Mills and the 45 percent shareholding in National Protein it did not already own at year-end.

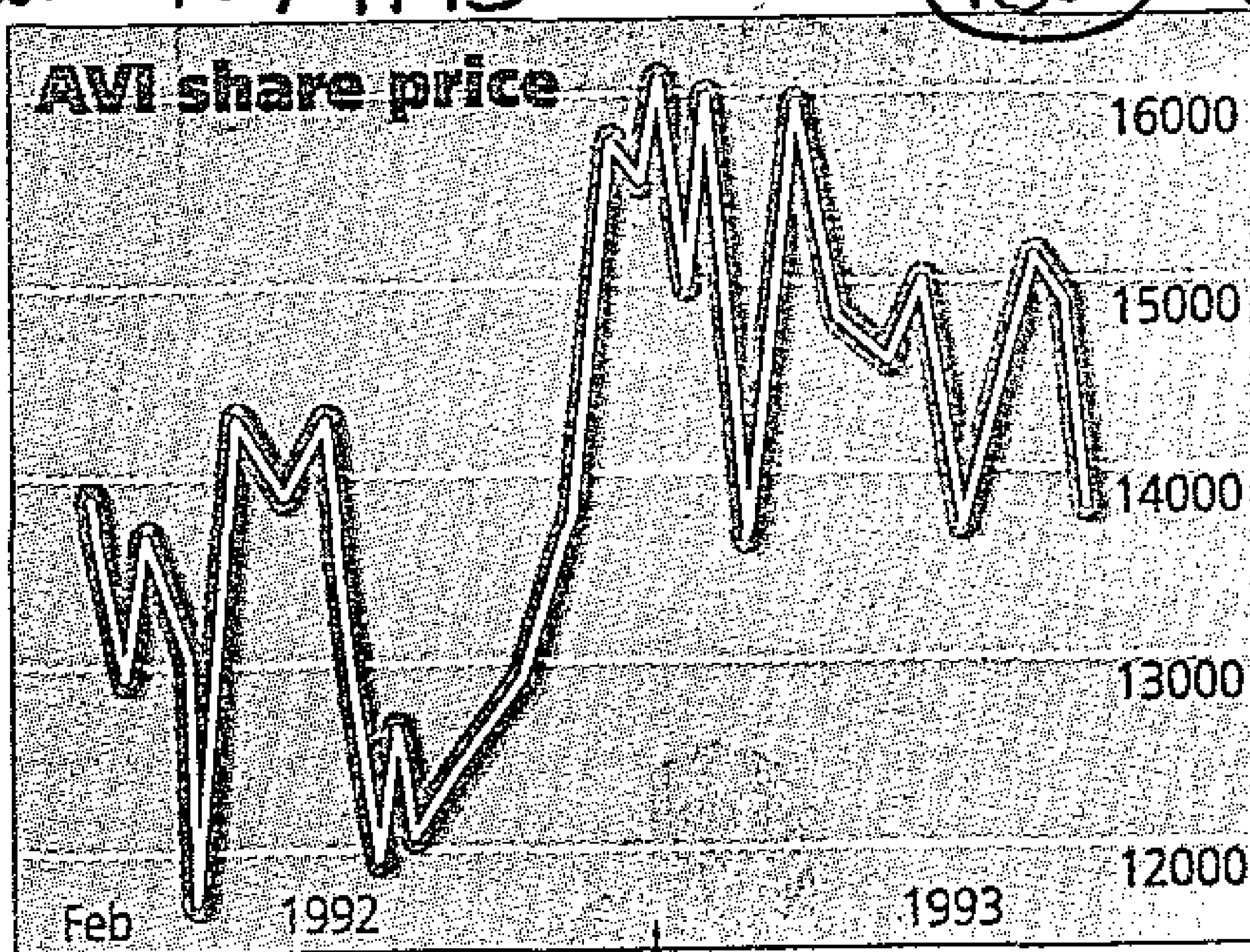
Among the listed subsidiaries the recovery of Grinaker from a R1,2 million loss to a R29,7 million profit was the highlight. Losses were contained and write-offs in Grinaker Construction were not repeated.

Consol suffered from depressed packaging and tyre volumes, but achieved a 13 percent increase in earnings.

Irvin & Johnson was the only major component to report reduced earnings, primarily because of declining international white fish prices.

AVI ended the year ungeared, with net cash resources of R541,6 million.

It now trades on a P/E ratio of under 13 and definitely looks undervalued.




GRAPHS: ABEL MUSHI

**Company: Anglovaal Industries**

**Sector: Industrial Holding**

**SHARE PRICE: R137** **MARKET VALUE: R4,35bn**
**YEAR HIGH: R162** **PE RATIO: 12,6**
**YEAR LOW: R122**
**Net asset value: R70,17** **Dividend yield: 1,4%**

| Year to | Turnover Rm | Operating Profit Rm | Attributable earnings per share (c) | Dividend per share (c) |
|---|---|---|---|---|
| 1991 | 7 386 | 777 | 825 | 150 |
| 1992 | 7 958 | 777 | 907 | 165 |
| 1993 | 8 319 | 788 | 1 083 | 195 |
| % Change | 5 | 1 | 19 | 18 |

Star 14/9/93

# Lower taxes boost Bateman

**BY STEPHEN CRANSTON**

Lower tax and interest helped Edward L Bateman lift earnings 4,4 percent to 92c a share in the year to June.

The dividend has been lifted 4,9 percent to 32c.

Chairman Bill Bateman says the results are pleasing, considering ongoing difficulties in the local and international markets served by the group.

There was a more than six percent improvement in second-half earnings, compared with an increase of barely one percent in the first half.

A more impressive turnaround was reflected in turnover, up almost 50 percent in the second half after falling 19 percent in the six months to December.

Overall it was up 5,3 percent to R667,4 million for the year.

Bateman Industrial Holdings, the equipment arm,

Bill Bateman ... results are pleasing.

made several significant acquisitions in the information technology industry, including an interest in Prolan and Workgroup Systems, distributor of Microsoft and Lotus.

On Friday Bateman Materials Handling acquired specialist handling company PneuTech for an undisclosed amount.

PneuTech was established in 1980 and has completed 200 handling installations.

In the engineering division, Batepro, action has been taken to dispose of certain loss-making non-core operations, and full provision has been made for losses on disposal. (180)

Losses reduced Batepro's income by R5,2 million.

Its projects in the current year include a $200 million contract for a metallic magnesium project in Israel.

The division has been awarded the contract for Newmont Mining's gold heap leach project in Uzbekistan.

Foreign income, exempt income and incentive allowances continue to reduce the effective tax rate, which was just three percent.

Continued attention to asset management enabled interest paid to fall 25 percent to R3,8 million.

# SA firms receive quality mark

MARC HASENFUSS (180)
Business Staff ARGr 18/9/93

OVER 1 000 South African companies have achieved ISO 9000 accreditation — the international mark of quality management control system.

ISO 9000 is the quality standard for which an estimated 30 000 certificates have been issued in 60 countries, including the US, Japan and the EC.

# Own brands lose ground to big names

S/Times [Buss]

19/9/93

(180)

By CHERILYN IRETON

THE global battle between branded goods and retailers' private-label products has not yet spread to South Africa, where own-brand market share is declining.

In spite of fears that house products were making inroads on the market share of big brands, research indicates that only about R1,96-billion — or 8,1% of SA's grocery, toiletry and confectionery (GTC) bill for 1993 — will be spent on generic or private-label products.

This is down on the market share commanded over the past two years, says a study by IBIS Marketing Information Services.

In the UK, private-label products have collared 35% of the grocery market and in Germany the share is 24%. The US lags behind at 18%, but since April when cigarette manufacturer Philip Morris slashed the price of Marlboro in response to an attack on its market by private-label products, 25 of the world's top brands have lost almost $50-billion in market value.

Judy Gordon, chief executive director of IBIS Marketing, says that although SA retailers have their own lines in more than 80 categories, most have performed modestly.

"Nearly half of our R24,3-billion GTC sales were achieved in the face of own-brand competition. Generic sales have never managed to top 10% of the total market."

Mrs Gordon says not only is value growth slowing (11,6% in 1991-92), but it is also 4,9 percentage points behind that of competing brands.

The research is backed up by reports from some retailers who are nonetheless confident.

Pick 'n Pay deputy managing director Sean Summers is upbeat about his store's house-brand portfolio.

"We are relaunching our house-brand programme and will try for up to a quarter of our sales from it."

But that's the limit.

"We have one thing very clear in our minds and that is as discount merchants we are brand dealers," says Mr Summers.

Mrs Gordon says the most successful strategy to counter own brands is not to become obsessed with them, but to concentrate on building brand dominance. The number two, three and four brands in the market are at greatest risk.

"Several myths surround own brands, misconceptions that have led marketers to believe they are impotent to counter the march of the generic. The greatest of these is that the key to own-brand success is price."

Her research showed that:

- A third of all own brands in SA sell at a higher price than the average for their particular market.
- Between 1991 and 1993, 63% of all own brands sold in supermarkets narrowed the price gap between themselves and the market leader, but still lost share.
- Supermarkets' own brands increased the price gap by 25%, but gained only 5% market share.

Mrs Gordon says own labels have achieved what success they have because many manufacturers have failed to establish sufficient brand equity.

"Here as well as abroad, generics do best when they compete with brands that are poorly supported and that are not seen as offering significantly higher quality."

Mr Summers says the success of house brands is due to a combination of factors.

"High-volume commodity type items where the prices are competitive and the consumer knows the products are either packed by the major brand or an equivalent manufacturer are successful. Not only are the products seen to be equal, but they are endorsed by the store."

A study by advertising group BBDO in the US showed that nearly two-thirds of consumers worldwide believe there are no relevant or discernible differences between rival brands in a broad range of products.

Peter Dodson, merchandising director of food for OK Stores, says the history of house brands internationally has been chequered. Retailers initially believed that a house brand meant a lower price was required and if that affected the quality — within limits — it was acceptable.

"In the past 10 years or so retailers, notably in the UK, have made enormous progress in ensuring the price is discernably different. The quality of the merchandise has improved in tandem.

"South Africa has been slower to react, but OK intends to develop this side of the business aggressively."

IBIS says the single biggest generic money-spinner in SA is toilet tissue with sales of more than R100-million. The other product topping R100-million is cooking oil.

Private-label canned tuna and household detergents have an annual turnover of more than R40-million each. Own-brand frozen vegetables and canned pet-food clock up sales of more than R30-million a year each. The generic dry pet-food market is worth R10-million a year.

The top ten own brands

| | |
|---|---|
| Canned tuna | (+50%) |
| Aluminium foil | (+40%) |
| Toilet tissue | (+30%) |
| Scouring pads | (+20%) |
| Cooking oil | (+20%) |
| Canned salmon | (+20%) |
| Skimmed milk powder | (+20%) |
| Facial tissues | (+15%) |
| Household cleaners | (+15%) |
| Pasta | (+15%) |

Graphic: LEE EMERTON


PETER DODSON: SA slow to react

Picture: COBUS BODENSTEIN

BUSINESS

# Times remain tough in industry

(180)

ARG 25/9/93.

MANUFACTURERS are grasping at tenuous growth — with production and sales showing a slight improvement over the past four quarters — writes BRUCE CAMERON.

But times remain tough, with retrenchments still the order of the day, according to the latest countrywide manufacturing survey by Stellenbosch University's Bureau of Economic Research (BER).

The BER said the number of manufacturers showing a "positive sentiment" was growing, but it was "not strong enough to lead the sector from recession".

Apart from the gradual increase in production and sales, the BER also reveals another bit of good news — capital investment can be expected to increase within the next 12 months.

But the investment will mainly be in replacing existing equipment rather than in creating new production capacity.

Although most sectors showed production and sales growth on the "rather dismal levels" in mid-1992, only three out of every 10 respondents to the BER survey reported improved volumes on a year ago.

The improvement in sales and production could be attributed to better export sales rather than domestic demand.

The BER expects export volumes to increase considerably over the next 12 months.

They expressed concern about domestic demand, saying that it could be dampened even further by the present rate of factory worker retrenchments.

Five out of 10 manufacturers retrenched workers over the past year and four out of 10 plan to do so between now and the end of the year.

Labour unit costs, which went into a steep decline over the 12 months to June, had stabilised.

The BER said the lower unit costs correlated with the rate of domestic producer-price inflation.

# Manufacturers warn of further job losses

CT 29/9/93 180

By MAGGIE ROWLEY
Deputy Business Editor

WHILE manufacturing volumes were up in the third quarter, four out of 10 manufacturers were planning further retrenchments before year end, a nationwide survey by the Bureau of Economic Research (BER) has shown.

The survey, conducted among 21 manufacturing sectors, showed that positive sentiment was improving but not rapidly enough to lead the sector from recession.

The rate of factory worker retrenchments was particularly worrying as it was bound to have a further dampening influence on domestic demand, which remained sluggish.

Over the past 12 months, five out of every 10 manufacturers retrenched workers with four out of 10 planning to do so during the fourth quarter, says the bureau.

BER warned this would be a significant negative factor in the domestic market as the manufacturing sector employs more than one out of every four labourers in the non-agricultural sector of the economy.

However, the successive reports of improvements in volumes over the past four quarters were encouraging and lower costs and prices would lend additional support.

These improvements, however, were not widespread, with only three out of every 10 respondents reporting improved production and sales volumes compared to a year ago.

Including those who had experienced lower volumes, the net result continued to be "below the line" although somewhat better than the rather dismal levels registered during mid-1992.

By comparison, the foreign picture continues to provide greater opportunity.

Foreign sales and orders in the third quarter were up from second quarter levels as had been expected.

In addition it was clear that manufacturers, due to the substantially weaker rand, had been able to raise the rand price of their export products during the third quarter without any damage to foreign market share. Export volumes were expected to increase considerably over the next 12 months.

This could explain the more optimistic responses regarding plans by manufacturers to step up capital expenditure.

Much of this captial expenditure, however, is expected to be directed at replacements which have been neglected in recent years.

The basic metals, chemicals, printing and plastic subsectors were exceptions as they were, on balance, planning to expand their production capacity over the months ahead.

According to BER, the overall intensity of political and other constraints such as insufficient demand and financing cost, remain largely unchanged from the unfavourable levels experienced over the recent past.

The survey found that the rate of increase in the average purchase price of raw materials declined during the third quarter and that the total unit cost increases were stabilising at a lower level.

Faced with weak demand, manufacturers had little choice than to translate this into lower domestic selling prices.

# Sacob moots industry forum

B/Day

THE SA Chamber of Business (Sacob) has proposed an industrial policy forum, similar to Miti's industrial structure council in Japan, to develop and recommend a new industrial policy. 1/10/93

In a discussion document released yesterday, Sacob said the forum's primary aim would be to develop a new industrial policy representative of major stakeholders in the industrial environment.

A structure designed to formulate and promote new industrial policy should be set up within the broader framework of the National Economic Forum, or the institution that replaced it. (180)

Sacob president Spencer Sterling said unlike the National Economic Forum, with its "golden triangle" of representatives from labour, business and government, this forum should have a "golden square" of representatives from business, government, labour and technology suppliers.

EDWARD WEST

He said Sacob's discussion paper on a framework for a new industrial policy, which had been researched for the past two years, would be taken to various political parties, the National Economic Forum and other organisations, to open discussion.

A new policy was necessary as the present industrial environment, established for political and economic purposes, was not conducive to economic expansion. Future economic growth would have to be led by the manufacturing sector and the co-ordination and transparency of policy

☐ To Page 2

## Sacob

B/Day 1/10/93

☐ From Page 1

needed to be improved.

The SA economy would have to grow at a significantly faster rate than it had over the past 20 years to address legitimate aspirations. A new industrial policy would have to address social imbalances by creating employment, Sacob said. (180)

The proposed forum would be advisory. The final responsibility for policy, administration and implementation would have to remain vested in the Trade and Industry Department or another state department.

It would be the forum's responsibility to persuade government to accept its proposals by lobbying policy-makers and "selling" its proposals.

The forum could set up task groups to deal with specific issues, such as information, data, policy drafting, marketing and evaluation. Sectoral strategy committees could be set up to address cross-sectoral needs, such as small industry, micro-industry and industrial infrastructure.

is manufacturing ● Huge demand by pupils

# Let business ape the Asian Tigers

Sowetan 7/10/93

By Mzimkulu Malunga

## ■ CHANGING ENVIRONMENT

### Aim to address competition:

180

THERE IS NEED for a new structure within the framework of the National Economic Forum to formulate industrial policy for this country, says the South African Chamber of Business.

"The engine for job creation has to be the manufacturing industry and this sector must be structured in line with the changing environment," says Sacob president Mr Spencer Sterling.

It is envisaged that in addition to labour, business and Government, the proposed IPF should include technologists — a move aimed at addressing the crucial issue of international competitiveness.

The organisation's chairman of the industrial policy committee, Mr Paul Hatty, say the document is not a blueprint, but see to set some guidelines for a future industrial policy.

He says the current industrial policy is not in line with the changing situation in the country and needed restructuring.

Central to the success of any policy is the cultivation of a broad consensus among major stake holders like labour, business and major political parties.

Also, an industrial policy should be subordinate to economic policy, says Hatty. However, such a policy should refrain from seeking to address issues relating to employee/employer relationships, investment codes and policies, structure and ownership of businesses as well as distortions in the economic and social sectors.

Sacob's deputy director Mr Ron Haywood says experiences in highly successful Asian countries shows that concentrating efforts on expanding the wealth cake in the initial stages of developmental plans works.

Joint ventures and the small to medium sized enterprises as well as state, business and labour co-operation are vital to transforming countries like Malaysia into what is commonly known as the "Asian Tigers".

# KNJ shows a loss of R16,4m

B/Day 14/10/93

MARCIA KLEIN

DIVERSIFIED industrial group KNJ fell further into the red in the year to end-June, with a net attributable loss of R16,4m (R11,6m).

At the December interim stage, directors said there would be an improved performance in the second half. But poor conditions led to further costly rationalisation.

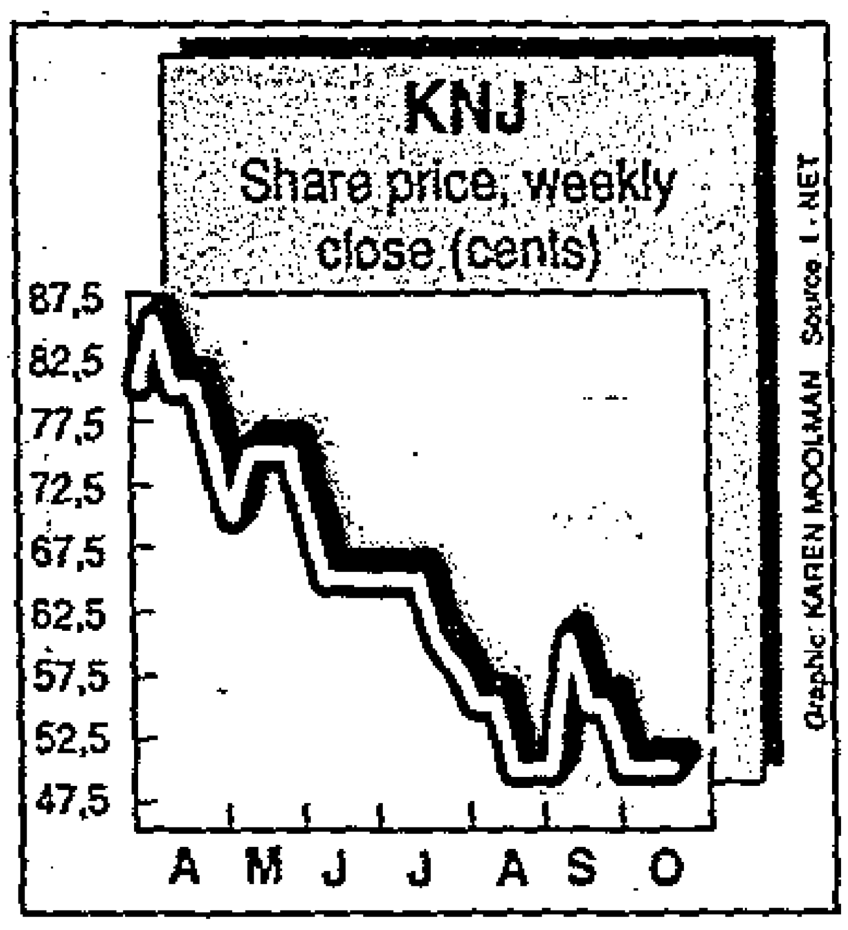
The group, whose interests include white goods, building materials, sporting goods, motorcycles and shipping and forwarding, wrote off more than R4m from discontinuations and closures.

(180)

It announced several new appointments to its board. Chairman Louis Ichikowitz would step down in favour of attorney Gerald Stein. Ichikowitz would concentrate on establishing KNJ companies in the informal sector and on developing international franchises and agencies.

Former Altech senior executive Charles Jacobs has been appointed as executive director. Former Eskom finance director Mick Davis has been appointed as non-executuve director.

KNJ reported a 40% rise in turnover to R341,4m (R244m), and operating profit of continuing operations of R496 000 from a R657 000 loss. These increases largely reflected new businesses brought into the group following last year's merger of KNJ and Sukhulu, which has links with the Israeli Eisenberg group.




But losses on discontinued operations and a significant rise in the interest bill to R14,7m (R7,6m) resulted in a R14,7m (R10m) pre-tax loss.

On the bottom line, KNJ reported a loss of 11,2c (16,3c) a share.

Ichikowitz said the group had said at the December interim stage that things would improve. It had already initiated its first rationalisation stage, which it believed would be the only stage. But Chris Hani's death in April had severely affected trading.

Further rationalisation took place in May.

Ichikowitz said the white goods businesses, which distribute the Univa and Astra ranges, were trading profitably.

The three months of trading since the year-end indicatied that a turnaround was in the offing, he said.

# Sacob outlines new agreements

SHARON WOOD

SACOB had signed 14 co-operation agreements with business organisations in 13 countries over the past year, the chamber said in its latest annual report.

The "rediscovery" of SA was indicated by the 51 trade missions from 41 countries visiting SA during the period. B/Day

Sacob had set up a working group to examine options open to the country to create a trade policy framework which would suit its interests. 14/6/93

The study would include a reappraisal of existing bilateral trade agreements with Malawi, Zimbabwe and Mozambique.

The chamber said there had been a mixed reaction from businessmen to the concept of export processing zones.

Sacob accepted EPZs in SA, which it said could be a vehicle to create employment, earn foreign exchange through the export of manufactured products, and attract foreign investors with technological and managerial skills. But it believed that it was not true that EPZs would be a panacea for export growth. (180)

Unless SA provided adequate incentives in the form of tax-free holidays, compared with those internationally, foreign investors were not likely to invest in EPZs.

An important prerequisite for their success was a greater focus on customs and excise control, and the involvement of government and regional authorities.

# Midmacor stays deep in the red

ROBYN CHALMERS

POOR performances by three operational divisions and continued depressed trading conditions kept Midmacor Industries deep in the red for the year to end-June. B/DAY

The motor and industrial group posted an attributable loss of R8,6m (R5,8m) on a turnover which rose from R73,8m to R76,3m. 14/10/93

Net operating profit on continuing operations of R531 000 reflected a second-half deterioration following the net operating profit of R1,9m posted at the halfway mark.

A net operating loss of R433 000 (R803 000) on discontinued operations, branch closures and other rationalisation costs left net operating income at R98 000 from a loss of R2m the previous comparable period. (180)

In addition, interest costs increased during the second half from an interim R1,6m to R4m as a result of reduced second-half turnovers in conjunction with long lead times on orders placed with the group's overseas suppliers.

The attributable loss of R8,6m translated into a loss of 49,9c a share from 74,1c and the dividend was waived. Directors also passed on the 1992 dividend.

However, the figures for the year to end-June 1992 have been restated to disclose separately the results of those operations discontinued during the period under review.

Directors said the major factors affecting the year's results included poor performances by the Grabur Truck & Car, PDS Pietersburg and Plant Hire operations, all of which were discontinued during the year.

# Malbak outperforms competitors

Star 22/10/93

**BY STEPHEN CRANSTON**

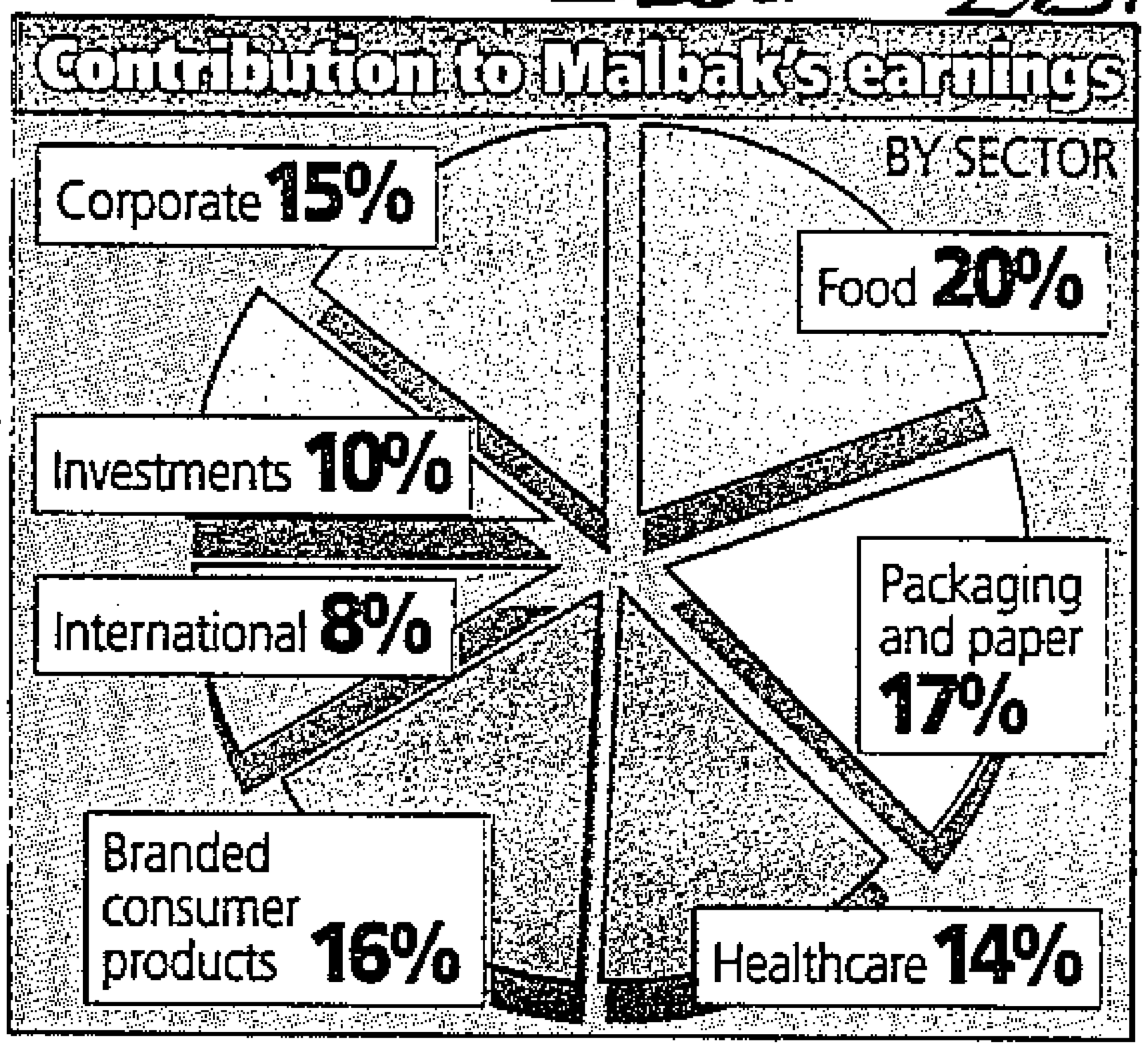
Malbak has outperformed most other industrial conglomerates with an eight percent increase in earnings to 122,4c a share in the year to August.

Chairman Grant Thomas says management squeezed assets even further.

Attention was paid to productivity improvements and cost reductions, which alleviated some competitive pressure on operating income.

The operating margin fell from 7,6 percent to 7,5 percent.

Stringent working capital management and rights issues in SA Druggists and Holdains brought borrowings down by a third to R582 million. Interest paid fell 27 percent to R132 million.




180

Malbak now has R1 billion in cash, which Thomas describes as a war chest.

"We expect peaks of opportunity and valleys of despair, and during the valleys expect to see further acquisition opportunities."

Malbak would prefer to see acquisitions concentrated in the consumer field, particularly food, paper and packaging and healthcare.

There are likely to be further joint ventures with foreign companies, in which Malbak has considerable experience through its ventures with Kimberley-Clark, ICL and more recently Crown Cork and Pillsbury.

Thomas is in no hurry to dispose of non-core businesses because Malbak has no need of the extra cash.

Haggie is the most awkward fit as the only engineering business left in the group. Gencor will be given first option to buy it when it is put on the market.

The only company to make losses was Tedelex, which has suffered from competition from grey imports.

But he says Tedelex's losses were considerably reduced and it is well-placed to take advantage of the demand for TV sets after electrification.

There was an excellent result from Malbak Motor Holdings, which saw its earnings up 50 percent and the return on funds employed reaching almost 50 percent.

The group's UK packaging business, MY Holdings, produced another good increase in earnings, but the devaluation of sterling was one of the reasons the contribution from the international division fell from 10 to 8 percent.

All listed subsidiaries made an increased contribution, with Foodcorp remaining the largest contributor, bringing R73 million.

Malbak does not look demanding on a P/E of 11,2 and a dividend yield of 2,5 percent, compared with the industrial holdings sector average of 14,7 and 2 percent.

It has got its assets into shape and seems well-placed to start reporting real earnings growth.

**Company: Malbak**
**Sector: Industrial Holdings**

**SHARE PRICE: R14** | **MARKET VALUE: R4,28 billion**
**YEAR HIGH: R17,75** | **PE RATIO: 11,4**
**YEAR LOW: R10,10**
**Net asset value: 897c** | **Dividend yield: 2,5%**

| Year to | Turnover Rm | Operating Profit Rm | Attributable earnings per share (c) | Dividend per share (c) |
|---|---|---|---|---|
| 1991 | 8 441 | 720 | 124,1 | 32,5 |
| 1992 | 10 031 | 766 | 113,5 | 33,5 |
| 1993 | 11 002 | 820 | 122,4 | 35 |
| % Change | 10 | 7 | 8 | 4 |

# Private sector lags in capex upturn

KELVIN BROWN

CAPITAL expenditure projects worth more than R80bn were likely to reverse the low level of fixed investment in the economy over the next few years, Nedbank's latest guide to the economy says. BDay

Nedbank economist Liz Farquharson said domestic investment declined by a substantial 108% to a negative R864m between 1988 and 1992, when provision was made for depreciation. 26/10/93

A review of planned projects between now and 1996 costing more than R20m indicated their value was about R87bn.

Most of this capital expenditure was concentrated in the manufacturing sector, followed by the electricity, gas and water sector and investments in social and community upliftment projects. (180)

Most were large capital-intensive projects aimed at producing exports.

Private sector investment without the involvement of public sector agencies was missing. "Those projects that can be viewed as private sector investments are relatively small and are almost exclusively in the manufacturing and trade sectors."

Over the next three years almost a third of total fixed investment in the economy would come from the manufacturing sector. The Columbus, Alusaf, Sappi and Sasol projects accounted for more than 60% of the R21,1bn in planned investment.

Significant investments in the electricity, gas and water sector worth R20,6bn were also planned, in line with the growing need for infrastructural development.

This would make up as much as 25% of total investment expenditure in the economy between next year and 1995.

More broadly based investment from the private sector was needed if the trend toward an increase in capex was to be maintained, Farquharson said.

# Industrials maintain trend

(180)

JOHANNESBURG. — Industrials maintained their upward trend yesterday amid generally positive sentiment towards the sector as investors looked ahead to an improved business environment.

They said last week's one percentage point bank rate cut had raised hopes of better company performances and a shortage of scrip was limiting the downside.

Gold shares shrugged off a softer gold price as currency factors offered support to the market.

"Golds didn't fall out of bed despite gold. The weaker financial and commercial rands were providing support," a dealer said.

The Gold Index finished three points higher at 1 703, the Industrial Index added 18 points to 4 557 and the Overall Index was seven points up at 3 914.

A senior trader said hopes continued that international investor attention would gather momentum, especially in some previously disregarded local industrials.

SA Breweries held its 75c gain to R67,75 as the share attracted offshore buyers through the day.

Market leader De Beers was 25c better at R83,50 in uneventful trade that followed declines for its Nasdaq listing on Monday night.

After results, LTA posted a 10c gain to R5,20.

Absa continued its volatile reaction to varied investor perceptions, shedding 25c to R8,90. Firstbank made a rand to R79.

Iscor slipped a cent to R1,55 after a steady start and Sunbop was 50c up at R27,50.

CT 3/11/93

Pepkor rose a strong 75c to R14 and Pep made 50c to R7,50.

In golds, Vaal Reefs made two rand to R353 and Loraine recovered two rand to R13 after sharp losses on Monday.

Kloof managed a one rand gain to R40,50 after announcing that output would not be affected by a recent accident. — Reuter

# Record commitments in financing squeeze IDC

BDay 9/11/93

(180)

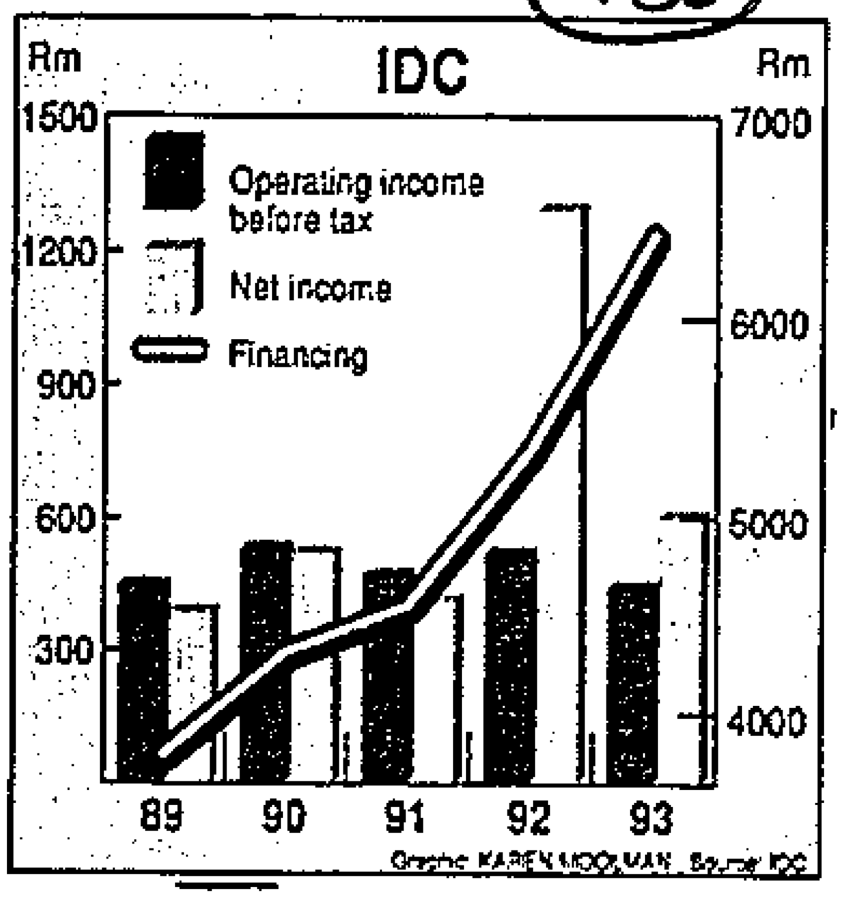
MATTHEW CURTIN

THE INDUSTRIAL Development Corporation, the state-owned agency with total assets of R7,2bn, reported a steep decline in earnings to R602m (R1,29bn) in the year ended June 30 as its authorised financing commitments reached record levels.

Senior GM Malcolm Macdonald said yesterday the corporation had moved into "a squeeze period" as it committed significant resources to long-term capital projects which would report earnings only in the mid-'90s. The IDC was providing a quarter of the finance for the Alusaf, Columbus and Namakwa Sands ventures — projects worth more than R12bn — which were given the green light in the year.

Investment in industrial financing jumped 20% to R6,4bn (R5,3bn), much of which was financed from internal cash flow and asset sales, with borrowings increasing R300m to R1,96bn (R1,4bn).

Financing commitments surged to R8,1bn at June 30 from R2bn the year before. The IDC would fund them with offshore credit facilities, "modest borrowings", and its own cash resources. The corporation's overall exposure was only R4,8bn because of counter-guarantees from project partners and banks.




The IDC paid an R81m dividend to government, its sole shareholder. It paid two R500m extraordinary dividends in 1991 and 1992.

A dip in dividend income to R234m (R319m) offset marginally higher interest receipts, up at R507m (R492m), to leave total revenue lower at R742m (R811m). After-tax operating income slipped 13% to R362m (R418m).

Macdonald said the corporation's profitability was dented by three main factors, including its large investment in projects which were not producing an initial return.

Investment income from IDC subsidiaries was knocked by the domestic recession and weak international commodity prices. Foskor, the Phalaborwa phosphate producer, saw after-tax income dive to R18m (R70m) on reduced sales of R429m (R517m).

Atlantic Diesel Engines, the 87%-owned motor and components manufacturer, reported lower after-tax profit at R19m (R22m) while wholly owned tea, coffee, spice and nut producer Sapekoe moved tentatively back into the black with after-tax income of R1m after the previous year's R8m loss. Asparagus grower and canner Deemster reported after-tax income of R500 000 (R600 000) on flat sales of R10m.

Macdonald said investment income was affected by asset sales in the past two years, most recently with the unbundling of the IDC's investment companies, Industrial Selections and National Selections. The IDC had raised R1bn from the the exercise, to be invested in new projects, giving it a temporary boost to its cash resources.

The IDC transferred the R253m capital profit from the year's asset sales to its non-distributable reserve.

# IDC plans R500m venture into nuts, paprika and dates

B/Day 10/11/93

SA COULD become a major exporter of nuts, paprika and dates should R500m worth of labour-intensive export-driven Industrial Development Corporation (IDC) agribusiness projects get off the ground.

The four most advanced projects — farming cashew, macadamia and pistachio nuts, and dates — have a total capital cost of R167m with estimated combined foreign exchange earnings of about R60m a year. IDC subsidiary Sapekoe is upgrading its tea and coffee plantations and promoting the cultivation of paprika. B/Day

Although SA wage rates compare unfavourably with rival developing world producers, the IDC's focus on cultivating high-yield quality crops may give SA farmers the edge over poor-quality pistachio output from Iran and Iraq or high-cost macadamia nuts from Hawaii and Israel.

IDC senior GM Malcolm Macdonald said yesterday the corporation had approved R12m at its last board meeting for the full-scale development of a cashew nut project in Ingwavuma in northern Natal.

He said cashew nuts were an excellent smallholder crop. The project, initially employing 460 workers on an 850ha commercial holding with a multimillion-rand nutcracker plant, had been given the green light after a successful six-year pilot study undertaken by Anglo-Dutch multinational Unilever and the Kwazulu Development Corporation.

MATTHEW CURTIN

Macdonald said farmland along the Orange River had the potential to become a nut- and date-producing area rivalling the raisin/table grape region in the Cape.

The IDC had been keen for some time to promote labour-intensive businesses in the rural areas as an important development and job-creation vehicle. 10/11/93

Careful surveys of microclimates in SA conducive to particular crops had been undertaken, as well as financing of research aimed at cloning and tissue-sampling plants to maximise yields. (80)

The absence of any other development agency, and the prohibitive development costs for the farmer of researching new crops, had involved the IDC unexpectedly in the area of agribusiness. The corporation had inherited Sapekoe's tea and coffee plantations in Natal and the northern Transvaal, and while it would not choose those crops today, nuts, dates and paprika would prove important alternative sources of income for both subsistence and large-scale farmers.

Other more capital-intensive projects in the IDC's agriculture-based natural resource development programme included the AECI synthetic lysine joint venture, the IDC glycol-from-sugar project, and Sappi's Saiccor rayon pulp expansion project.

# Renascent IDC is stumped by black empowerment

BDay 11/11/93

**MATTHEW CURTIN**

INDUSTRIAL Development Corporation senior GM Malcolm Macdonald says the IDC is one of the world's most successful industrial development agencies.

If that is not to prove an idle boast, the IDC will have live up to the ideals on which it was founded — often neglected in the darkest days of apartheid — and meet new challenges, most notably black economic empowerment.

Harold Fridjhon wrote in Business Day on the eve of the publication of the 1990 government review of the IDC's role that there was "a measure of subcutaneous idealism in the setting up of the corporation (in 1940): it would create the climate for accelerated industrialisation in the new era which would come with victory and peace. General Smuts believed SA would become the powerhouse of sub-Saharan Africa."

The IDC's 1940 act of incorporation stipulated it should foster new industries and make existing ones more efficient according to "sound business principles".

That was fine-tuned in February 1991 by the late Wim de Villiers and Kent Durr, Ministers respectively of Economic Co-ordination and Trade and Industry at the time, who ordered the corporation to "expand its role as financier of industrial enterprises and to mobilise its full financial resources to this end".

The IDC has worked hard to fulfil its brief in the past three years, playing a critical role in forming industrial and trade policy. Its landmark 1990 report called for phased reduction of tariffs and offered strategies to improve export competitiveness.

Words have been followed by action and finance, whether in contributing to GATT negotiations or backing the three huge added-value export-orientated mineral projects: the Alusaf and Columbus joint ventures and Anglo's Namakwa Sands. IDC support for the R7,2bn Alusaf smelter project was committed in 1991 when the corporation could have chosen instead to take up a 20% stake in white elephant Mossgas.

In addition to the stand-alone export competitiveness, foreign exchange earnings and downstream industrial potential which the three mega-projects promise, their approval in late 1991 amounted to a crucial vote of confidence by the industrial sector in SA at a time when the violence and political stalemate were cause for mounting domestic and overseas pessimism.

The IDC has got better at encouraging small industrial development. Its concessionary packages first launched two years ago failed to win many fans at first, but the roadshow which hawked schemes like job creation finance round the country in July has led to unprecedented interest from independent industrialists.

The corporation has turned cautiously but in a studied fashion to promoting labour-intensive agribusiness projects. It has carefully identified local climate and market conditions which support the cultivation of new crops, in consultation with farming communities, whether they are KwaZulu smallholders or Free State wheat farmers. (180)

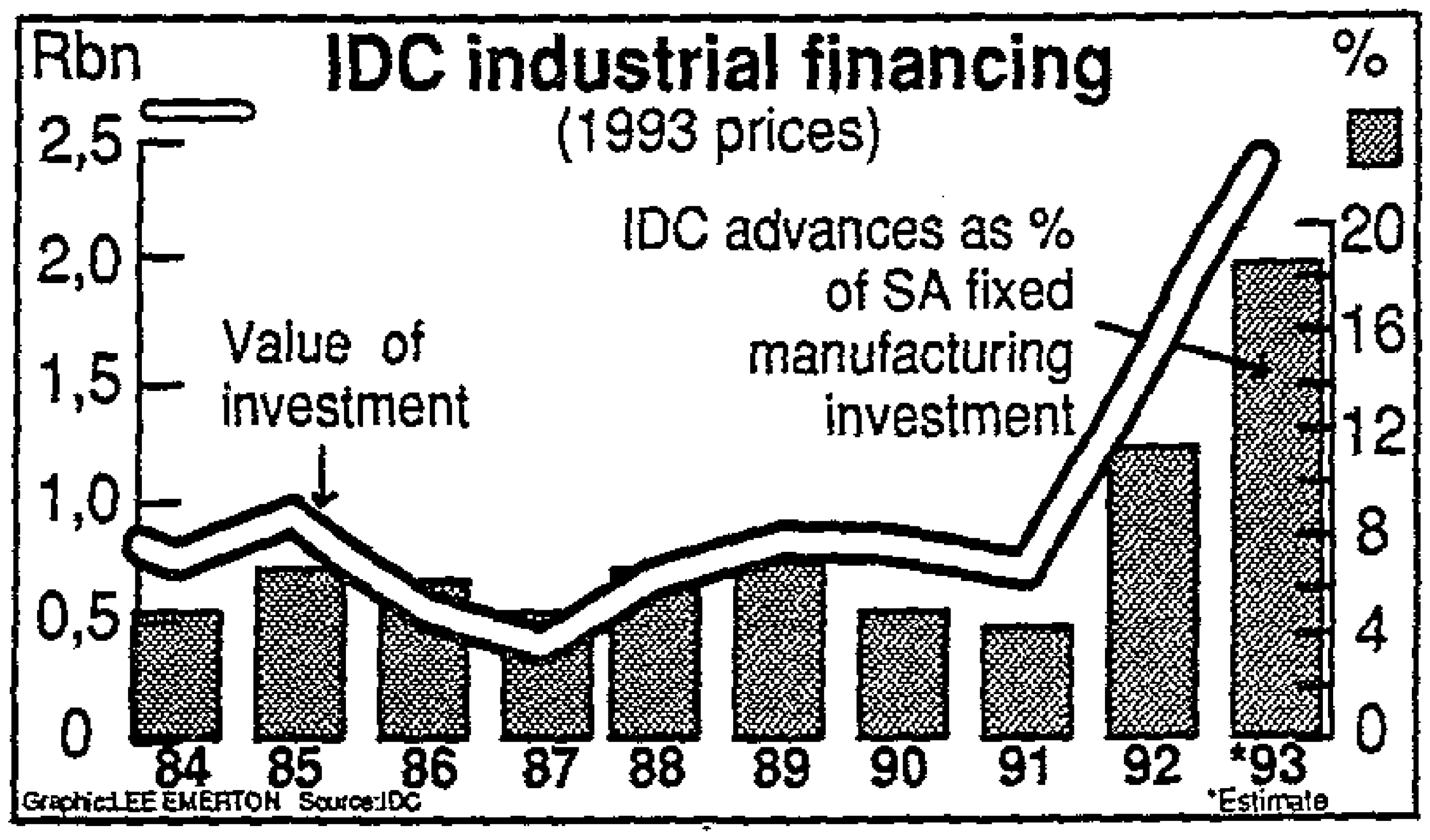
Impressive as this record is, it does mask the errors of the past. Critics say the IDC lost sight of its industrial development purpose and became the NP's industrial agent, consumed by the importance of Afrikaner economic empowerment and strategic projects like Sasol. It is a charge Macdonald says is unsubstantiated, because at no stage in its history has the IDC financed projects it thought were not viable, even if many depended on tariff protection.

The IDC may have given Mossgas short shrift in 1991, but that was only after a R545m loan during the project's construction phase. The IDC's proud claim that it has been self-funding since the '50s have to be squared with the considerable waste of SA's precious capital resources on Mossgas, the fatally tariff-cushioned textile industry before it, and marginally successful enterprises like Atlantic Diesel Engines.

The corporation has baled out of many of the businesses in which it should never have been involved, with the steady sale of its industrial and commercial investments from the '80s culminating in this year's unbundling of investment companies National Selections and Industrial Selections.

The funds released from those assets leave the IDC soundly financed for the '90s. Total authorisations in 1992/3 stood at R8,4bn even though many facilities were underused, and the corporation ended the year with assets of more than R7bn.

MD Carel van der Merwe says more than R30bn will be invested in manufacturing industry in the five years to June 1996, ahead of the target the IDC set itself in 1991. He says acting as a catalyst for industrial development is what the IDC is demonstrably good at doing, hence a sense of confidence that the corporation — now "fiercely non-partisan" — has nothing to fear from new political masters next year.




But he is blunt about what has become the fourth leg of its five-year plan, black economic empowerment. "We don't really know how to do it."

The IDC has three successes in this sphere under its belt: the sale of its stake in National Sorghum Breweries to black business in 1991; financing the R15m transfer of control to black entrepreneurs of eastern Cape bottling company Kilimanjaro Bottling in 1991; and this year's financing of the consortium of black businessmen which took a controlling stake in Sanlam's insurance group Metropolitan Life.

Van der Merwe says it cannot afford to be sidetracked by funding replacement assets, cutting across the IDC's prime role in creating new assets. "We're in the business of developing industry for the benefit of the whole community, not black enrichment or social upliftment." The corporation insists on a real return on its investments.

He says that in any case, the IDC is only one player in the SA economy. At the most it could allocate R200m a year to black economic empowerment, but that would be "a proverbial drop in the ocean". Van der Merwe says "it will be a long process to spread a culture of share-owning" in SA, shown by the slow process it is making in placing shares from the Metpol deal.

New projects backed by black entrepreneurs will find favour at IDC headquarters but not if the corporation is expected to finance them fully, a problem which raises the issue of where the black community will find the capital resources to acquire a bigger stake in the economy.

Macdonald says that is a non-question. "The black community has to take control of its contractual savings institutions." Mobilisation and sound management of the billions of rands in trade union pension funds alone would give black South Africans a fairer slice of the economic pie. He noted the IDC has approved participation in the proposed Community Bank.

Until that happens, Van der Merwe says the IDC can pursue nothing more concrete than its current "ad hoc approach" alongside the strategies of the private sector and institutions like the SBDC and the Development Bank.

# Confusion stalls IDC ecotourism

B/Day 11/11/93

THE R600m Industrial Development Corporation (IDC) ecotourism initiative had stalled largely because the country's tourism industry misunderstood how concessionary IDC finance worked, MD Carel van der Merwe said yesterday.

He said this had been exacerbated by uncertainty about regional political boundaries, which had made parks boards nervous of investment, while the level of violence had put off many foreign visitors.

Parks boards and businesses had complained that short-term bank finance was cheaper to find than some IDC loans, but Van der Merwe said such a view ignored the genuinely concessionary terms of its overall development packages. (180)

He called on government to give tourism a higher priority. "Obstacles to the development of SA's unique selling features in the international market relate mainly to inadequate co-ordination and bureaucratic impediments," he said.

Although the IDC had identified projects worth R400m, mostly related to providing accommodation to service the Kruger Park, conservation authorities "lacked the guts" to come forward with concrete long-term projects after showing initial enthusiasm last year.

He said only 200 new hotel beds of the 3 000 IDC studies had shown were necessary to cater for bottlenecks building up in the hotel trade had been provided since the tourism facility was launched in 1992. In the year to end-June only R42m of finance had been authorised.

Van der Merwe said government had unfortunately created the mistaken impression that it had given a R600m grant to the IDC which would be passed on to the tourism industry, when the corporation was in fact offering financial backing on similar terms to those on offer for other industrial projects. The IDC could only be a catalyst in promoting tourism.

There was little chance of progress on the ecotourism front before the middle of next year, although he was confident that once the April elections were out of the way, the number of tourists would accelerate and investment in the sector might take off.

● See Page 8

# Optimism on manufacturing

BiDay 15/11/93

KELVIN BROWN

THE manufacturing sector's recovery in the third quarter is expected to be more firmly entrenched in the last three months of the year, economists say.

The latest GDP figures indicate manufacturing production made a comeback in the third quarter to grow at a real seasonally adjusted annualised rate of 5,5% after shrinking 0,2% in the three months to June.

Old Mutual chief economist Dave Mohr said at the weekend that the economy now had the potential for a sustained improvement in manufacturing.

He predicted this could see the manufacturing sector growing by at least 4% on an annualised basis in the fourth quarter.

He said the recovery in manufacturing was quicker than at the end of past recessions because of the low level of inventories.

"A moderate improvement in demand should lead to an even bigger rise in production as companies do not have large stock levels to call on."

(180)

Inventories were at a lower levels than at the end of the recessions in the '80s because of high real interest rates and technological changes in stocktaking methods.

Absa economist Adam Jacobs said high growth rates in agriculture in the past two quarters would also have a positive effect on manufacturing.

The latest retail sales figures for the rural Transvaal revealed sales were booming after the end of the drought, he said.

A further pickup in production levels would come from an increase in exports. Companies were selling their output overseas as a recovery in local demand had not yet taken place, he said.

The current rise in manufacturing production appeared to be related to a surge in exports. On a seasonally adjusted basis exports improved about 45% in the third quarter.

# Barlow Rand bows out with a whimper

(180)

CT 16/11/93

Own Correspondents

BARLOW Rand, in its final announcement as SA's largest industrial group, reported a 15% slide in earnings to 367,4c (432,3c) a share in the year ended September, but declared an unchanged 173c dividend.

Profitability was hit by weak performances from most unlisted wholly owned subsidiaries, a slump in earnings at UK subsidiary J Bibby & Sons, and the tough conditions facing C G Smith and Randcoal.

The results are Barlows' last as a diversified mining industrial conglomerate, as the unbundling plans announced in June have led to the disposal of its interests in electronics, consumer products and gold mining. The new-look company, to be renamed Barlow Ltd in January, has emerged as a cash-flush, low geared heavy industrial group with significant overseas interests.

Turnover rose only 7% to R37,98bn (R35,4bn), the slowest rate of growth in more than a decade. Operating profit before interest was down 9% to R2,5bn (R2,7bn), reflecting a decline in the average operating margin to 6.5% (7,6%).

Income from investments was 21% higher as Barlows received R607m from Old Mutual in July for the sale of shares in Reunert, C G Smith, Rand Mines, RMP and Randgold, on which two months' interest income was earned. Profit after tax, including associate companies, was 7% lower at R1,6bn (R1,7bn) and the payment of R905m (R907m) to minorities further reduced attributable profit.

Extraordinary items included a R262m (R317m) write-off of goodwill, R85m (R64m) in net losses on the sale or discontinuation of Barlows' businesses, a R216m profit (R60m loss) on the disposal of properties, investments and shares in subsidiaries, and a R118m provision to cover restructuring costs.

Chairman Warren Clewlow said the R118m included the cost of retrenchments and continuing social commitments of the Barlow Rand Foundation.

If all the transactions in Barlows' restructuring had been effective from October 1992 and the R118m provision had been used evenly over the year, its earnings would have been 364c, a fall of 3c or 0,8%.

## Last minute hitch to unbundling

**PLANS by Barlow Rand to sell computer subsidiary Persetech as part of a R460m deal to electronics group Reunert have fallen through in a surprise last-minute hitch to the conglomerate's unbundling.**

**The change adds extra weight to the new-look Barlows, to be renamed Barlow Ltd next year, which is going ahead as planned with the distribution of shares to shareholders of its stakes in its subsidiaries C G Smith, Rand Mines and Reunert.**

**Based on the value of Barlow Rand shares on Friday of R41,725, the total value of the distribution is R24,25 a share, leaving Barlows with an imputed share value of R17,50.**

**Barlows shares fell nearly 2% or 75c yesterday to close at R41, just above their year-low of R38.**

**Standard Merchant Bank has undertaken to offer to acquire odd lots of affected shares from Barlows' ordinary shareholders for cash at a price to be announced on January 14.**

**Barlows chairman Warren Clewlow said yesterday the parties had been unable to tie up the deal because of pressure from Hitachi — whose mainframe computers and components Persetech distributes in SA — preventing the company joining the Reunert fold.**

**Clewlow said Barlows planned to reduce its stake in Persetech from 60% to closer to 30% to leave the company as an associate.**

# Barlow Rand's last report tells of slide

BDay 16/11/93

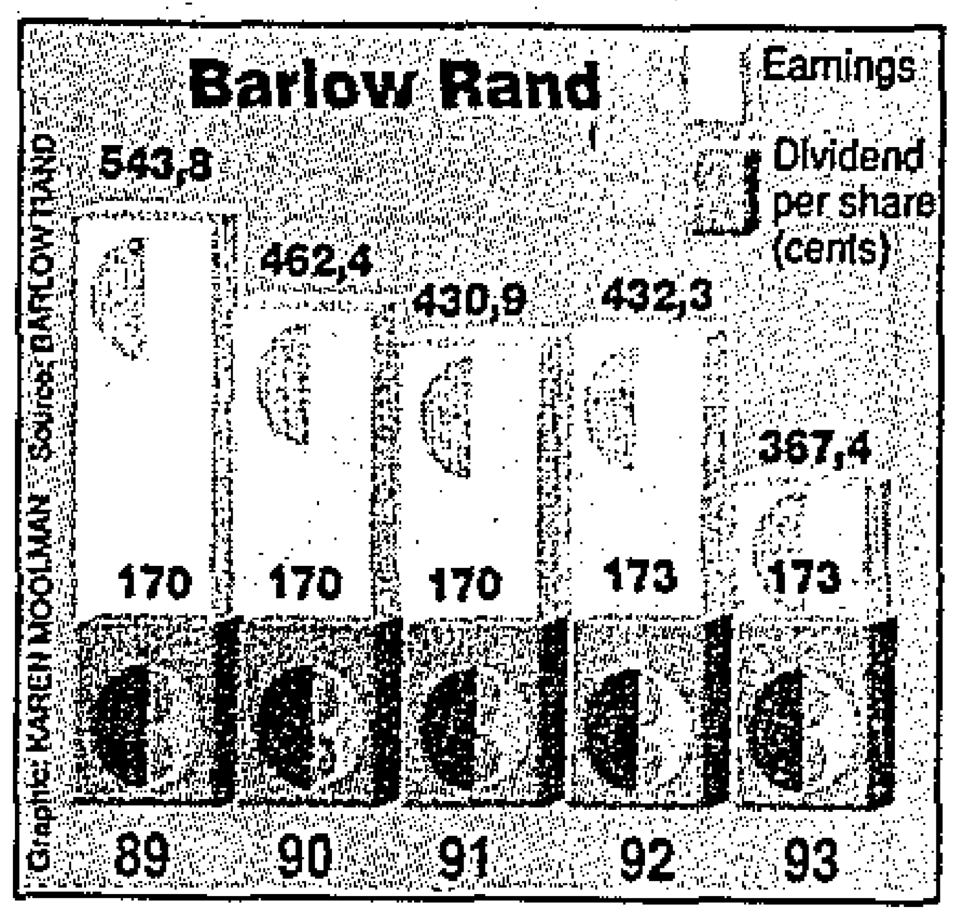
**CHARLOTTE MATHEWS**

BARLOW Rand, in its final announcement as SA's largest industrial group, reported a 15% slide in earnings to 367,4c (432,3c) a share in the year ended September, but declared an unchanged 173c dividend.

Profitability was hit by weak performances from most unlisted wholly owned subsidiaries, a slump in earnings at UK subsidiary J Bibby & Sons, and the tough conditions facing C G Smith and Randcoal.

The results are Barlows' last as a diversified mining industrial conglomerate, as the unbundling plans announced in June have led to the disposal of its interests in electronics, consumer products and gold mining. The new-look company, to be renamed Barlow Ltd in January, has emerged as a cash-flush, low geared heavy industrial group with significant overseas interests. (180)

Turnover rose only 7% to R37,98bn (R35,4bn), the slowest rate of growth in more than a decade. Operating profit before interest was down 9% to R2,5bn




(R2,7bn), reflecting a decline in the average operating margin to 6,5% (7,6%).

Income from investments was 21% higher as Barlows received R607m from Old Mutual in July for the sale of shares in Reunert, C G Smith, Rand Mines, RMP and Randgold, on which two months' interest income was earned. Profit after tax, in-

~~To Page 2~~

## Barlows

BDay 16/11/93

From Page 1

cluding associate companies, was 7% lower at R1,6bn (R1,7bn) and the payment of R905m (R907m) to minorities further reduced attributable profit.

Extraordinary items included a R263m (R317m) write-off of goodwill, R85m (R64m) in net losses on the sale or discontinuation of Barlows' businesses, a R216m profit (R60m loss) on the disposal of properties, investments and shares in subsidiaries, and a R118m provision to cover restructuring costs. (180)

Chairman Warren Clewlow said the R118m included the cost of retrenchments, reorganising some companies and continuing social commitments undertaken by the Barlow Rand Foundation.

If all the transactions in Barlows' restructuring had been effective from October 1992 and the R118m provision had been used evenly over the year, its earnings would have been 364c, a fall of 3c or 0,8%.

The conglomerate's audited net asset value a share in 1993 was R24,20. However, on the basis that the distribution of shares in C G Smith, Reunert, Rand Mines and RMP had taken place, the net asset value at September 30 would have been R13,60.

Clewlow said Barlows' weakest performers were coal mining and the Spanish Caterpillar dealership, Finanzauto, acquired by J Bibby in 1992.

Cement volumes were 5% lower while lime was static. Among Barlow's wholly owned companies, tube manufacturing performed better than expected and the loss in the building materials operations was lower than in 1992, but consumer durables were weaker. There was a slight reduction in paint earnings, but motor earnings doubled after the acquisition of new Nissan and BMW dealerships.

In Bibby, materials handling improved, the capital equipment division incurred a loss and there were lower contributions from science products, paper and converted products and agricultural divisions.

Clewlow said little improvement was expected in the SA economy in the first half of 1994, but slight signs of recovery were evident in international markets.

"The new Barlows is very strong at the centre with R500m of free cash for future development or expansion. The cyclicality of earnings has been substantially eliminated. The focus will continue to be on new products, asset management, bringing Finanzauto to profitability and on productivity," he said.

See Page 11
Picture: Page 3

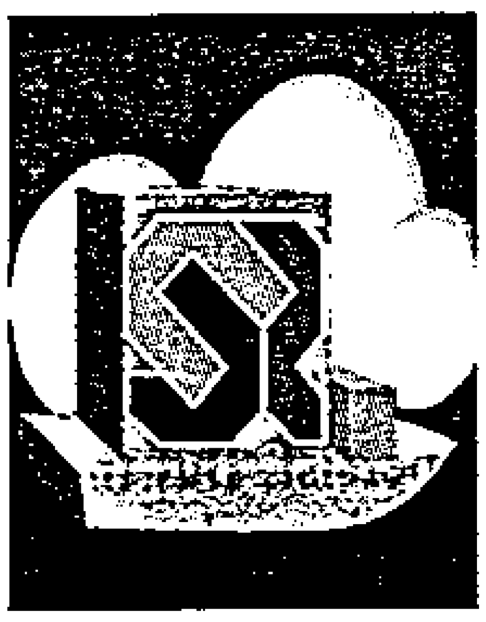
SAFREN

Fm 19/11/93

# How much of a gamble is it?

## New chairman Buddy Hawton is confident an expansionary phase lies ahead

(180)



**For years,** the market regarded Safren as a blue chip, largely impervious to recession, thanks to Safmarine's dollar earnings and Kersaf's tourist and gambling activities. Yet, in 1993, turnover barely increased, operating profit rose a mere 3% — and that only because of a R58m profit on disposal of fixed assets — and EPS fell 12,3%.

This disappointing performance, the questionable decision to buy into Belgian shipping company CMB Transport (CMBT) and the dubious investment in loss-making Flitestar have dented the share's image. Since 1991, more than R100m has been lost in these two areas alone. Another area of uncertainty is the security of earnings from Kersaf's casino operations.

As the graph shows, some of the blue has rubbed off this chip. Should the market change its historically bullish rating because of the setbacks?

There is fresh excitement in at least one division. Kersaf is involved in a R450m international transaction. Through an intermediate company, it has negotiated to invest in a playground in the Bahamas. Though the project has been considered for some time, it is the first major step by new Safren executive chairman Buddy Hawton.

Hawton's vision is exciting. He intends "to expand the group considerably." He sees opportunity to acquire more ships, possibly in alliances with major international partners. He sees Sun International expanding resort operations, especially in the Indian Ocean islands, the Caribbean and central and South America — Mexico for example.

After three years as CE, Hawton assumed the chair three weeks ago. He is optimistic Safren will generate higher earnings in financial 1994 from frail improvements in the local and international economies, provided conditions don't worsen again.

This view contrasts with the stance apparently being adopted by investors. The chart suggests the short-term price will continue to drift. Evidently some investors are not yet convinced earnings will strengthen. However, Hawton's positive outlook is founded on firm fundamental observations of trends developing in Safren's widespread activities.

While Safmarine, with assets at book value of R2,6bn, has always been the biggest earnings contributor, its performance has been mundane compared with high-profile Kersaf (market capitalisation R2,7bn), which has continued to invest heavily in projects like the Lost City and Carousel.

With large fixed costs, Safmarine's 1993 results were hit by the international and local recessions, the marked slowdown in world shipping volumes and losses by air associates Safair and Flitestar.

### Highly centralised

Partly in reponse to tough trading conditions, Safmarine MD Tony Farr rationalised and restructured this highly centralised organisation at the beginning of the year. He cut staff by 14% and split the company into three autonomous operations: Safliner, Safmarine International (Safinternat) and Safair Freighters.

Hawton says that, since the changes, the individual businesses are performing better. There is greater clarity of objectives, a more focused approach, faster decision-making and better *esprit de corps*. Responsibility is now commensurate with autonomy. Farr adds that managerial development has accelerated and productivity has improved. It's all beginning to show in the bottom line.

Apart from management efficiencies, says Farr, "An upturn in liner business in the past three months is holding up." Import volumes are higher than expected. Hawton is confident this indicates the local economy has bottomed and points to SA's high propensity to import when this happens.

Farr says export volumes are holding at expected levels, slightly above 1993's. In the European trade, and to a lesser degree in the US, he says, rates have edged up. Consequently, Safliner's business is improving. Safinternat's market is up slightly, though the reefer market remains in the doldrums.

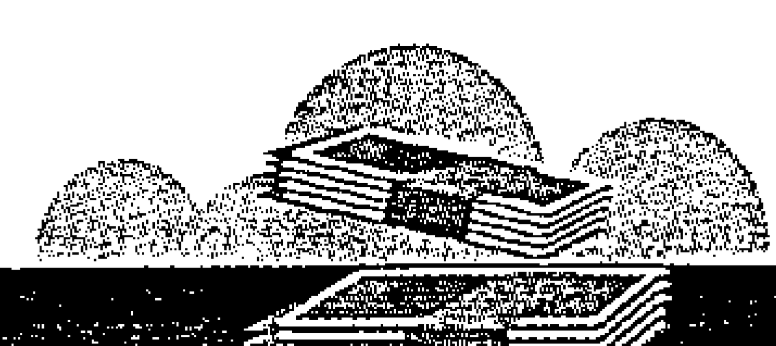
Fortunately, Safliner is the dominant business. "It is a volume-sensitive operation which, when it improves, will overshadow the rest in turnover and profit contribution," says Farr. "Much stronger earnings are coming through now."

For investors, it is a relief to hear these assurances. A number of recent investments have so far been fruitless and costly. In July 1991, Safmarine bought 49% of CMBT, a major European shipping operation, for what Hawton calls "a relatively low investment of US$25m (R78m)." He knew it was grossly mismanaged, but its condition was worse than thought. Last year, Safren wrote off this investment to a nominal R1. The write-off was charged as an extraordinary item; shareholders' funds suffered accordingly.

Hawton says CMBT is beginning to make operating profits, but its debt, though down by more than a third in the past two years, is still creating pre-tax losses. He hopes for a pre-tax profit (in dollars) in 1995.

He's less sanguine about 37,5%-held Flitestar, which started up in October 1991 and has made losses ever since. Safmarine's share of the 1993 loss was R14,9m. This investment has also been written off. "If the airline continues to make large losses, we will

Cont →



### Profit sources
Safren

Divisional contribution 1993 (Rm)

| | Turnover | Operating profit | Attributable profit |
|---|---|---|---|
| Safmarine | 1 539 | 153,3 | 130,2 |
| Kersaf | 2 027 | 432,4 | 124,5 |
| Rennies | 912 | 82,7 | 42,8 |
| Other | | (2,4) | (1,9) |
| Safren | 4 478 | 666,0 | 295,6 |

### Financial profile
Safren

**ACTIVITIES**

Ship owner and operator, air transport, travel and freight, hotel and casino operations, TV and film production, food chains, liquor wholesaling.

**CONTROL**

Old Mutual holds 38% Chairman: DA Hawton
Capital structure: 55m ords
Market capitalisation: R3,8bn

**SHARE MARKET**

Price: 7 450c Yields: 3,4% on dividend: 7,3% on earnings; PE ratio, 13,8; cover, 2,1 12-month high 10 000c; low, 6 700c Trading volume last quarter 1m shares

| Year to June 30 | '91* | '92 | '93 |
|---|---|---|---|
| ST debt (Rm) | 8 | 59 | 75 |
| LT debt (Rm) | 822 | 1 167 | 1 613 |
| Debt: equity ratio | 0,08 | 0,15 | 0,34 |
| Shareholders' interest | 0,45 | 0,47 | 0,47 |
| Int & leasing cover | n/a | 18,2 | 7,4 |
| Return on cap (%) | 14,4 | 13,0 | 9,8 |
| Turnover (Rm) | 4 369 | 4 284 | 4 478 |
| Pre-int profit (Rm) | 683 | 698 | 576 |
| Pre-int margin (Rm) | 15,6 | 17,3 | 5,7 |
| Earnings (c) | 566 | 617 | 541 |
| Dividends (c) | 237,5 | 255 | 255 |
| Tangible NAV (c) | 2 128 | 2 504 | 3 166 |

* After change in accounting policy for associate companies

# Industrials pushed to new record

(180)

CT 19/11/93

**Own Correspondents**

JOHANNESBURG. — Bullish sentiment on the back of the adoption of the constitution for a new SA stoked renewed foreign and domestic demand for leading industrial shares on the JSE yesterday.

The industrial index posted a gain of 58 points to coast through resistance at 4 800 and close at a record 4 855. The index has gained 215 points in the past three sessions as euphoria engulfed financial markets on perceived political prospects for SA.

## Foreign cash

"Everybody was surprised that blue chips continued their record-breaking run as some pullback was expected after the sharp gains. While foreigners are sensitive about violence ahead of the election, they are extremely bullish on economic prospects and are looking for any industrial leaders," a dealer said.

Observers emphasised that the inflow of funds into financial markets was "only the tip of the iceberg" of foreign cash seeking a home in SA investments.

In the futures market, dealers said foreign interest had surged on the back of growing confidence in SA.

Investec derivatives trading head Bryan Coyne confirmed there had been a substantial pickup in foreign trade with particular interest from the US.

Dealers said a large offshore buy order sourced in London but probably originating in the US entered the market yesterday.

Simpson, McKie derivatives head Francois du Plessis said most foreign trade until now had been from arbitrage activities. However, with the vigorous interest in the underlying spot market, foreigners were using the futures market to gain exposure to equities.

Latest figures show open interest contracts on the SA Futures Exchange topped 500 000 (valued at about R4bn) for the first time.

Du Plessis said foreigners had entered the market in large volumes.

Safex CE Stuart Rees said US broking firms Goldman Sachs and Salomon Brothers had met the exchange to discuss trading in futures.

Johannesburg Chamber of Commerce and Industry CE Marius de Jager said stability would lead to greater investor confidence, inflow of capital and strong economic growth. He was sure the business community would greet the decisions at the World Trade Centre with relief.

## Wealth

The Chamber of Mines said it hoped political developments would "lead to a stable, equitable and peaceful climate in which to create wealth and jobs".

Chamber president Jurie Geldenhuys said: "For the first time in this country's history we stand on the threshold of true democracy, and we urge all South Africans to throw their full weight behind its realisation."

Nafcoc acting CE Max Tlakula said "now that the constitution has been settled we can break with the past and be part of the governing process; we will now be able to address purely business concerns".

# Industrials (180) in line for profit-taking

CT 20/11/93

JOHANNESBURG. — Industrial shares extended their seemingly unstoppable upward march yesterday amid a continuation of recent supporting factors and despite fears of selling ahead of the weekend.

But dealers warned that the sector was set for a testing start to next week as investors looked to consolidate recent gains, possibly taking some profits after hefty percentage gains.

The Industrial Index ended 46 points better at 4 901 — a 6,1% gain in the week. The Gold Index made seven points to 1 928 and the Overall Index added 34 points to 4 239.

SAB was the first to display the effects of overheated demand, shedding 75c to R72,50. Iscor, too, slid five cents to R1,85 before recovering to end at R1,91.

Bankers continued to attract strong interest, Firstbank adding R2 to R82, Stanbic rising R2 to R97 and Nedcor rising 25c to R26,50.

Even the recently lethargic Absa made 10c to R9,20 after struggling to find a level earlier on.

Lonrho, helped by news of an agreement with Uzbekistan for a gold venture, collected a strong 50c to R8,65.

Market leader De Beers was unchanged at R83,25, Anglo made R1,50 to R161 and Richemont rose 25c to R39,75 in steady trade. Remgro was also in demand in adding R1,25 to R30,60.

OK rose 50c to R10,50 — 50c above the price offered to minorities by SAB.

M-NET rose 10c to R6,25.

In golds, Loraine jumped R1 to R19 and Vaal Reefs was 50c better at R392,50.

● Metkor Group Ltd and Dorbyl Ltd said negotiations were taking place which could affect their share prices.

● Rubenstein Holdings Ltd said negotiations were in progress which could affect the share price. — Reuter

# Malbak policies 'yet to pay off'

BDay 23/11/93

MARCIA KLEIN

STRATEGIC longer-term decisions had affected Malbak's short-term earnings growth, chairman Grant Thomas said in the company's annual report.

But the decisions had placed the food, packaging, healthcare and branded goods group in a powerful position in the longer term.

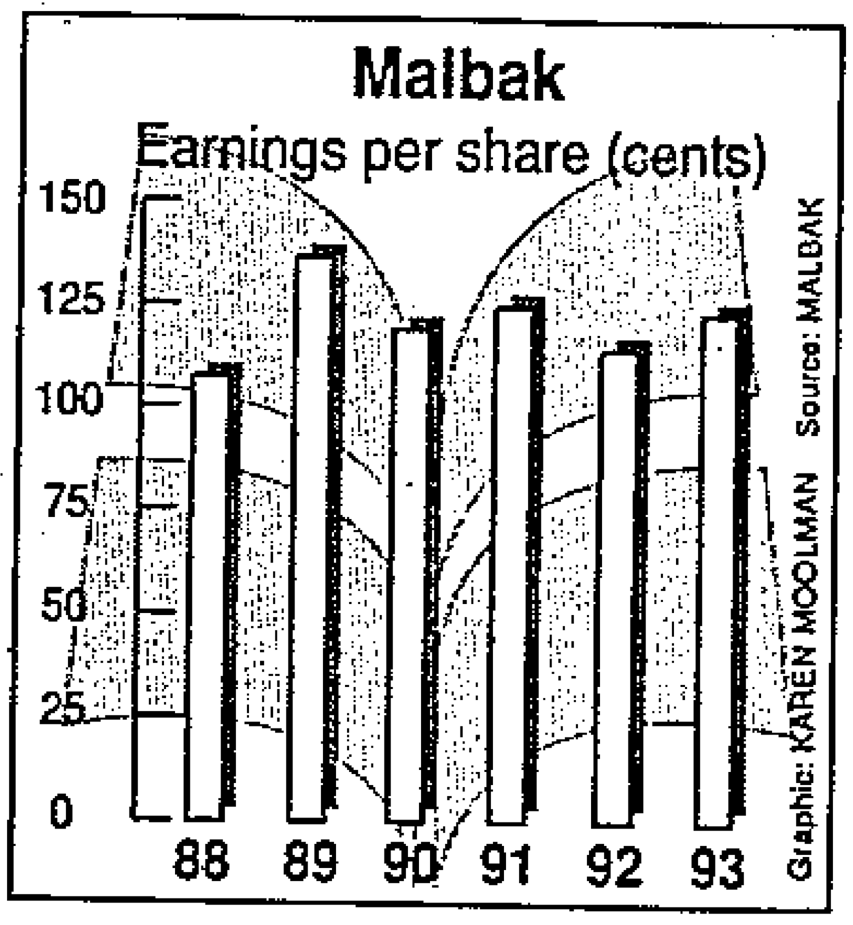
Malbak, which has major interests in Foodcorp, Holdains, SA Druggists, Ellerines, Malbak Motor Holdings, Tedelex and offshore, increased attributable earnings by 14% to R374m on a 10% improvement in sales to R11bn in the year to end-August.

Thomas said the group continued to make "excellent" progress, especially in its core consumer-orientated businesses, which had experienced a 29% growth in their share of Malbak's attributable earnings.

The group itself, however, had reported relatively flat earnings over the past few years because of structural changes (including the acquisition of Fedfood and SA Druggists), changing interest rates, a dilution in shareholding in its major underlying quoted companies and the sale of Standard Engineering and Darling & Hodgson.

These developments had cost shareholders 7,4c a share, or 6,5%.

The sale of Standard Engineering and Darling & Hodgson had been part of a longer-term move to ensure greater focus. About R192m of the cash it had raised had been invested in subsidiaries Holdains and SA Druggists.




Thomas said Malbak now had a much lower risk profile and managerial resources which had not been fully utilised. (180)

It was in a position "to seek out new investment areas which match our strategic profile and focus".

Consumer spending levels remained depressed and prospects for a meaningful improvement in the economy were "not encouraging".

Possible interest rate reductions would reduce income from the group's cash reserves, but would benefit operations. "Growth in earnings will, therefore, be wholly dependent upon our own efforts, which will include export promotion, productivity improvements and optimisation of the new projects embarked upon recently".

A modest increase in earnings a share was expected in 1994.

# Handsome rewards at Malbak

Star 24/11/93

**BY STEPHEN CRANSTON**

Grant Thomas ... acquisitions increased risk profile.

Malbak has created sustainable long-term growth for its shareholders over many years, says chairman Grant Thomas.

He says in the annual report for the year to August that R1 000 invested in 1975 is worth R31 250 today and has generated R4 150 worth of dividends over that period.

This is equivalent to an average annual compound return of 21,9 percent a year, outstripping the average inflation of 13,6 percent over the period and exceeding growth in the JSE index. (180)

He says the market capitalisation of its packaging subsidiary Holdains has more than tripled since 1987. In the two years since the acquisition of SA Druggists, its market value has risen from R472 million to R1,359 billion.

Thomas says the acquisition of SA Druggists and Fedfood in 1991 increased Malbak's risk profile considerably as they were large businesses requiring a lot of attention.

Significant managerial resources were committed to addressing problems and to optimising existing opportunities.

Malbak now has a much lower risk profile and underused management resources. It is again in a position to seek investment areas matching its strategic profile.

Within most of group companies considerable efforts have been made to increase markets and product ranges.

After forming a joint venture with Pillsbury, Foodcorp will launch Pillsbury baking products, prepared dough, pizza, snacks and pet foods along with Green Giant frozen and canned vegetables.

Foodcorp has gained access to international technology, formulations and marketing expertise. With its existing product range it has already targeted the Middle East and Far East, where is has sold more than 100 tons of frozen vegetables.

Holdains not only acquired 50 percent of Crown Cork South Africa during the year, but also acquired 30 percent of Crown Cork operations in certain other Southern African countries.

Another part of Malbak's regional expansion has been setting up an SA Druggists production facility in Malawi. Output will service a large proportion of Malawi's needs and open new markets in neighbouring countries.

Eagle Freight has nurtured links with well-established freight operators in the US, Europe and the Far East. It now conducts 70 percent of its business outside the Malbak group.

Steel trader Protea International has begun trading in Cuba, Costa Rica, Puerto Rico, Malaysia and India.

# Manufacturing cuts poor figure

Star 29/11/93

**BY DEREK TOMMEY**

Local manufacturers are a decade behind those of the West and two decades behind Japan.

Moreover, the lack of education and skills of its workers will hold back efforts to catch up.

These are the findings of a survey of SA's manufacturing competitiveness compiled by Deloitte and Touche, and presented to a visiting US trade delegation as background information.

The findings, based on a survey of 70 local manufacturers, found a wide gap between the abilities of what it calls "world class manufacturers" and all other local manufacturers.

The authors say it is clear SA manufacturers will have to become global players just to survive. Most have a long way to go.

Of the critical factors needed for success, only product quality and customer service have received attention.

It seems that success in these areas will be a pre-requisite for survival, while increased competitiveness will depend on improvement in other areas.

The authors found "grossly insufficient exploitation of technology", by the majority of manufacturers and consider this to be both "naive and tragic".

They say: "It is unlikely that the competitive capabilities required can be attained without the successful application of both "hard" and "soft" technology.

Manufacturing executives say the educational and skill deficiences of their workforce is a barrier to implementing advanced technology.

To overcome the deficiencies, manufacturers intend in the next three years to spend more on training. (180)

Training will be broadly based and targeted principally at supervisors.

World class manufacturers will invest far more heavily in upgrading technical skills and in team-building.

Among companies represented on the US trade mission — the first ever to this country to be led by a cabinet minister — are IBM, AT&T, Lehman Brothers, Arco Chemicals, Apple, Time Warner, Africa Electification Foundation, Alliance Corporate Finance, Baker and Taylor Books, Barronett Global Investors and Pratt and Whitney.

There are also representatives of the American Federation of State, Country and Municipal Employees.

# Manufacturing sector rising from doldrums

KELVIN BROWN BDay

STRONGER signs of recovery have emerged in the manufacturing sector in the second half of the year. 29/11/93

Central Statistical Service figures show the index of physical manufacturing production 3,6% up on a seasonally adjusted basis in the three months to August compared to the same period last year. This was an improvement on the second quarter when output volumes eased 1,9%.

Economists said production appeared to be returning to more normal levels after output was hampered in the previous quarter by stayaways in the wake of the assassination of SACP leader Chris Hani.

They warned the recovery would be slow and gradual due to the uncertain environment in the run up to a change in government. (180)

The CSS said higher production was recorded in most of the 28 major manufacturing groups compared to August last year.

The strongest recovery occured in wood and wood products; printing and publishing; petroleum and coal; electrical machinery; motor vehicles, parts and accessories and professional and scientific equipment.

Econometrix economist Tony Twine said a turnaround in manufacturing in the second half was expected due to an improvement in third quarter GDP figures.

The GDP data indicated the manufacturing sector grew at a seasonally adjusted annualised rate of 5,5% in the three months to September after slumping 0,2% in the second quarter.

There were some signs of a recovery in the first three months of the year after disastrous production levels near the end of 1992. But production faced a setback in the second quarter after the Hani assassination.

"Now we are seeing a recovery of the recovery in the manufacturing sector experienced earlier in the year," said Twine.

He warned the current recovery was weaker than it appeared since it was coming off a very low base.

Production fell in the second half of last year after the breakdown in Codesa and the Boipatong massacre.

MALBAK

FM 3/12/93

# Ready for next growth phase

(180)

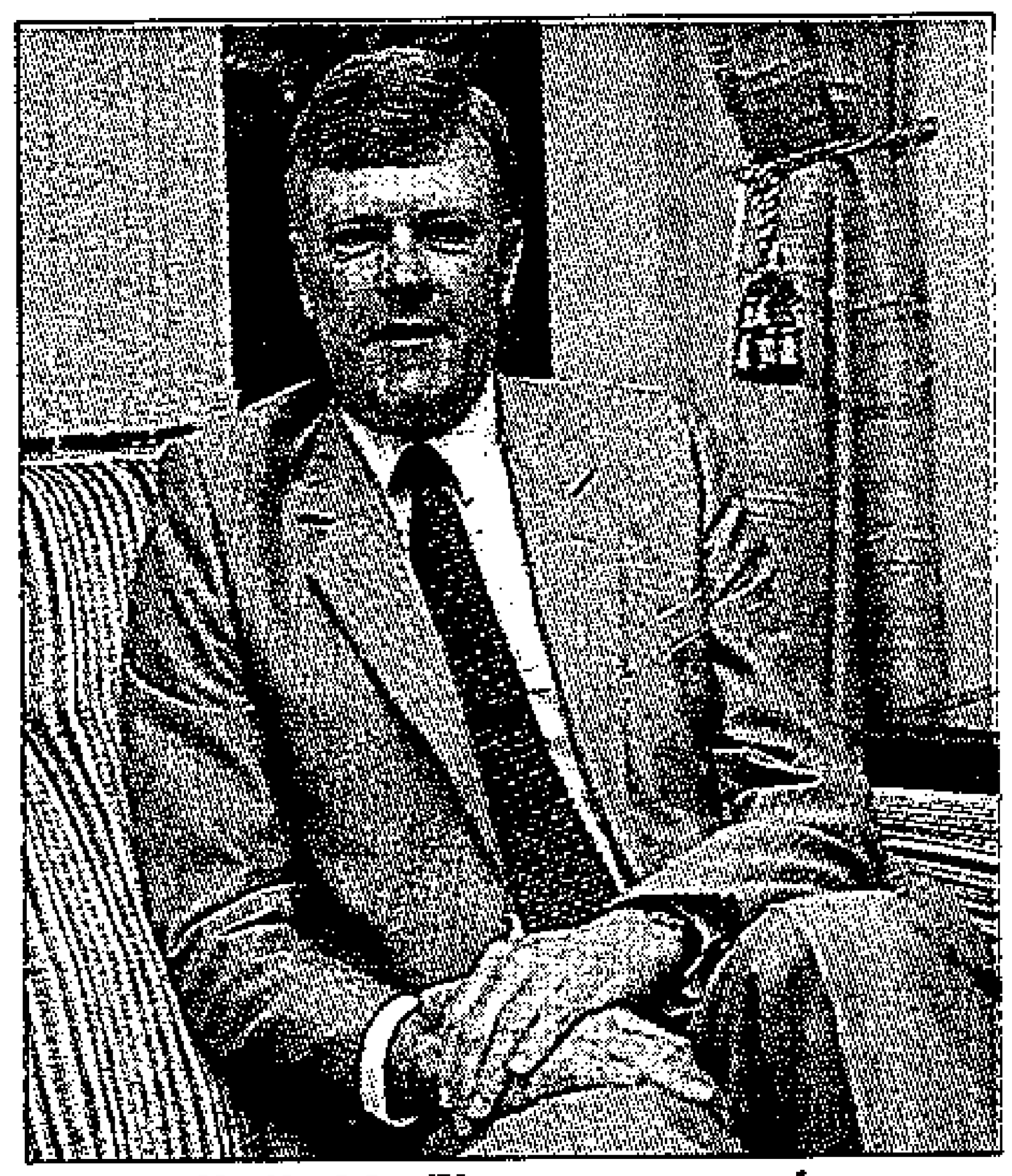
**Activities:** *Consumer-based conglomerate.*
**Control:** *Sankorp and Rembrandt (40%).*
**Executive chairman:** *G S Thomas.*
**Capital structure:** *305,5m ords. Market capitalisation: R5,1bn.*
**Share market:** *Price: 1 675c. Yields: 2,1% on dividend; 7,2% on earnings; p:e ratio, 13,7; cover, 3,5. 12-month high, 1 775c; low, 1 225c. Trading volume last quarter, 1,9m shares.*

| Year to Aug 31 | '90 | '91 | '92 | '93 |
|---|---|---|---|---|
| ST debt (Rm) | 656 | 550 | 713 | 478 |
| LT debt (Rm) | 171 | 189 | 161 | 154 |
| Debt:equity ratio | 0,40 | 0,27 | 0,03 | (0,12) |
| Shareholders' interest | 0,45 | 0,49 | 0,52 | 0,55 |
| Int & leasing cover | 3,0 | 4,2 | 9,3 | 29,7 |
| Return on cap (%) | 14,3 | 12,6 | 11,3 | 10,8 |
| Turnover (Rbn) | 8,37 | 8,44 | 10,03 | 11,00 |
| Pre-int profit (Rm) | 570 | 537 | 654 | 712 |
| Pre-int margin (%) | 6,8 | 6,4 | 6,5 | 6,5 |
| Earnings (c) | 119 | 124 | 114 | 122 |
| Dividends (c) | 30,5 | 32,5 | 33,5 | 35 |
| Tangible NAV (c) | 672 | 684 | 775 | 897 |

**The current** financial year is the start of a new era for Malbak. After seven years in the Gencor stable, it has regained a strong measure of independence through Gencor's unbundling. If the rerating of the share is anything to go by, this development has the enthusiastic endorsement of investors.

At the preliminary results (*Fox* October 22), the *FM* noted that the discount at which Malbak was rated relative to the industrial market had narrowed from 27% just before the Sankorp group asset shuffle was announced in October 1991 to below 20%.

With the latest surge in the share price, from 1 450c a little over a month ago to 1 675c now, the discount is down to 13,5% based on relative p:e. If one then takes into account that, because of its more conservative dividend policy, Malbak's dividend yield is well below the industrial sector average, it could be argued that the discount has been eliminated completely — a remarkable rating for a conglomerate, even if its spread of interests is more focused than before.



**Malbak's Thomas** ... *cash mounting up*

At one level, the market's reassessment must obviously be gratifying to the Malbak board. But there is also a clear message that investors expect Malbak to re-establish a pattern of real earnings growth; this has been absent since 1989 when EPS peaked at 136c.

This should not, however, be taken to indicate a perception that the Gencor era was unproductive. On the contrary, it was a period of extraordinary growth which catapulted Malbak from the small time to one of SA's major industrial groups. In 1986, before the Gencor deal, its assets totalled only R509m. Today they amount to R6,6bn, a growth rate clearly beyond reach except for a deal such as the one offered by Gencor.

Against this, there were a few negatives. Apart from some raised eyebrows that Malbak had been willing to surrender its independence, analysts noted that the enlarged group had become unwieldy in that certain of the interests acquired from Gencor did not conform to the traditional concentration on businesses close to the consumer sector. This was recognised in the 1991 asset shuffle, which saw Malbak dispose of its GDFI-based (fixed investment) interests to Murray & Roberts while acquiring SA Druggists and Fedfood from Federale Volksbeleggings.

In a sense, therefore, the wheel has come full circle. The asset shuffle restored Malbak's traditional earnings profile (though on a much larger scale than in the pre-Gencor era), while the unbundling has restored a degree of autonomy absent since 1986.

Two other characteristics need to be noted as Malbak enters its next development phase: its low profitability and the fact that the balance sheet is awash with cash. These are related to the extent that, regardless of the recession and its effect on business, it has become difficult, if not impossible, for Malbak to generate the returns investors are used to while 15% of assets is cash earning a diminishing return as interest rates drop.

This is acknowledged by finance director Brian Steele, who has calculated that the gross return on capital employed, excluding R756m cash held at centre and the income from that, would have been almost two percentage points higher than the 20,5% achieved last year. More to the point, the 10,8% gross return on total assets (based on *FM* definitions, which differ from those of the company), is probably an historical low.

Another aspect here is that Malbak has so far had little success in absorbing its cash pile — as indicated by net cash increasing by R524m (from a negative R105m) in 1993 to a positive R419m, equivalent to 12% of total permanent capital.

Of the R524m increase, R353m can be traced to structural changes — the minorities' share of the Holdains and SA Druggists rights issues, plus the cash proceeds of the sale of the rest of Standard Engineering to Murray & Roberts. The balance of R171m must have come from cash flow which, at R696m gross, means that interest income plus cash flowing from the subsidiaries to head office was more than could be spent productively.

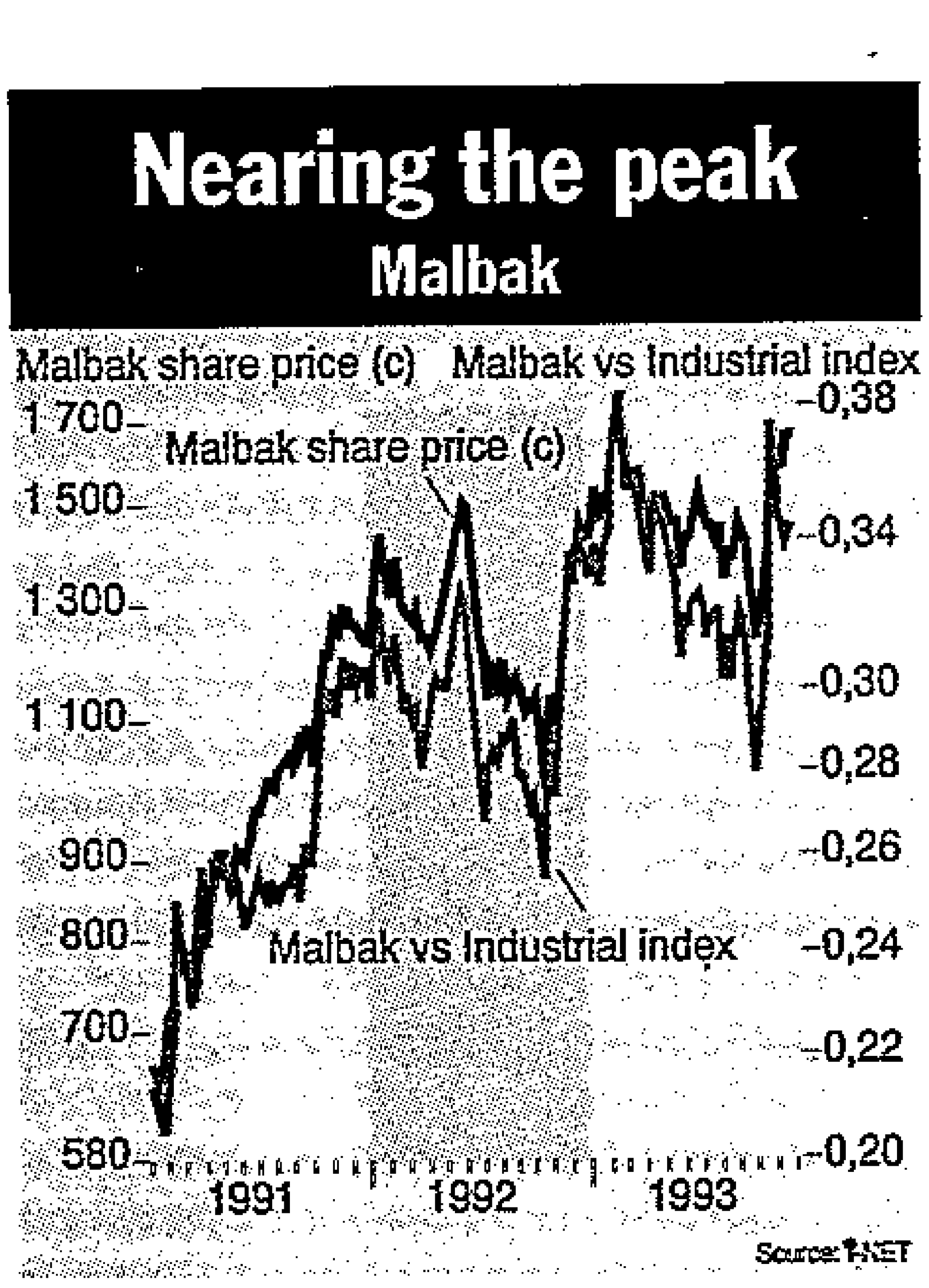
The same pattern is apparent with cash held at the centre. Despite a shortfall of R38m attributable to Malbak's investments (its share of the two rights issues, subtracting the proceeds from Standard Engineering), cash at the centre rose from about R700m in 1992 to R756m — reflecting too much cash flowing from the subsidiaries.

Many JSE companies would love to have this "problem." Even so, cash, like any other asset, needs to earn its keep if Malbak is to meet its objective of creating sustained growth for shareholders — without which,

## EMPHASIS ON CONSUMER MARKETS

**Attributable earnings**

| | 1992 Rm | % | 1993 Rm | % |
|---|---|---|---|---|
| Food | 63 | 19 | 73 | 20 |
| Packaging | 56 | 17 | 65 | 17 |
| Healthcare | 42 | 13 | 53 | 14 |
| Consumer Products | 23 | 7 | 59 | 16 |
| International | 33 | 10 | 30 | 8 |
| Investment & other | 112 | 34 | 94 | 25 |
| Total | 329 | 100 | 374 | 100 |



FM 3/12/93

chairman Grant Thomas concedes, its existence cannot be justified. (180)

Fortunately, there seem to be reasonable prospects that EPS in 1994 will at least equal the existing peak of 136c, up 11,5% on 1993's 122c, especially as an improvement of 14,6% was achieved in last year's second half after flat interims. Thereafter, politics permitting, there could be another strong growth phase with benefits to consumer-based interests flowing from a normalisation of socio-economic factors in a new SA.

This potential has already been recognised by the market, which has an uncanny habit of being right in such matters. But, if the group does not deliver, we could see a repeat of 1990 when the price dropped by about 60% as disappointment replaced enthusiasm.

*Brian Thompson*

*Sacob poll shows higher level of confidence*

# Clouds lifting over the industrial sector

Star 7/12/93

**THE proportion of respondents expecting sales volumes to increase in the coming 12 months was 73 percent**

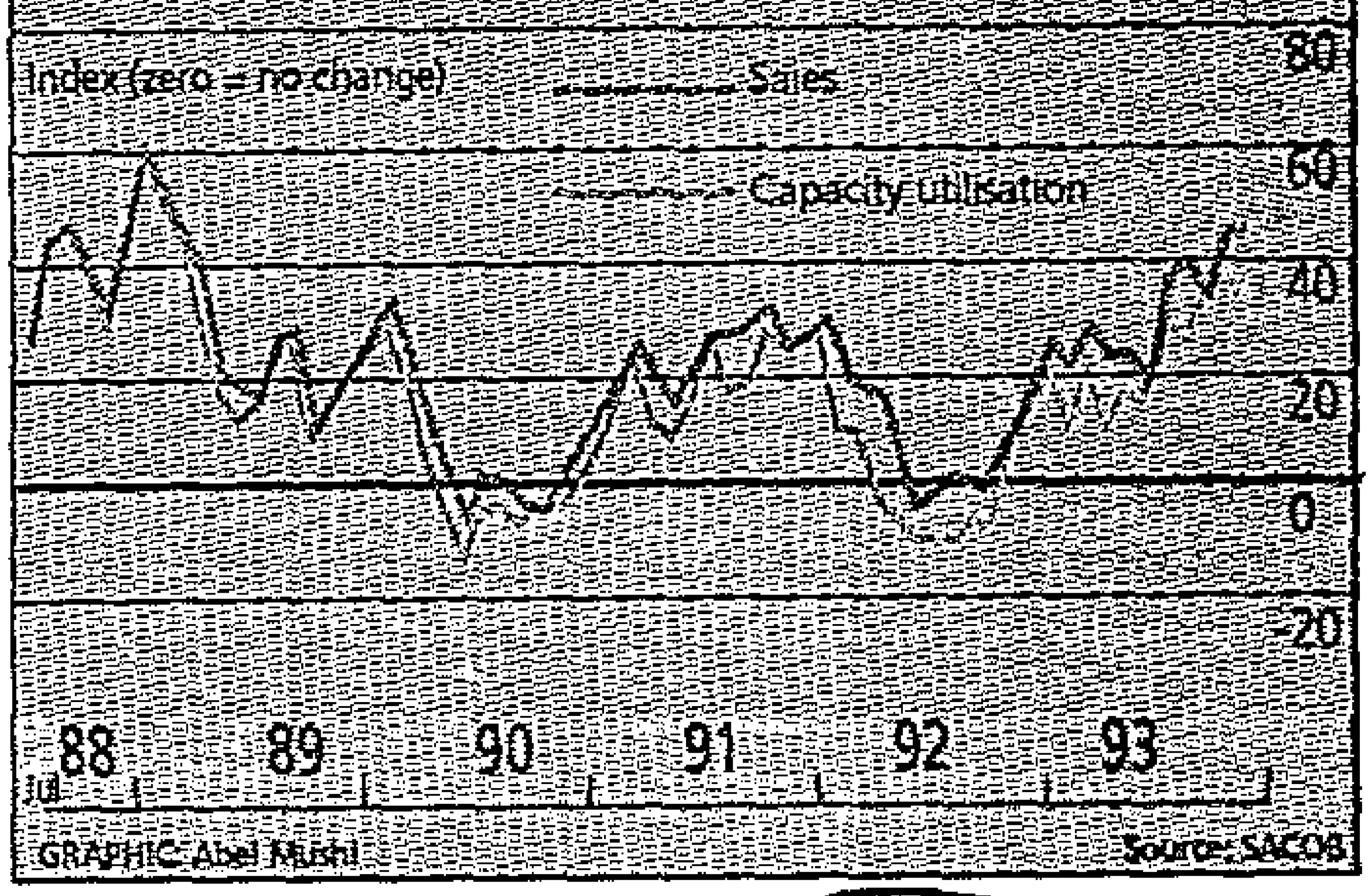
BY JOHN SPIRA

In the next 12 months, industrialists expect manufacturing sales to rise to levels not seen since April 1989, thereby confirming that the embryo recovery is firmly entrenched.

That's the word from a survey of confidence levels in the manufacturing sector just released by the SA Chamber of Business (Sacob), which finds that "a large majority of industrialists remain positive about the prospects for 1994".

It is nevertheless clear that manufacturers are sensitive to the implications of stiffer international competition and reduced tariff protection.

**Sales and productive capacity**




GRAPHIC: Abel Mushi Source: SACOB

Hence: "In spite of the expected improvement in sales volumes, most of those industrialists polled still foresee further reductions in stock volumes in the both the short term and over the coming year.

"This continues to indicate that no sudden, unexpected increase in demand is anticipated, and that the risks of being caught without stocks are perceived to be low.

180

"It is also indicative of the continued high costs associated with holding stock arising from high real interest rates, and of better stock control techniques."

Nevertheless, for the third month in succession, the actual volume of new orders received by industrialists polled was higher than originally anticipated — suggesting that activity levels are starting to gain momentum.

As much as 63 percent of those polled noted a higher volume of orders received in October than in September, while 61 percent expected activity levels to rise still further in November.

"There have now been progressive monthly improvements in manufacturing activity since April 1993, which provides a further indication that the economy bottomed out in the second quarter of this year and that the recovery has since begun."

The proportion of respondents expecting sales volumes to increase in the coming 12 months was 73 percent — the most positive response since March 1989.

Importantly, Sacob notes that the results are consistent with other cyclical indicators.

Of industrialists polled, 54 percent expect to employ fewer unskilled workers over the next 12 months and 53 percent expect their employment of skilled workers to increase.

# Producers see good '94 . . .

180

CT 11/12/93

By AUDREY D'ANGELO
Business Editor

## . . . as new orders on the rise

MOST manufacturers in SA expect to sell and produce more in 1994 than they did in the past year — with those in the Western Cape the most optimistic — the SA Chamber of Business (Sacob) manufacturing confidence survey for November shows.

Sacob economist Keith Lockwood says in his report that, for the third month in succession, the actual volume of new orders was higher than anticipated "suggesting that activity levels are starting to gain momentum.

"There have now been progressive monthly improvements in manufacturing activity since April, which provides a further indication that the economy bottomed out in the second quarter of this year and the recovery has since begun.

"The short-term improvements in activity levels are also reflected in improved sales, production and capacity utilisation figures and in the increases in skilled employment levels."

Lockwood said some replies showed that "SA manufacturers are sensitive to the implications of increased international competition and reduced tariff protection."

But "the proportion of respondents who expect sales volumes to increase in the coming 12 months rose to 73% in the November survey. This is the most positive response since March 1989."

In the Western Cape 76% of respondents expect higher sales in 1994.

"With the exception of a few months following the assassination of Chris Hani, sales prospects have now been on a steadily improving trend since June 1992.

Lockwood says the improved outlook for sales "comes in response to a reasonable growth in export volumes and increasing signs of improvement in domestic demand levels arising both from higher private consumption expenditure and increased investment activity.

"Increases in personal disposable incomes have arisen largely as a result of the improved agricultural output and hence higher rural incomes."

Western Cape manufacturers expect to employ more skilled workers, although those in other areas except Maritzburg expect unemployment to increase.

Most manufacturers in all regions expect to increase real capital expenditure, both to maintain existing capacity and create new capacity.

# 'A decade behind the West'

**Business Staff**

LOCAL manufacturers are a decade behind those of the West and two decades behind Japan.

Moreover, the lack of education and skills of its workers will hold back efforts to catch up.

These are the findings of a survey of South Africa's manufacturing competitiveness compiled by Deloitte and Touche, and presented to a recent US trade delegation as background information.

The findings, based on a survey of 70 local manufacturers, found a wide gap between the abilities of what it calls "world class manufacturers" and all other local manufacturers.

The authors say it is clear South African manufacturers will have to become global players just to survive. Most have a long way to go.

Of the critical factors needed for success, only product quality and customer service have received attention.

It seems that success in these areas will be a pre-requisite for survival, while increased competitiveness will depend on improvement in other areas.

The authors found "grossly insufficient exploitation of technology", by the majority of manufacturers and consider this to be both "naive and tragic". (180) ARG 14/12/93

They say: "It is unlikely that the competitive capabilities required can be attained without the successful application of both "hard" and "soft" technology.

Manufacturing executives say the educational and skill deficiences of their workforce is a barrier to implementing advanced technology.

To overcome the deficiencies, manufacturers intend in the next three years to spend more on training.

Training will be broadly based and targeted principally at supervisors.

World class manufacturers will invest far more heavily in upgrading technical skills and in team-building.

Among companies represented on the US trade mission were IBM, AT&T, Lehman Brothers, Arco Chemicals, Apple, Time Warner, Africa Electification Foundation, Alliance Corporate Finance, Baker and Taylor Books, Barronett Global Investors and Pratt and Whitney.

CORPORATE PROFITS

# Turning the corner

FM 17/12/93

(180)

## Performances of bigger companies offer definite grounds for optimism

**The current** surge in share prices is not based simply on macro-economic indicators and rising confidence. After slumping to negative nominal growth, corporate profits have already staged a useful recovery. This means results next year could be better than many recent forecasts have indicated.

The *FM*'s latest roundup of industrial profits published over the past six months shows average growth in earnings per share (EPS) of 8,2%. This is an abrupt change for the better since the last such survey (*FM* July 23), when the average change in EPS was a negative 6%, partly reflecting the deterioration in business conditions that occurred during the second half of last year.

From a dividend standpoint, the sample as a whole essentially remains stagnant: the average increase in dividends was just 3,7%.

The corresponding survey of a year ago (*FM* January 15) showed EPS edging upwards by an average 2,7%. From almost any perspective, earnings of large industrial and commercial companies are off the floor and growing again — though on the whole they are not yet producing real growth. The latest average gain still lags the latest inflation rate of above 9%.

As is inevitable when the overall earnings trend is just beginning to recover, there are still disturbing aspects. Most striking of these is that there is still little evidence of improvement in demand or in fundamental profitability. Average turnover increased by only 10,1%, hardly better than inflation. And, more to the point, the average increase in pre-interest profit was just 1,6%, so the strain on operating margins has apparently worsened.

As expected, the lower corporate tax rates introduced in the 1993 Budget had a significant (though one-off) impact on earnings. For many, this would have been the single most important factor, either preventing further deterioration or producing a turnaround.

But figures elsewhere offer definite grounds for optimism. In particular, finance charges have fallen by an average 7,6%. This was partly because of the continuing easing of interest rates. But it has also been apparent from accounts reviewed recently by the *FM* that many companies are making further progress in tightening asset management, with benefits in better cash flow and sounder balance sheets. PPC, Adcock Ingram and Nampak were among such cases in the past few weeks.

The accompanying table (pages 20 and 21) summarises results reported by listed industrial and commercial companies over the past six months. In general, a consistent selection of companies has been retained from one half-year to the next; the emphasis is on bigger companies, one of the selection criteria being an arbitrary cutoff mark at a minimum annual turnover of about R100m.

Averages throughout these surveys are derived from the percentage change in total turnover, profits and other data for the full sample. Slightly different results would be obtained by, for example, averaging the individual company percentage changes; another variation would result (as in the composition of share price indices) if individual results were weighted according to company size.

Several factors may affect comparisons. One is that interim and preliminary year-end results (indicated by an I or a P in the table) are included, so seasonality or timing of year-ends may have an influence.

An aspect that often distorted comparisons in previous years, but which is now having a diminishing effect, is mergers and acquisition activity; these deals often resulted in asset sales, plant closures and changes in financial year-end.

The merger-and-acquisition boom of the early Nineties faded during 1993 and the consequences of many of the earlier deals have largely run their course. Even so, large deals will have distorted some of the data here. For example, Bidvest's turnover is up 30% following its acquisition of Safcor; McCarthy Retail's activities ballooned after the businesses of McCarthy and Prefcor were brought together.

There were other one-off factors. In the furniture sector, Ellerine looked particularly good because its previous comparative figures had been bruised by a strike. And, in the first half of this year, motor companies were among those that benefited from a surge in consumer buying before a higher Vat rate was imposed.

Overall, though, it seems that a reversal of the steady trend towards weaker operating profitability has yet to occur — and this is probably the biggest change needed for a return to robust and sustained earnings growth. This in turn is linked closely, but not exclusively, to a general recovery in demand.

But it will also depend on companies' ability to adapt to change. Some companies have recently lamented the difficulty they've experienced in adapting to a declining rate of inflation; cost structures and the attitudes of management and workers have long been attuned to inflation being well into double-digit figures.

Notably, turnover of many of the companies in the table has increased at rates below inflation, often markedly so. Examples include consumer giants such as Pepkor, whose turnover rose 2,4%, Metro (5,6%), Pick 'n Pay (3,9%), CGS Food (6,6%) and packaging group Nampak (4,5%).

For companies that are primarily involved in the domestic economy, the transition to lower inflation and the accommodation this requires will probably continue for a while. However, any resultant difficulties should in most cases be swiftly negated once there is a solid return to economic growth. Given significantly better sales volumes, the operational gearing (bringing recovery in trading margins and pre-tax profits) should be robust — and has probably been widely underestimated.

In some cases, better unit sales, with action already taken to bolster the quality of the operations, have already begun to take effect. An example is AECI, which has volume-sensitive businesses broadly exposed to the economy. In the six months to June, its sales were up 6,4% but operating profit climbed 9,5%, finance charges fell 22,5% and EPS jumped 50%.

Most specialised commodity producers, particularly those which are primarily exporters, continue to face weak international markets and their sales and profits show this.

Among these, ferrochrome producer CMI reported 1994 sales down 26% and pre-tax profit down 30%; Sappi's turnover for the year to August was up 35,9% thanks to acquisitions, but its EPS were down 66,9%; Highveld Steel's turnover for the six months to June rose 5,9% but operating profit fell 5,2%, though it benefited from a more favourable tax rate and its earnings rose 21%; notably, in the year to December 1992 Highveld's pre-interest profit fell 31,9%.

From a sectoral standpoint, consumer-based companies have still tended to produce the better performances. Some of these have continued to impress: in the stores sector, Edgars' interim EPS were up 20,4%, Foschini's rose 37,4% and Wooltru's (on the rebound) jumped 61,6%.

In the highly rated pharmaceutical sector, the four companies in the table lifted EPS at rates between 17,3% (Clinic Holdings) and 30,5% (SA Druggists). There have also been signs of improvement by some consumer durables companies; SA Breweries' furniture group Afcol lifted EPS 34%.

There are mixed performances elsewhere: engineering remains notably bleak. But there are plenty of encouraging signs too, with some good recoveries in the labour-intensive clothing and textiles sector. Among building and construction companies, deterioration has been limited and some are growing well. A more convincing turnaround in sectors such as these, which suffered badly during the recession, is needed to bolster confidence in the economic recovery and justify booming share prices. ■



P.T.0-7

# Manufacturing stages recovery

BIDG 22/12/93

KELVIN BROWN

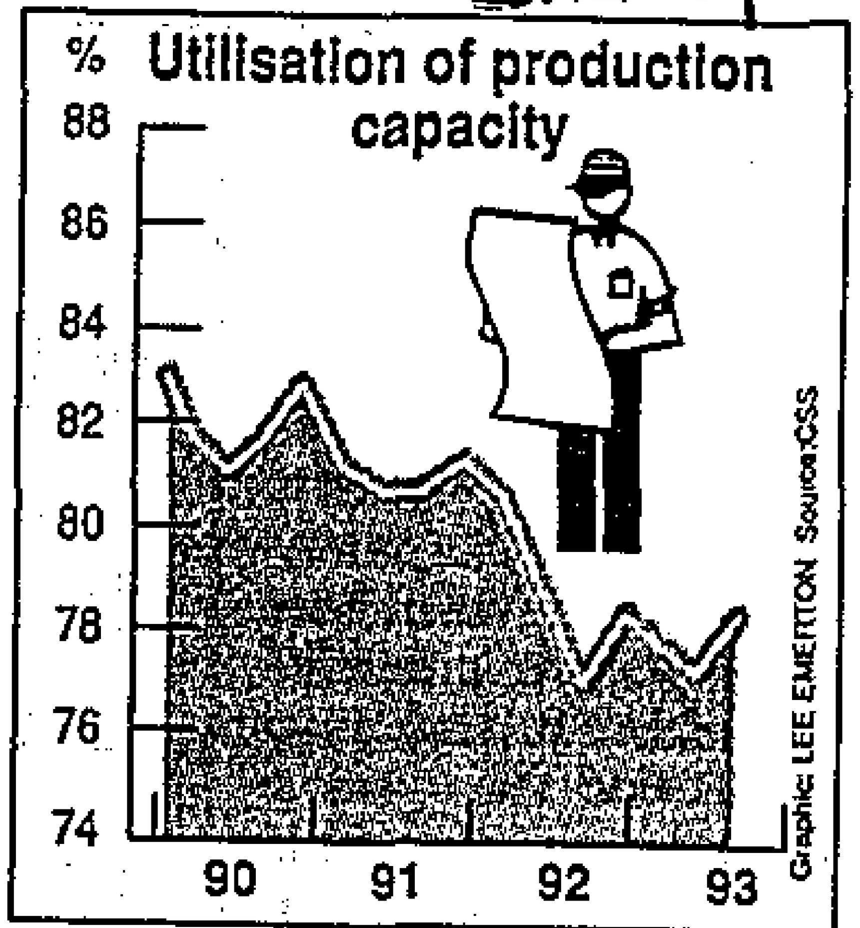
STRONGER evidence is emerging that the economic recovery is spreading to the country's manufacturing sector.

Figures released by the Central Statistical Service (CSS) yesterday indicate the manufacturing sector used 78,6% of its total capacity in August against 77,3% in May — the last time figures were available.

This is the highest since June last year when 79,2% of the manufacturing sector's capacity was in use.

Economists said the data were in line with real GDP figures for the third quarter which showed the manufacturing sector recovered to grow at a seasonally adjusted annualised rate of 5,5% after shrinking 0,2% in the previous quarter.

The trend is expected to continue as economists have revised their forecasts upwards for next year to show a real economic growth rate of around 2,5% from 1% in 1993.




180

Increases in utilisation rates occurred in 17 of the 27 major manufacturing groups in August.

The tobacco industry recorded the highest capacity utilisation rate (88,5%) in August followed by footwear (87,7%) and chemicals (86,7%). The beverage industry had the lowest utilisation rate (67,3%).

Main factors contributing to under-utilisation included a shortage of raw materials, a shortage of skilled labour and insufficient demand, the CSS said.

Old Mutual economist Ursula Maritz said figures for the fourth quarter should also be good as the manufacturing sector benefited from growth in SA's export volumes as well as from spill-over effects of the return to more normal agricultural conditions.

Exports would continue to pick up next year as the manufacturing sector felt the effect of the recovery in the economies of SA's main trading partners, she said.

"We predict the economic growth rate in the G-7 will firm to 2% from 1% this year."

Local expenditure could also stimulate the manufacturing sector in the second half of next year if the election ran smoothly, Maritz said.

# Industrial sector boom predicted for next year

B/Day 23/12/93

KELVIN BROWN

THE industrial sector should boom next year as the economic recovery caused a cyclical upswing in profits, the Bank of Lisbon said in its latest Economic Focus.

The business cycle was entering an upward phase which would substantially improve corporate profits as industry was well placed to take advantage of an increase in demand.

"In SA a long established relationship exists between the trend in industrial share prices and the course of the local business cycle, and this relationship, if still valid, points to advances in industrial shares during the course of 1994."

Interest rates appeared to be heading lower in 1994 despite the continuing problems on the capital account of the balance of payments.

The combination of falling interest rates at the long end of the market and declining inflation was also very positive for equities, the bank said.

"Lower inflation leading to cuts in long term interest rates renders shares more attractive on a yield basis, and means that future profits will be discounted at a lower rate."

(180)

Foreign buying of SA equities could escalate next year as international funds focus more attention on the JSE, the bank said. At the moment foreigners were under-weighted in equities due to strong buying of gilts and semi-gilts.

The trend towards lower inflation would make SA shares more attractive to foreign investors as it helped foster greater stability of the commercial and financial rand.

Barring a major crack in the international markets, or a highly unstable political transition in the country, industrial shares would appreciate steadily.

"Meanwhile, the huge size of the cash flows of institutional investors is helping to underpin equity prices on the JSE, while the supply of new scrip through net foreign sales of equities and rights issues as well as new issues has not diminished."

MANUFACTURING - GENERAL

1994

# 'Many industrial shares are unrealistically high'

BIDAY 4/1/94

MARCIA KLEIN

THE recent sharp rise in the prices of key industrial shares has seen many reach unrealistic levels which may not be sustainable in the medium term, analysts said yesterday.

They said industrials had been outclassed by the significant rise in gold shares over the past year. But in November, industrials started to perform strongly, and this trend was continuing. In the past two months, the index gained more than 1 000 points, or nearly a quarter, to yesterday's close of 5 596 points.

Many industrial shares were currently "unrealistically high", an analyst said. (180)

While there were no indications of a correction in the shorter term, he warned that in the medium term much would depend on the outcome of the elections, particularly in terms of overseas investment.

He said January was likely to be a strong trading month, and industrials would be buoyed by an optimistic political and economic outlook.

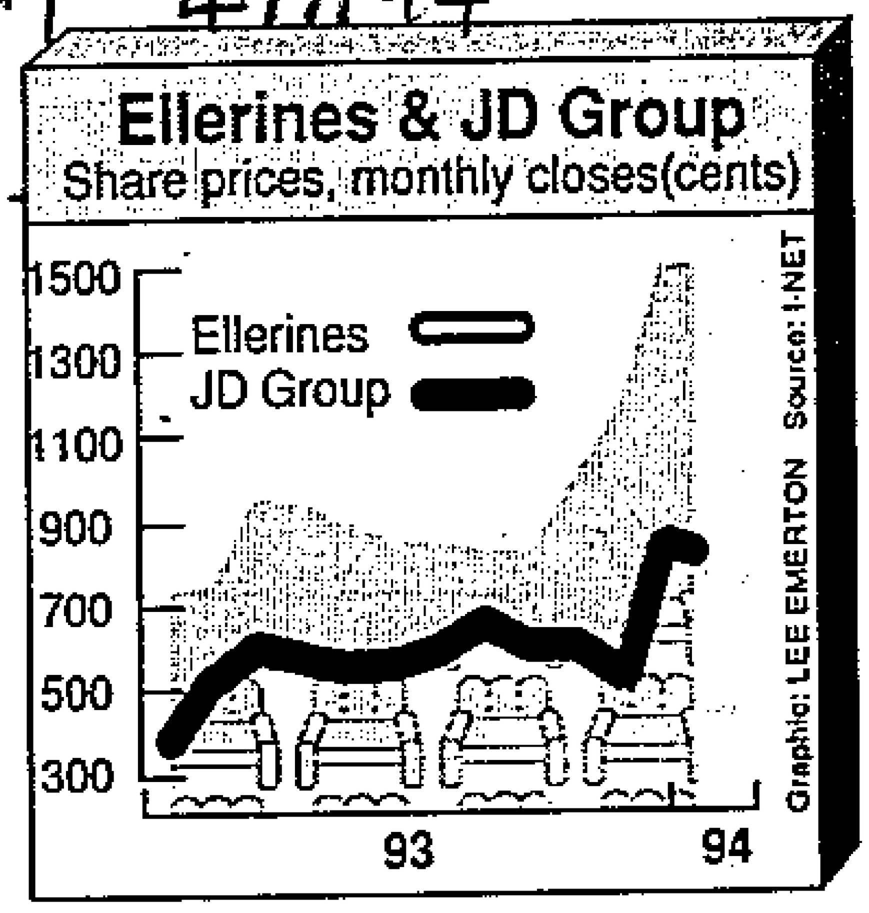
"All of this optimism has been discounted in the share prices, some of which are on completely unrealistic forward PEs", he said.

Analysts said industrials had moved strongly on the back of a lack of scrip, offshore demand and expectations that offshore demand would continue.

In addition, the higher share prices reflected political confidence, expectations of a stronger economy this year, and confidence in the earnings growth potential of the blue chip industrial groups.

However, if there was political instability, or if the economy did not show a sustainable recovery over the year, there could be a sharp downward correction.

Analysts said the earnings of most of the industrial companies were susceptible to slight changes in economic and political conditions.




Most industrial shares had done well, analysts said, but the performance of some shares had been exceptional and the stores, food and furniture sectors could be over-priced.

Electrical appliances company Nu-World was one of the high flyers of the industrial sector, gaining 420% over the year on the back of good results and institutional interest. Significant gains were achieved by AECI (207%), Romatex (179%), Lenco (174%), Specialty Stores (152%), Wooltru (136%) and Bidvest (114%).

In the furniture sector, retailers Ellerine and JD Group rose by 159% and 135% respectively over the past year, while major manufacturer Afcol gained 129%.

Major industrial SA Breweries had gained 45% in less than two months, reaching R95 yesterday.

An analyst said he had not expected the stock to reach this level until well into next year.

Among the poorer performers were Mashold, which lost 84% of its value during the past year, and Bergers, which lost 66%. The W&A/FSI group featured among the major industrial losers. FSI and FS Group lost 61%, Waicor 42% and W&A 36%.

Fm 7/1/94

C G SMITH

## Lean and hungry (180)

**Activities:** *Conglomerate with interests in food, paper and packaging, textiles and pharmaceuticals.*

**Control:** *Old Mutual (27%).*

**Chairman:** *D E Cooper; vice chairman: R A Williams.*

**Capital structure:** *470,8m ords. Market capitalisation: R7,4bn.*

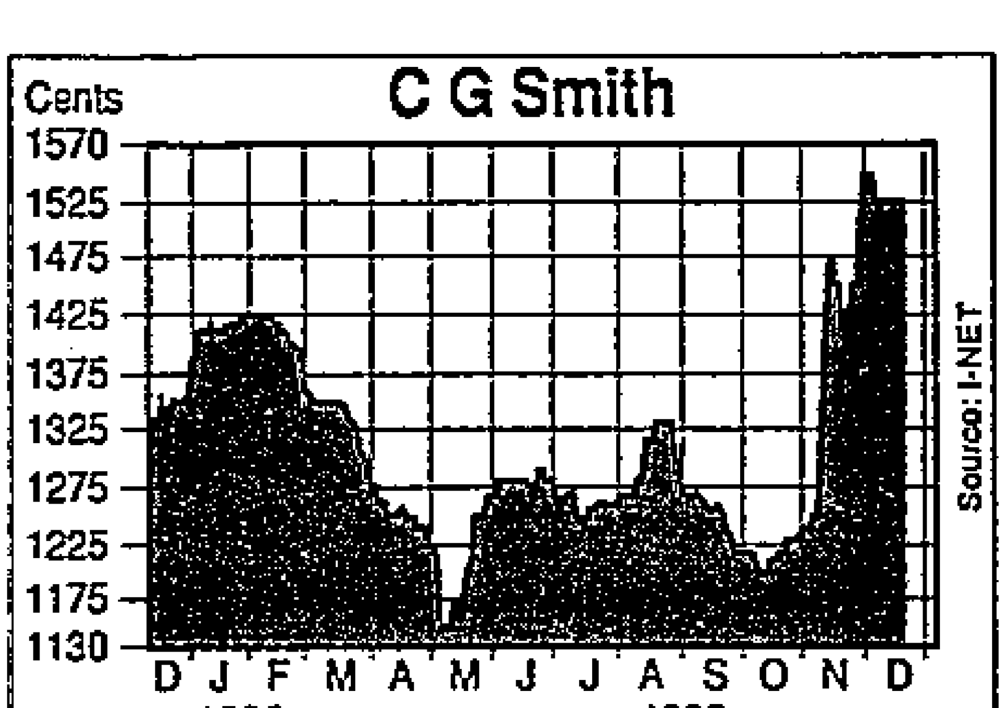
**Share market:** *Price: 1 575c. Yields: 2,1% on dividend; 6,0% on earnings; p:e ratio, 16,7; cover, 2,9. 12-month high, 1 525c; low, 1 150c. Trading volume last quarter, 1,4m shares.*

| Year to Sep 30 | '90 | '91 | '92 | '93 |
|---|---|---|---|---|
| ST debt (Rm) ......... | 867 | 969 | 765 | 857 |
| LT debt (Rm) ......... | 588 | 644 | 903 | 856 |
| Debt:equity ratio ..... | 0,38 | 0,37 | 0,28 | 0,16 |
| Shareholders' interest | 0,45 | 0,46 | 0,48 | 0,50 |
| Int & leasing cover . | 6,4 | 6,3 | 7,6 | 9,8 |
| Return on cap (%) .. | 15,9 | 15,6 | 14,4 | 13,4 |
| Turnover (Rbn) ....... | 14,2 | 16,1 | 18,1 | 19,2 |
| Pre-int profit (Rbn) .. | 1,2 | 1,3 | 1,4 | 1,5 |
| Pre-int margin (%) .. | 8,1 | 7,9 | 7,9 | 7,5 |
| Earnings (c)* .......... | 75,1 | 81,9 | 88,2 | 94,2 |
| Dividends (c)* ........ | 26,3 | 28,6 | 30,8 | 32,7 |
| Tangible NAV (c)* .. | 379 | 431 | 513 | 572 |

* All per share data adjusted for one-into-ten share split effective November 29, 1993.

**One of** the consequences of the unbundling of Barlows is that one now tends to look at companies such as C G Smith in a new light — as independent entities instead of as an integral, in this case major, part of a greater whole.

Considering C G Smith's latest annual re-




Fm 7/1/94

port in this context, the first question that springs to mind is that if unbundling were deemed to be good for the goose, why not for the gander? The point is made that most of the businesses are focused on nondurable consumer goods, implying a commonality or cohesive element in type of markets served. But the spread of businesses still ranges from pharmaceuticals to fishing, making it difficult to avoid the conglomerate tag.

### DIVISIONAL EARNINGS

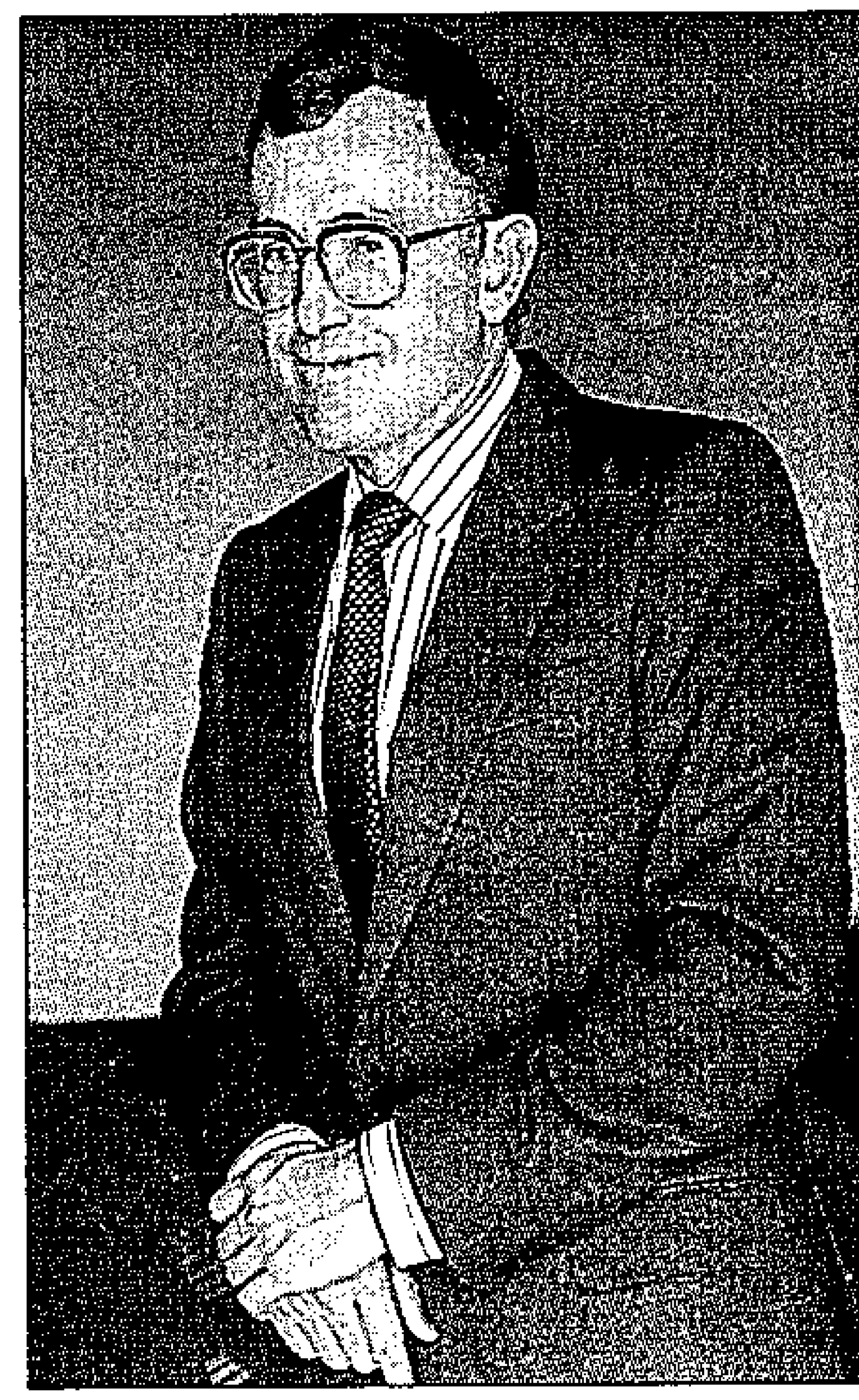
| | 1992 Rm | % | 1993 Rm | % |
|---|---|---|---|---|
| Packaging & paper | 160,6 | 39 | 187,6 | 42 |
| Food & fishing ....... | 141,0 | 34 | 141,9 | 32 |
| Sugar .................... | 72,5 | 17 | 46,8 | 11 |
| Pharmaceuticals ..... | 34,2 | 8 | 46,2 | 10 |
| Textiles/ Bulk liquid storage | 7,4 | 2 | 20,8 | 5 |
| Other .................... | (0,6) | | | |
| Total ..................... | 415,1 | 100 | 443,3 | 100 |

A second, related, question is why some of the factors deemed to have been undesirable in Barlows, and therefore having contributed to the decision to unbundle, should suddenly become more acceptable in a smaller group such as this. An example would be the distance between shareholders in the holding company and the operating companies which are the source of profit. (180)

It is true that, by giving Barlows shareholders direct holdings in some of its erstwhile subsidiaries, the pipeline has been shortened. But, because of the layers of holding companies within C G Smith, the effective interest in some of the operating companies at the bottom of the pile remains small. In the case of Adcock Ingram, Tiger's 74% holding dilutes to about 32% in the hands of C G Smith. In the case of Langeberg, where the effective interest follows the same route through Smith Food and Tiger, it is 25%.

The extent of this phenomenon is reflected in that outside shareholders of the subsidiaries have a greater interest in the group than do its own shareholders. The ratio, based on balance sheet book values, is 51%:49% in favour of minorities, whose share has crept up from 47% because of the listing of Smith Sugar in 1992 and consolidation of Sea Harvest (previously an associate) in the 1993 year.

The situation mirrors criticism levelled at Barlows in the past that too much management attention was concentrated on looking after the interest of shareholders other than those of Barlows. So the question as to whether any lasting good is going to come out of the unbundling could depend on whether the revamped Smith board decides to flatten the group structure and perhaps add more cohesion to the operations. Does it really need to own two independent fishing companies (one under Tiger, the other under ICS) or two separate pharmaceutical companies (both under Tiger where, at best, they are an uncomfortable fit)?



**C G Smith's Cooper** ... *looking for real earnings growth*

That said, there is no reason to question Smith's potential. Despite weak spots such as sugar, which has been severely affected by the drought, it has a lean, hungry look and an unstressed balance sheet that will permit considerable expansion as opportunities present themselves.

Also, independent of Barlows, Smith should now have more freedom to use its own highly rated paper for acquisitions, just as Barlows could do in the past.

**Overall profitability still fair**

Despite the effects of the recession, overall profitability is still fair at 13,4% gross on total assets and 16,5% net on equity — in both cases significantly better than the respective 10,8% and 13,6% returns earned by Malbak (probably the closest comparison) in its latest financial year.

As regards prospects, new chairman Derek Cooper is optmistic that Smith will show real earnings growth in 1994. There are predictable caveats about effects of the weather on the agriculture-based interests as well as the unfolding political situation but it is clear that performance is expected to improve, which will make Smith one of the few major groups to have survived the recession without a decline in nominal earnings.

Like the JSE in general, the share has shown substantial gains in recent weeks. Its year-on-year performance, though, has been a bit disappointing, with an 18% gain since the *FM* reviewed the 1992 annual report comparing unfavourably with the 25% improvement in the Industrial index since the start of the year.

The gap narrows somewhat if the comparison is confined to the industrial holding sector (up 20%), but one is nevertheless left with the feeling that the unbroken record of annual earnings improvements should have counted for more. *Brian Thompson*

Fm 7/1/94

C G SMITH

## Lean and hungry

(180)

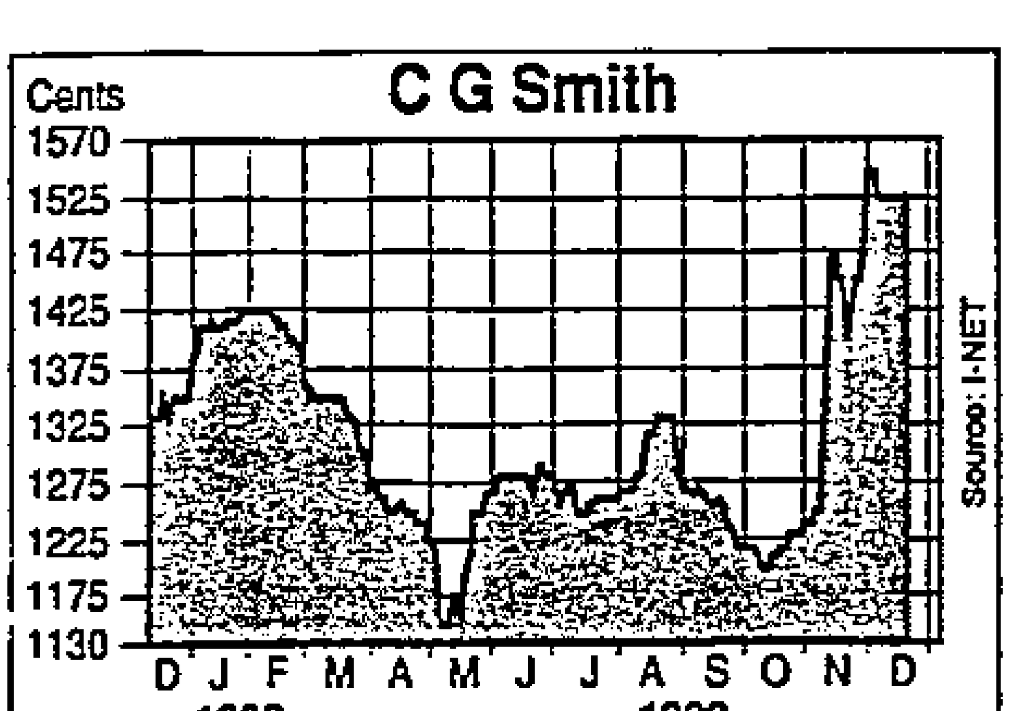
**Activities:** *Conglomerate with interests in food, paper and packaging, textiles and pharmaceuticals.*
**Control:** *Old Mutual (27%).*
**Chairman:** *D E Cooper; vice chairman: R A Williams.*
**Capital structure:** *470,8m ords. Market capitalisation: R7,4bn.*
**Share market:** *Price: 1 575c. Yields: 2,1% on dividend; 6,0% on earnings; p:e ratio, 16,7; cover, 2,9. 12-month high, 1 525c; low, 1 150c. Trading volume last quarter, 1,4m shares.*

| Year to Sep 30 | '90 | '91 | '92 | '93 |
|---|---|---|---|---|
| ST debt (Rm) | 867 | 969 | 765 | 857 |
| LT debt (Rm) | 588 | 644 | 903 | 856 |
| Debt:equity ratio | 0,38 | 0,37 | 0,28 | 0,16 |
| Shareholders' interest | 0,45 | 0,46 | 0,48 | 0,50 |
| Int & leasing cover | 6,4 | 6,3 | 7,6 | 9,8 |
| Return on cap (%) | 15,9 | 15,6 | 14,4 | 13,4 |
| Turnover (Rbn) | 14,2 | 16,1 | 18,1 | 19,2 |
| Pre-int profit (Rbn) | 1,2 | 1,3 | 1,4 | 1,5 |
| Pre-int margin (%) | 8,1 | 7,9 | 7,9 | 7,5 |
| Earnings (c)* | 75,1 | 81,9 | 88,2 | 94,2 |
| Dividends (c)* | 26,3 | 28,6 | 30,8 | 32,7 |
| Tangible NAV (c)* | 379 | 431 | 513 | 572 |

* All per share data adjusted for one-into-ten share split effective November 29, 1993.

**One of** the consequences of the unbundling of Barlows is that one now tends to look at companies such as C G Smith in a new light — as independent entities instead of as an integral, in this case major, part of a greater whole.

Considering C G Smith's latest annual re-




FM 7/1/94

port in this context, the first question that springs to mind is that if unbundling were deemed to be good for the goose, why not for the gander? The point is made that most of the businesses are focused on nondurable consumer goods, implying a commonality or cohesive element in type of markets served. But the spread of businesses still ranges from pharmaceuticals to fishing, making it difficult to avoid the conglomerate tag.

### DIVISIONAL EARNINGS

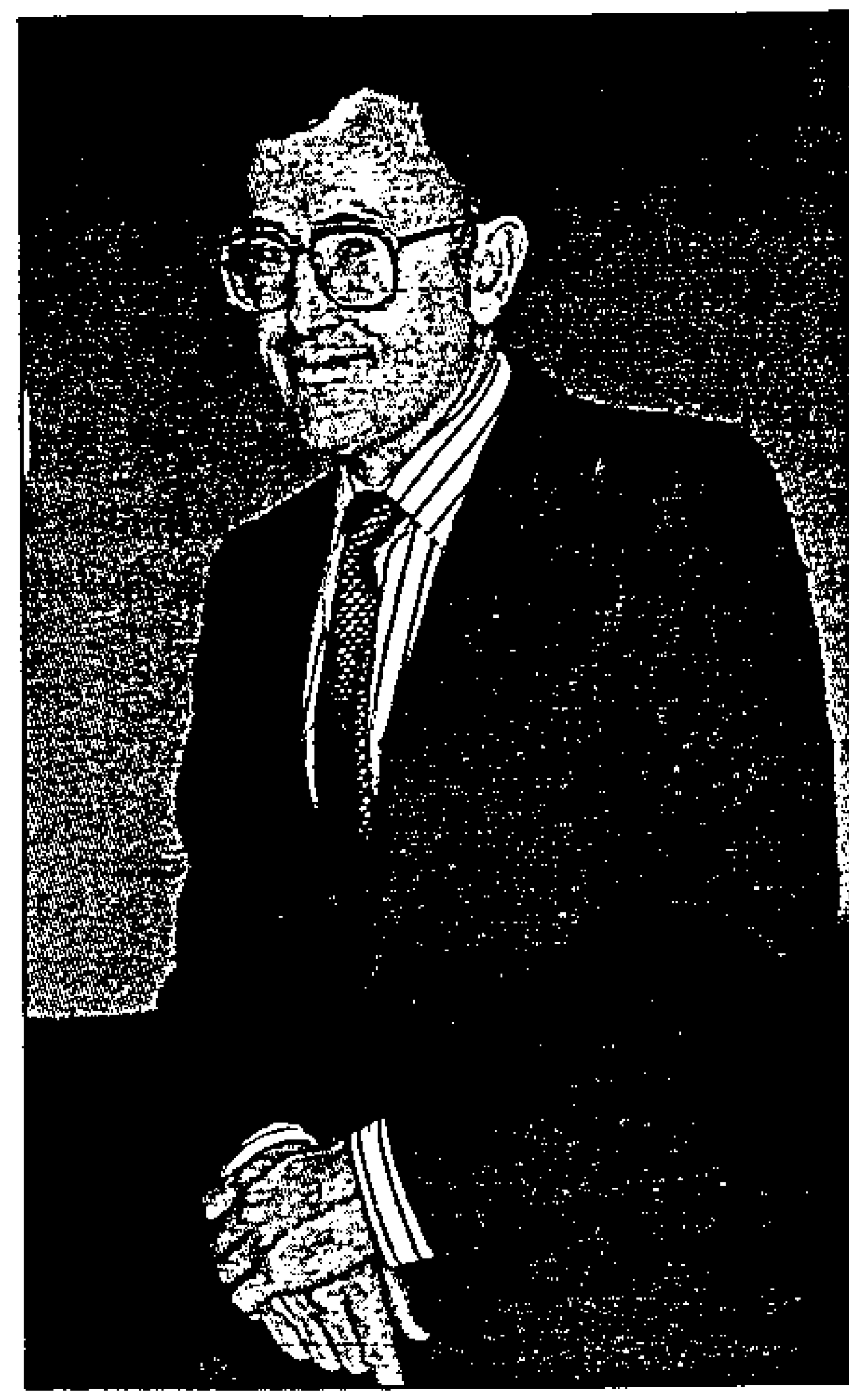
| | 1992 Rm | % | 1993 Rm | % |
|---|---|---|---|---|
| Packaging & paper | 160,6 | 39 | 187,6 | 42 |
| Food & fishing | 141,0 | 34 | 141,9 | 32 |
| Sugar | 72,5 | 17 | 46,8 | 11 |
| Pharmaceuticals | 34,2 | 8 | 46,2 | 10 |
| Textiles/ Bulk liquid storage | 7,4 | 2 | 20,8 | 5 |
| Other | (0,6) | | | |
| Total | 415,1 | 100 | 443,3 | 100 |

A second, related, question is why some of the factors deemed to have been undesirable in Barlows, and therefore having contributed to the decision to unbundle, should suddenly become more acceptable in a smaller group such as this. An example would be the distance between shareholders in the holding company and the operating companies which are the source of profit.

It is true that, by giving Barlows shareholders direct holdings in some of its erstwhile subsidiaries, the pipeline has been shortened. But, because of the layers of holding companies within C G Smith, the effective interest in some of the operating companies at the bottom of the pile remains small. In the case of Adcock Ingram, Tiger's 74% holding dilutes to about 32% in the hands of C G Smith. In the case of Langeberg, where the effective interest follows the same route through Smith Food and Tiger, it is 25%.

The extent of this phenomenon is reflected in that outside shareholders of the subsidiaries have a greater interest in the group than do its own shareholders. The ratio, based on balance sheet book values, is 51%:49% in favour of minorities, whose share has crept up from 47% because of the listing of Smith Sugar in 1992 and consolidation of Sea Harvest (previously an associate) in the 1993 year.

The situation mirrors criticism levelled at Barlows in the past that too much management attention was concentrated on looking after the interest of shareholders other than those of Barlows. So the question as to whether any lasting good is going to come out of the unbundling could depend on whether the revamped Smith board decides to flatten the group structure and perhaps add more cohesion to the operations. Does it really need to own two independent fishing companies (one under Tiger, the other under ICS) or two separate pharmaceutical companies (both under Tiger where, at best, they are an uncomfortable fit)?



**C G Smith's Cooper** ... *looking for real earnings growth*

That said, there is no reason to question Smith's potential. Despite weak spots such as sugar, which has been severely affected by the drought, it has a lean, hungry look and an unstressed balance sheet that will permit considerable expansion as opportunities present themselves.

Also, independent of Barlows, Smith should now have more freedom to use its own highly rated paper for acquisitions, just as Barlows could do in the past.

**Overall profitability still fair**

Despite the effects of the recession, overall profitability is still fair at 13,4% gross on total assets and 16,5% net on equity — in both cases significantly better than the respective 10,8% and 13,6% returns earned by Malbak (probably the closest comparison) in its latest financial year.

As regards prospects, new chairman Derek Cooper is optmistic that Smith will show real earnings growth in 1994. There are predictable caveats about effects of the weather on the agriculture-based interests as well as the unfolding political situation but it is clear that performance is expected to improve, which will make Smith one of the few major groups to have survived the recession without a decline in nominal earnings.

Like the JSE in general, the share has shown substantial gains in recent weeks. Its year-on-year performance, though, has been a bit disappointing, with an 18% gain since the *FM* reviewed the 1992 annual report comparing unfavourably with the 25% improvement in the Industrial index since the start of the year.

The gap narrows somewhat if the comparison is confined to the industrial holding sector (up 20%), but one is nevertheless left with the feeling that the unbroken record of annual earnings improvements should have counted for more. *Brian Thompson*

### 40 000 petrol station jobs at risk

# Unions ready to block fuel deregulation

BiDay 10|1|94

BiDay 10|1|94

183

**MICK COLLINS**

TRADE unions are set to oppose any form of deregulation of the oil industry, a matter being investigated by the National Economic Forum.

A spokesman for the National Union of Metalworkers of SA (Numsa) said the probe, being conducted by the forum's Liquid Fuels Task Force, could have grave implications for employment.

At immediate risk are the 40 000 forecourt attendants employed at 5 000 garages who could see their numbers dwindle with the introduction of self-service.

Numsa national secretary Bernie Fanaroff, who represents Cosatu on the task force, says the federation would oppose deregulation, mainly because of massive job losses. "Deregulation overseas has led to the closure of between 50% to 60% of service stations, which in SA's case would lead to the loss of 50 000 to 60 000 jobs, including workshop and office personnel."

Numsa believed that it would also have an unfair effect on black-owned stations as well as on the smaller outlets and would lead to monopolies in certain areas.

"International experience has also shown that the petrol price may come down in the first year or two but thereafter it climbs," he said.

Motor Industries Federation executive director Vic Fourie said the federation, which represents the interests of the service stations, would resist the deregulation of the fuel industry and, by implication, the introduction of self-service.

"We have looked at the situation overseas and seen the displacement of service station workers. The protection of jobs and job opportunities is our business.

"We do not believe it would be in the interests of the fuel industry or the man in the street to have total deregulation. The provision of fuel in SA is done efficiently and at a relatively low price."

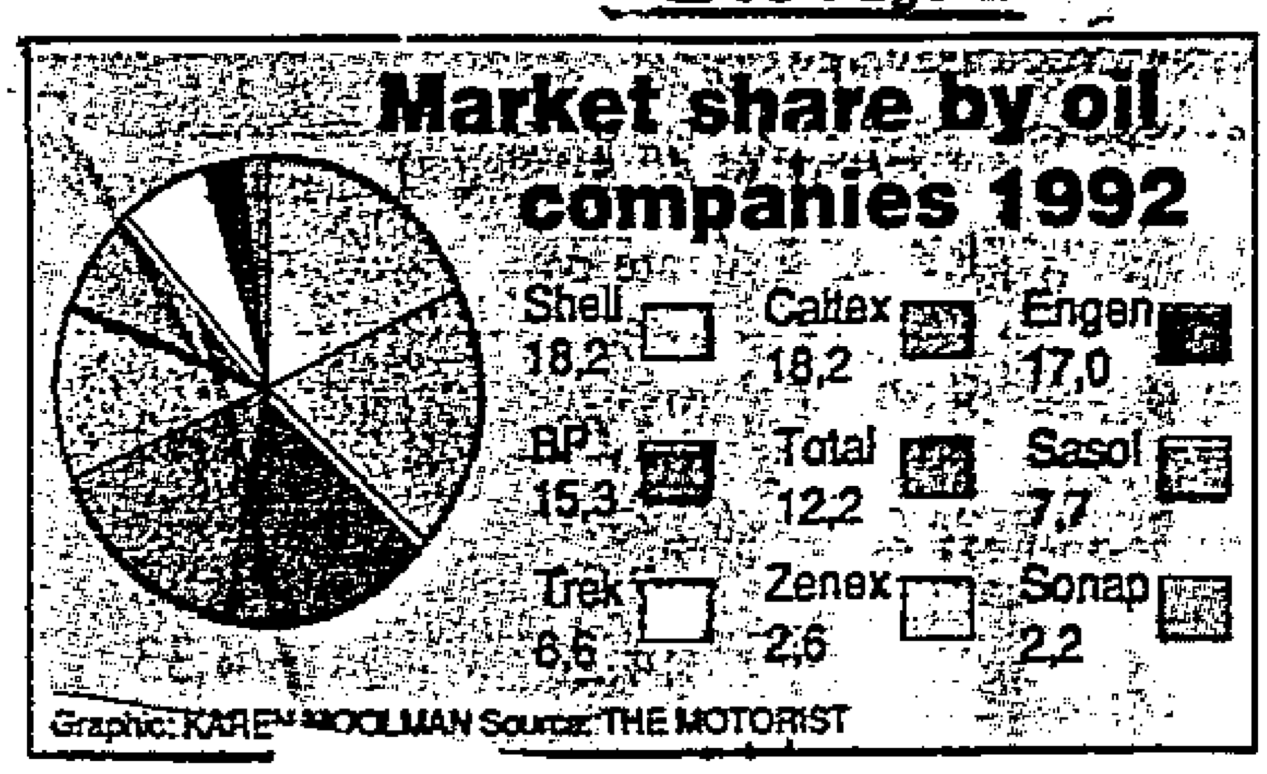
The federation, which has two representatives on the task force, expects the task force to resume sitting soon, and a statement could be issued in due course.

"We still believe that sanity and common sense will prevail," Fourie said.

Mineral and Energy Affairs deputy director-general Gert Venter, who also serves on the task force, said job creation did not fall within his department's ambit.

"You may be aware, however, that the economic forum has initiated, with government funding, certain job creation projects. No specific arrangements have therefore been made to accommodate

□ To Page 2




Graphic: KAREN WOOLMAN Source: THE MOTORIST

## Deregulation

BiDay 10|1|94

□ From Page 1

pump attendants in the event of deregulation. It may also be premature for such action before a decision on regulation has been taken.

"Judging from the comments received by the department on its report on the fuels industry, it is clear that most consumers are still in favour of regulation," he said.

However, industry sources say 1994 could possibly see the introduction of self-serve stations, albeit on a limited scale.

The oil industry is also keeping the issue behind closed doors. Caltex corporate planning manager Ian McPherson said recently the company was taking part in the probe, but he could not comment yet.

Shell communications and media manager Koosum Kalyan said her company was involved in the investigation, but to comment at this stage would pre-empt the outcome of the negotiations.

However, Engen CE Rob Angel was bullish on the prospect of deregulation and said SA was moving forward into a new environment of exposure to world forces and free-market principles.

183

"Engen fully supports non-protectionist policies, and free and fair competition," he said in the company's annual report. To embrace deregulation fully "it is critical that the total regulatory mechanism be dismantled to ensure adherence to these principles", he said.

# Relief at last for manufacturers

CT 11/1/94

(180)

By MAGGIE ROWLEY
Deputy Business Editor

THE manufacturing sector is at long last shedding the chains of the marathon recession and the general outlook for the next 12 months has improved.

This is the conclusion of the latest survey of the manufacturing sector conducted by the Bureau for Economic Research (BER) in Stellenbosch.

According to BER, a marked improvement in domestic production and sales during the fourth quarter of 1993, which were ahead of expectations, followed a period of consolidation in the manufacturing industry.

While some sectors were benefitting from improving agricultural conditions, the majority experienced higher levels of domestic order volumes during the fourth quarter compared to the corresponding period in 1992.

Responses by participating manufacturers indicated that domestic demand — usually the engine that drives economic recovery — has at long last started to perk up.

However at this stage the contribution appears to be mild and is likely to remain so in the short term, says BER.

During the fourth quarter of last year the manufacturing confidence index rose to 27 — a level comparable with the third quarter of 1990 — from 18 the previous quarter.

BER emphasises that an improvement in the assessment of manufacturers of the general political climate contributed to the rising confidence levels. As such it might be a factor which could quickly subside in the present fluid conditions.

"Assuming that no such drastic deterioration occurs and given the fact that the latest responses of manufacturers regarding business trends in their sector have become broader based, the prospects for an economic recovery may be more certain."

The economic factors which induced improved confidence in manufacturing included:

- A more favourable experience during the fourth quarter of 1993 than expectations would have indicated;
- A marked improvement in domestic demand even though this may have been restricted to the fourth quarter and was registered from a relatively poor level;
- Higher production at lower unit costs, coupled with rising selling price expectations in a keener market;
- A general improvement in stock levels which may in time translate to higher production. This already appears to be the situation regarding export demand. Lower interest rates should also stimulate the rebuilding of stock inventories; and
- A significant upward revision of short-term export prospects.

According to BER, in spite of the solid indications which have started to emerge, "one cannot escape the view that economic recovery in SA remains vulnerable" and manufacturers' expectations for the current quarter were rather dampened.

This, said BER, was a natural result given the nature of the political process and structural factors impeding economic growth.

While the net response of manufacturers was muted for the current quarter it remained positive and was coupled with a much more positive net response regarding expected export order volumes.

Production plans of manufacturers reflect a neutral outlook with three out of every 10 respondents indicating that employment levels of factory workers might be lower next quarter than during the current quarter.

The noteworthy increase in the reported increase in volumes of imports expected during the first quarter tied in with the upward revision of fixed investment intentions, said BER and, assuming no major political setbacks and stable to improving demand, plans to carry out capital spending may well materialise.

# Mood in manufacturing more upbeat, says BER

Star 11/1/94

■ BUSINESS STAFF

Improved conditions in the manufacturing industry are signalling an end to the recession, says the Bureau for Economic Research (BER).

Reporting on a survey of the industry, BER economist Pieter Laubscher says the improvement in business confidence is not restricted to manufacturing only, but is apparent in all major sectors.

"Business people's own assessment of actual conditions is a reliable indicator of ensuing economic developments and it is the BER's view that prospects for recovery have become firmly established, although still exposed to risk."

The survey shows that manufacturers' confidence has improved significantly over the past few months, a reflection of favourable political and economic developments. (180)

According to the survey, business conditions improved markedly in the fourth quarter of last year:

■ Actual volumes of production, domestic orders and sales surpassed previous optimistic expectations.

■ Profit expectations increased as a result of higher production currently being achieved at lower unit costs, while selling price expectations were increasing in a keener market.

■ The inventory position improved further and, coupled with lower interest rates, should stimulate production.

■ Manufacturers also have optimistic export expectations.

Laubscher warns, however, that short-term expectations are still clouded by the neutral economic outlook and political uncertainty.

"The extent of the uncertainty possibly explains their unwillingness to re-employ factory workers and meet increased production by lengthening working hours," he says.

# Amic now looking fully priced

Star 12/1/94

(180)

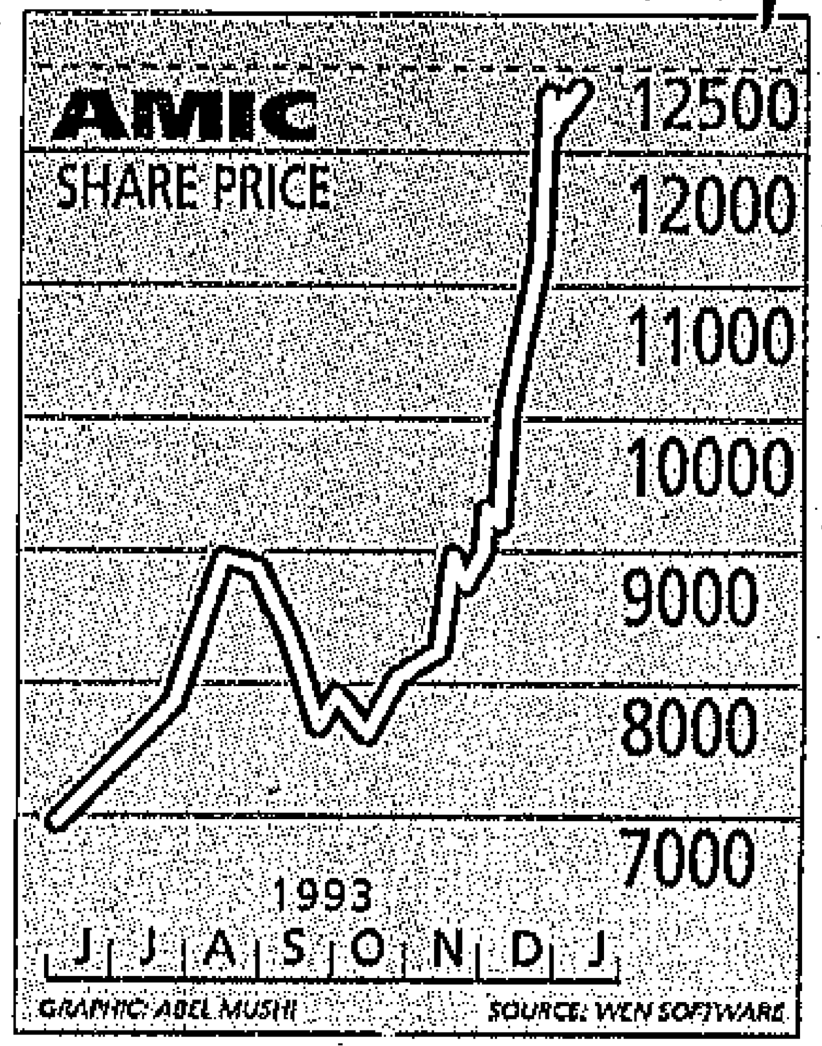
■ BY STEPHEN CRANSTON

The sharp increase in the Amic share price over the last year, which has substantially outperformed the industrial index, looks premature.

There is no sign that the increase in international commodity prices has taken place, and a sustained recovery in Amic's share price depends on improvements in international pulp and paper, steel and chemical prices and a turnaround in construction and mining projects.

But there has been foreign and increased local buying of the thinly traded share.

Foreigners are attracted by the prestige of Anglo American and by the fact that Amic's earnings growth has outperformed the market in upcycles, just as it has underperformed in downcycles.




Analysts expect the bottom-line growth to be modest for the year to December 1993, with forecasts of a 10 percent rise to between 680c and 685c a share.

But assuming there is a turnaround in commodity prices from the middle of the year, earnings could rise 21 percent to 826c a share.

Thanks to the late Eighties commodities boom, Amic's earnings tripled from 347c in 1985 to 1 180c in 1989.

But it is unlikely that prices will return to Eighties levels, certainly not in real terms.

To a great extent, Amic's higher value reflects the increased value of its interests in AECI and Highveld Steel, its two most important listed contributors.

Highveld has shot up from R12,50 to R20 since October, with the steel sector becoming the fastest-growing one on the industrial boards. It is seen as a better-managed and better-capitalised alternative to Iscor.

AECI has gone from R13 to R18 over the same period, as there has been greater confidence in the group thanks to its new joint ventures with ICI and Sasol.

Analysts expect a further hike in the Amic price after year-end results, but warn that smoke and mirrors will be used to improve the numbers.

The release of deferred tax, caused by the reduction in the rate of company tax, and one-off profits on the sale of Powertech shares, a stake in Columbus and a book profit on the purchase of LTA shares from Anglo have lifted earnings.

And there should be a change in the way interest paid on plantations will be shown by Mondi, which will also benefit profits.

Yet Amic is not out of line with the market as a whole. Its P/E of 18,9 is in line with the market, and its dividend yield of 2,8 percent is on the generous side.

# Manufacturers' results surpass expectations

BDay 12/1/94

(180)

EDWARD WEST

MANUFACTURERS' production volumes, domestic orders and sales in the last three months of 1993 surpassed optimistic expectations, but production planning reflected some uncertainty about short-term prospects, according to a nationwide survey.

The latest manufacturing survey by the Bureau for Economic Research (BER) said business confidence had been boosted in the last quarter of 1993 after a period of consolidation since late 1992 — possibly signalling an end to the recession.

BER economist Pieter Loubser said the economy was poised to enter a renewed growth phase, but economic recovery would be relatively mild and 1,9% real GDP growth was forecast for 1994. GDP growth could be stronger pending political developments, he said.

Manufacturers' profit expectations improved in the quarter because of higher production at lower unit costs, while selling price expectations improved in a keener market.

Inventories improved which, with lower interest rates, would stimulate production. Manufacturers were also optimistic about exports for the first quarter of 1994 and the long-term outlook continued to be positive.

Domestic demand also rose in the quarter. The improvement in confidence was not restricted to manufacturing, but was reported in all major economic sectors in the BER's composite business confidence index.

However, manufacturers' production plans for the first quarter of this year reflected a neutral, uncertain outlook which was related to the April elections and consequent hesitancy regarding order volumes and sales. Uncertainty was reflected in an unwillingness to re-employ factory workers, and increased production was being achieved by longer working hours — a trend visible since the start of 1993 and likely to continue at least until May.

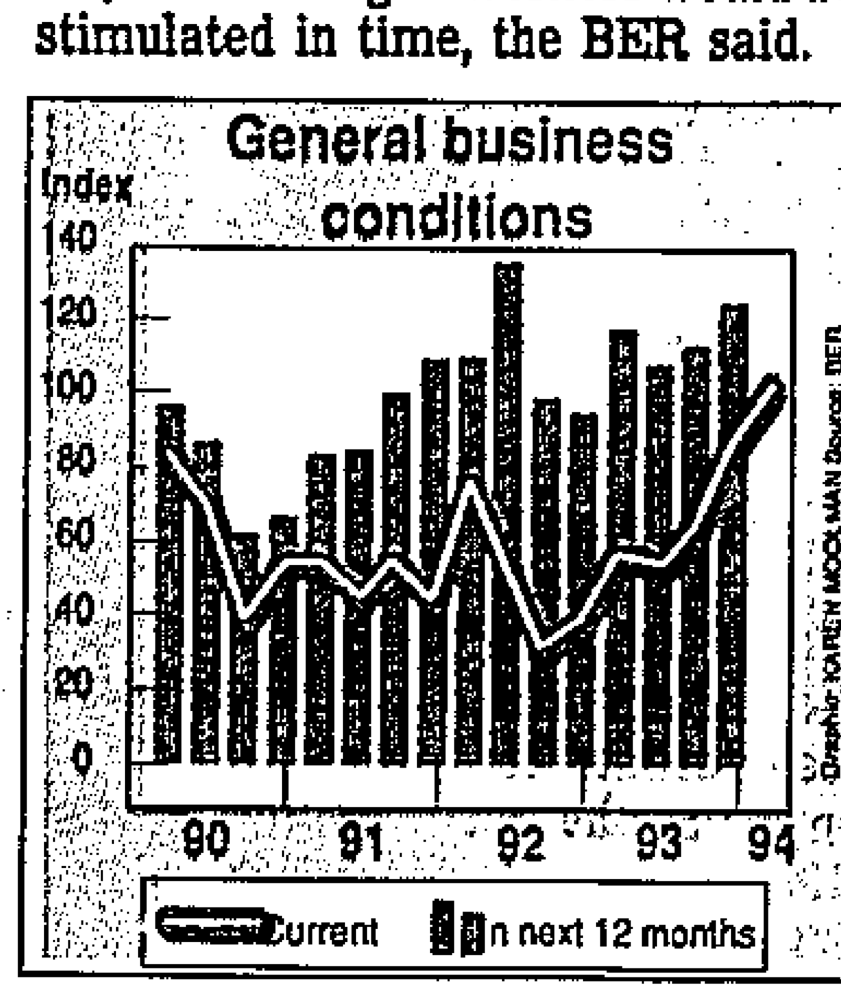
Retrenchment was slowing. Three in every 10 respondents indicated they would employ fewer workers this quarter than in the same period in 1993. In the September 1993 survey, five in 10 respondents reported fewer employees.

Renewed capital expenditure, which currently appeared to be mainly replacement or technology driven, could be spent on increased production capacity towards the end of 1994.

Production could be stimulated by exports as stocks of finished goods were judged to be low in relation to foreign sales expectations. A realisation of these expectations could compensate for stalling local demand.

The BER said monetary policy should remain tight.

Employment conditions in manufacturing remained weak, but prospects had improved. The deceleration in labour unit costs — related to lower wage settlements and more efficient use of labour — continued. Given the brighter outlook in the sector, the rehiring of workers would be stimulated in time, the BER said.



# PPI edges up to 6% as import prices rise

CT 19/1/94 (180)

By MAGGIE ROWLEY
Deputy Business Editor

AN increase in import commodity prices saw the Production Price Index edge up to 6% year-on-year in November from 5,4% the previous month.

According to figures released by Central Statistical Services yesterday, the month-on-month increase for all commodities in November was at 0,6% against 0,4% the previous month.

Locally produced commodities rose 6,4% in November from 5,7% the previous month, registering a month-on-month increase of 0,5%.

Import commodities, which were up 4,4% year-on-year against 4% the previous month, showed a month-on-month increase of 1,2%.

CSS ascribes the month-on-month increase in import commodities to an increase in the price index for crude oil — which has perplexed many economists as there has been a downward trend in oil prices in recent months.

They said the only possible explanation was that prices paid on futures contracts exceeded market prices.

Old Mutual economist Johan Els said that the month-on-month increase in the all-commodity index of 0,6% was in line with the average monthly increase of 0,5% for the first 10 months. The monthly average for the first 11 months remained unchanged at 0,5%, he said.

The increase in the domestic component was attributed by CSS to relatively large increases in the price indices for agricultural products, transport equipment and food at manufacturing.

The November PPI figures, in spite of the slight increase, still pointed to a continuation of the downward trend in the Consumer Price Index, Els said.

He forecast that CPI for December would come in at 9,3% — giving an average for 1993 of 9,7% against 13,9% in 1992. This would be the first year of single digit inflation since 1973 which was at 9,4%.

PPI for December was expected to be around 6% — giving an average PPI figure of 6,7% for the year against 8,2% for 1992.

The downward trend in inflation was firmly entrenched with the underlying inflation rate — excluding VAT and the volatile food and housing components — running at round 7,4%, he said.

Els forecast an average inflation rate of 7,5% for 1994.

FNB economist Cees Bruggemans forecasted CPI for December falling to around 9% and to below 7% in the first part of this year, reaching the 5% range in the third quarter. PPI, he forecast, would average around 5% to 6% for 1994.

JSE actuaries indices

# New legislation on design might not serve industry

BDay 7/2/94

LAWRENCE REYBURN

(180)

WHEN Parliament passed the Constitution Act in the dying days of its 1993 session, it created headlines around the world. In the shadow of this event Parliament also passed the Designs Act, 1993, which attracted no headlines.

Yet the new Designs Act, if it is brought into force, will have a major impact on SA's future, at least as regards the development of its manufacturing industries.

All industrial countries of any standing have legislation to enable the designers of new manufactured products to register new designs and so obtain legal protection. In this respect registered designs are similar to patents, but while patents concern the functions of manufactured products, or the processes by which they are made, registered designs are concerned only with the product's appearance.

Registered designs are also on the fringes of the territory governed by copyright, since copyright may subsist in the drawings, photographs, computer data or other materials in which a design is embodied.

The main feature of the new Designs Act is that it will enable designers of new technical products with no decorative aspect to obtain a 10-year monopoly in the right to manufacture, import, sell and use those products or copies of them. Their purpose may be banal — a trash can, a nut or bolt, a ladder, or gardening gloves.

For many years the designs of manufactured products have been registrable in SA under the Designs Act, 1987, provided the features protected are features of pattern or ornamentation, or shape or configuration. Registrations cannot under the existing law be obtained for features whose appearance is dictated solely by their function, and no new technical principle can validly be protected by a registered design.

The new Designs Act refers to the existing type of registration as an aesthetic design. It proposes to retain these so-called aesthetic registrations, but to confine them to what will be called Part A of the design register. Alongside them will be a new part, Part F, reserved for so-called functional designs, which are not constrained by the dominance of technical features in their appearance and which may embody or represent new technical principles.

The distinction between aesthetic and functional designs is unfortunate, because designers have, since at least the turn of this century, sought to create a seamless harmony between the appearance of a manufactured object and its function.

While an aesthetic design registration will have a life of 15 years (provided certain renewal fees are paid), a functional design will have a life of only 10 years (again, on payment of renewal fees). So there will be a natural incentive to go forward with registrations as aesthetic designs.

It will also be possible to register a design in both Part A and Part F of the register, and hence to make the assertion that the product has both decorative and functional features.

Unfortunately, if disputes arise, it will be necessary to separate the so-called decorative from the so-called functional features, and to justify the registrations in Part A and Part F on the basis of the dual (but not overlapping) presence of these features.

If this sounds like hair-splitting, this is exactly what it will be. Big companies making everything from candy bars to cars will be tempted to register every new product, and moreover every new component of every new product, and to leave it to lesser companies (but still those rich enough to fight Supreme Court battles) to attempt to overthrow their registrations in the courts. Small companies lacking the resources for such fights will be frozen out, and a great many invalid registrations will sail on undisturbed.

The outcome of the new Act is therefore likely to be a large number of invalid registrations and a large number of legal disputes over what, to professional designers, will be an irrelevant and sterile topic, namely whether the design is aesthetic or functional. Large companies with financial and legal clout will have the upper hand.

The only exception to the designer's power to register newly developed products is the proviso that the design of new products "in the nature of spare parts for a machine, vehicle or equipment" cannot be registered. The term "spare part" is, however, not defined, let alone the outlandish term "in the nature of a spare part", and once again the parties to a dispute will have to go off to the Supreme Court for a ruling if they cannot agree whether a registered part is or is not a spare part.

Take the example of a new car, with a distinctive appearance. Clearly it will be in the interests of the manufacturer to register the whole of the body of the car as a new aesthetic design, and probably as a new functional design too. But he will also be tempted to register individual parts, such the door panels and the boot lid, particularly if it is in these individual components that the bulk of the novelty of the design is found. Are these, however, spare parts? Is this not a subject on which eloquent lawyers can wage endless debates? If so, legal disputes will abound and the race will again go to the big and rich companies.

Enough has been said to suggest that the new Designs Act raises the spectre of incessant legal disputes, with Supreme Court litigation as the fate of many of them.

Will industry benefit by the situation? To the extent that the new legislation supports litigation lawyers and not industrial designers, the new Act is retrogressive rather than enlightened. The risk exists that so many sterile and expensive court cases will be fought under it that the Act will become thoroughly discredited. This will do no good to SA industry nor to foreign companies which choose to register their designs in SA and thus make their technology available to this country.

It is significant that those most concerned with the business of industrial design were unaware of the proposal to enact a new Designs Act. Among them were the Industrial Design Entrepreneurial Association, a society representing industrial designers and the only effective voice of the group. It had no inkling that new legislation was under discussion and was not consulted about it.

Parliament's boldness in passing this Act when the design community was unaware of it is staggering. Industrial design, if stimulated and developed, can rapidly transform stagnant or underperforming manufacturing industries.

Moreover, industrial design is not exclusively the province of the industrial sector. It is a sensitive mirror of the social, economic, and even the political state of a country. Left in the hands of the manufacturing industry, design tends to become bland and degenerate into the merely chic. Applied with energy to broader questions, industrial design can be a powerful transforming force.

Designers' interests, and not only those of a manufacturing industry driven purely by the profit motive, must influence the national approach to policy in this area, including the area of intellectual property legislation.

Might one hope that the bringing into force of the new Act will be delayed until those who have the most to say about its implications can formulate their comments and get a proper dialogue going with the Trade and Industry Ministry.

☐ **Reyburn is a patent attorney and partner at Webber Wentzel.**

# Manufacturers expect a better year ahead

Star 8/2/94

(180)

**BY CLAIRE GEBHARDT**

Manufacturers have started the year on a positive note — the majority expect 1994 to be a better year than 1993 was.

That's the upbeat message from Sacob economist Keith Lockwood who says that 81 percent of industrialists surveyed expect their sales volumes to be higher in 1994.

This is the highest positive response since the survey was started in 1988.

However he notes that regional disparities in the outlook for sales, production and stock volumes have increased over the past two months.

"Manufacturers in the Transvaal, East London and Western Cape region are now more optimistic than in November, while those in the Durban and Pietermaritzburg areas are less optimistic.

"Ninety-two percent of those polled in the Western Cape expect sales volumes to increase during 1994 compared with only 61 prcent in the Pietermaritzburg area."

Lockwood says the relative decline in Natal's fortunes may be attributed to the constitutional impasse.

All areas polled expect production volumes to rise during 1994 but the extent of the move varies from 64 percent in the Pietermaritzburg region to 90 percent in the Western Cape.

## Jobs

As regards employment, the regional variance is very large.

A majority of industrialists in Pietermaritzburg expect to employ more skilled and unskilled workers in the coming 12 months.

Manufacturers in the Western Cape — who are most optimistic about sales prospects — expect to reduce their employment of unskilled workers during 1994.

"A large majority of respondents in the East London area, and smaller majorities in the Transvaal and Durban regions, also expect to reduce their employment of unskilled workers over the coming year.

"Only Durban and East London also envisage reductions in the number of skilled persons employed.

Lockwood says that in aggregate terms, 53 percent of those polled expect to reduce their employment of unskilled workers and 55 prcent to increase the number of skilled people employed during 1994."

As far as capital expenditure is concerned, 60 percent of those surveyed expect to increase their real level of capital expenditure aimed at maintaining existing plant, while 63 percent expect to increase their investment in new capacity during the next 12 months.

Durban, Pietermaritzburg and East London are now significantly less optimistic as regards fixed investment than they were in November.

# Bidvest justifies high rating

Bidvest justified its recent high rating on the JSE by reporting a surge of almost 150 percent in attributable earnings to R41,4 million (R17,3 million) in the six months to end-December. Star

Earnings per share rose 56,5 percent to 410,2c (262,1c) and a 45 percent higher interim dividend of 142c (98c) was declared. 9/2/94

The earnings increase follows the reorganisation implemented within the group last year, "together with organic growth and positive contributions from recent acquisitions". (180)

Chairman Brian Joffe said most divisions performed satisfactorily.

However, continued pressure on margins together with the high volume/low margin nature of Safcor, led to a decline in operating margins to 4,4 from 9,2 percent.

Bidcorp, whose sole income derives from its 74 percent stake in Bidvest, lifted earnings per share by 56 percent to 213,2c (136,2c) and raised the interim dividend from 51c to 74c a share. — Sapa.

FM 11|2|94

BIDVEST

## More than satisfying

**Perhaps he's** just lost for words, but "satisfactory" is the most original word chairman Brian Joffe can think of to describe industrial conglomerate Bidvest's admirable interim results — a 56,5% increase in EPS to 410,2c and R244m cash on hand. (180)

Joffe attributes the performance to the reorganisation last year — subsidiaries Crown Foods and Afcom were delisted — as well as positive contributions from recent acquisitions and rights offers. However, continued pressure on operating margins, with the traditionally high volume/low margin nature of the freight operation Safcor, narrowed the operating margin to 4,4% (9,2%).

Two new divisions were created: Bidserv, specifically for industrial, commercial and leisure service sectors, will incorporate Steiner Services and premises cleaning and pest control business Prestige; and Combined Foods will become the umbrella for bakery supplies operations as well as food ingredient business Crown National.

**Bidvest's Joffe** ... *last year's reorganisation helped*

### DOUBLING UP

| Six months to | Dec 31 '92 | Jun 30 '93 | Dec 31 '93 |
|---|---|---|---|
| Turnover (Rm) | 383,4 | 391,8 | 1 229 |
| Operating income (Rm) | 35,2 | 35,0 | 54,0 |
| Attributable (Rm) | 17,3 | 20,0 | 41,4 |
| Earnings (c) | 262,1 | 289,9 | 410,2 |
| Dividends (c) | 93,0 | 117,0 | 142,0 |

FM 11|2|94

Bidvest sold its 50% in make-up house Justine in September for R3m. Financial director George Demetriades says Justine didn't fit in. "We could not even exercise management control and contributions were diminutive in relation to the size of the group." (180)

The balance sheet strengthened considerably; it is now ungeared. Interest received totalled R1,8m (R10m last interim.) Strategic acquisitions are on the cards. And, with so much cash, the scope and size of the shopping ground open to the group is large. However, Demetriades stresses any purchase will have to live up to Bidvest's strict criteria of sound management, cash generation and real growth prospects.

The share has been sharply rerated over the past year. It started 1993 at R55 and now fetches R115, having gained R15 over December/January. But, on a p:e of 15,3, the counter is rated well below the Industrial Holding sector's 21,5 average, suggesting it could go higher.

*Kate Rushton*

# SA manufacturers 'must think globally'

(180)

CT 15/2/94

A manufacturers "must think globally," Malbak chairman Grant Thomas said in Atlantis yesterday.

Emphasising the need to gear production to the world market, in order to achieve economies of scale, Thomas said: "Instead of thinking in terms of making 20 000 washing machines our manufacturers must aim at 200 000 washing machines."

Earlier Thomas had explained, in a presentation to the Atlantis Development Forum, that SA manufacturers' total overheads were 275% higher than those of overseas competitors.

As a result of this the cost of making an electric iron in SA, for instance, was 45% higher than in other countries.

Raw materials cost 43% more here, because of import duties and surcharges. Shorter production runs also pushed up unit costs for firms catering only for the domestic market.

Labour costs were 22% higher, not only because of wage levels but "because we don't work as productively or smartly as they do overseas and we are not using the most productive machinery."

Total overheads including the high cost of finance, the inflation rate, the cost of forward cover against a declining rand, higher security costs because of SA's high levels of crime, higher transport costs and short production runs pushed costs up by 275%.

# Good growth for Seardel

Star 18/2/94

**BY MARC HASENFUSS**

Cape Town — Seardel yesterday reported a strong 43 percent increase in taxed income to R14,7 million for the six months to end December — justifying the recent spurt in the share price from 130c to 525c.

Seardel's earnings a share came in 71,5 percent higher at 59,8c, realising an interim dividend payout of 7c (4c) a share.

Seardel chairman Aaron Searll said the group performed creditably due to action taken to counteract the recession. The steps included, most significantly, a cut of R2,4 million in finance charges. (180)

Effective cost cutting was reflected in the 54 percent gain in pretax income to R21 million off a modest six percent increase in turnover to R622 million.

Seardel's bottom line was also bolstered by a turnaround in the results of its Frame subsidiary.

# Radical restructuring lifts Fraser Alexander

**ANDY DUFFY**

WASTE management, coal and manufacturing group Fraser Alexander has started to reap the rewards of radical restructuring, turning in earnings ahead 25% to R7,1m for the six months to December.

The company, in which management last month bought a controlling stake, beefed up its core activities to post earnings a share ahead at 45,3c (36,3c), while lifting the interim dividend a quarter to 10c. (180)

Chairman Peter Flack said the recovery, which followed a 21% fall in earnings in the 1993 financial year, came despite poor market conditions.

"We haven't dropped any passes," Flack added. "We've managed the businesses a little better and reaped some of the rewards."

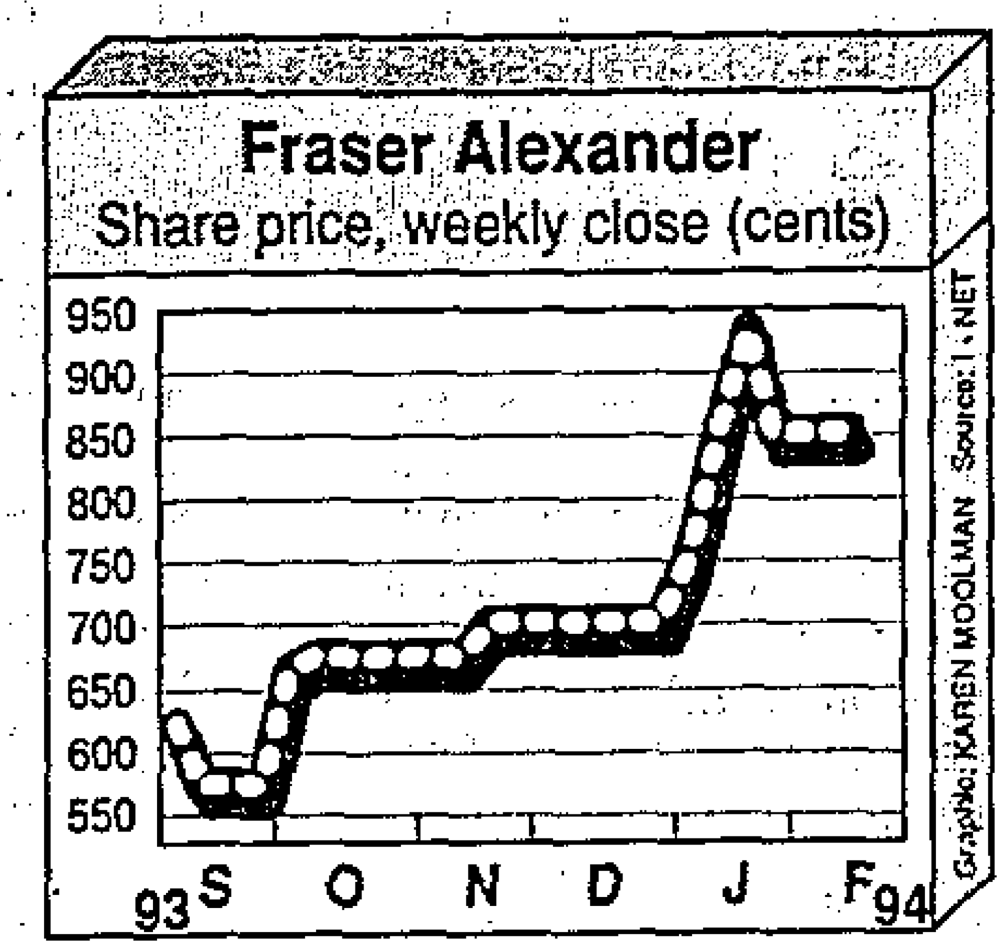
Fraser Alexander was on course to show similar gains for the full year, though the nature of the election — peaceful or violent — would hold sway over the company's fortunes.

Though turnover edged forward just 9% to R183m, the main impetus came from the reshaped waste division, which contributed around 25% of the earnings. The division had strengthened its management and marketing.

Flack said the division's proportion of group earnings would continue to rise, despite at best static prices. But with net margins at 3,5%, the division was still short of the 10% group target, and could take two years to hit it.

The coal business, which last year shed its loss-making contract mining business and UK company Deca Associates, had bought a replacement deposit for its Woestallen colliery.

The division was planning to expand its beneficiation business, and was holding discussions with the Department of Water Affairs over possible contracts.




The tailings division was bearing up well in the face of competitive pricing, recently netting a contract from Exxon in Chile. Concrete products remained under pressure, operating at 55% capacity. Current unrest was keeping the brakes on construction projects.

Orders for the construction division were rising, though margins were slim.

The bulk materials-handling division was ahead of its business plan, with the redirected Australian interests showing a marked improvement.

Improved cashflow pushed debt down from R73,3m to R61,2m, cutting gearing from 58% to 48%. Flack said gearing could fall to 37% by the year end, although it would rise if a "substantial acquisition" went through in the second half.

The company was examining two potential deals to expand the core businesses, he said. One was very close to being signed.

Fraser Alexander's management, through private company Prefco, bought the bulk of Rembrandt Group's 39,2% stake in holding company Fralex last month. Fralex, which holds 57,8% of Fraser Alexander, posted earnings ahead 25% at 25,5c a share, with the dividend up 22% at 5,5c.

# Seardel beats forecast to move back into the black

BDay 18|2|94

**EDWARD WEST**

CAPE TOWN — Seardel Investment Corporation, which is involved in clothing manufacture, toys and consumer electronics, moved back into the black in the six months to-December 1993, compared with the same period in 1992.

Chairman Aaron Searll said a turnaround in the Frame Group's results enabled Seardel to reflect a R750 000 attributable profit compared to a loss last year of R1,5m.

Earnings a share increased substantially by 71,5% to 59,8c (34,9c). The dividend rose 75% to 7c (4c).

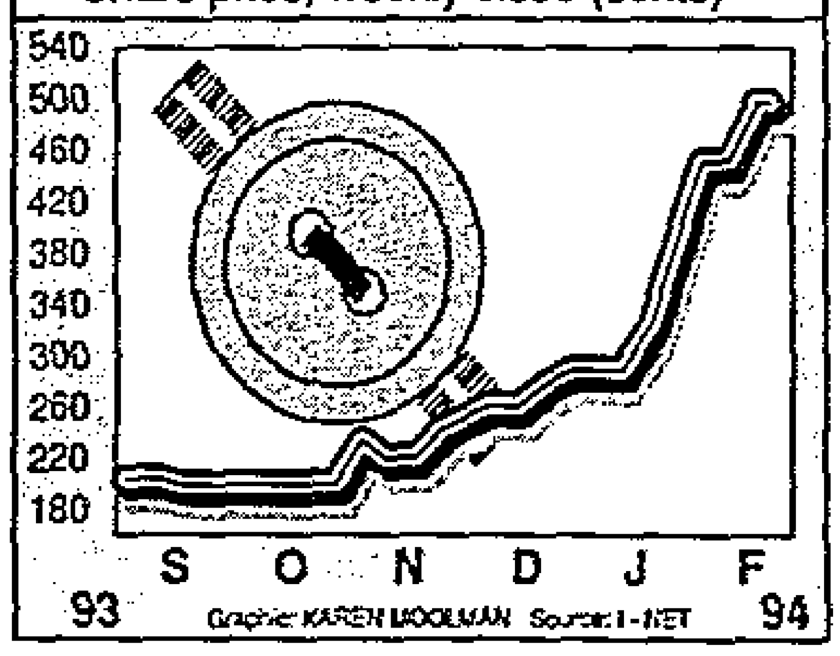
Turnover increased 6,1% to R621,6m and operating income climbed 15,2% to R37,2m.

Pre-tax income increased 54,2% to R20,9m due to a reduction of R2,4m in finance charges.

Searll said the group's asset management programme would be maintained and it was set to take advantage of any further increase in economic activity.

**Seardel Consolidated Holdings**

Share price, weekly close (cents)




The GATT agreement had allowed the clothing and textile industries a breathing space to align themselves with the new tariff structures, which would be phased in over 12 years.

Searll said that in order to maintain the momentum of clothing exports it was necessary for the current export incentive schemes to remain in place and be phased down in harmony with the GATT agreement.

Despite depressed economic conditions, the group performed creditably in the period under review because of actions taken to counteract the recessionary climate of the past few years.

Searll said further reduction in the finance charges rate was anticipated and a gradual economic upswing appeared to be in progress. It was imperative there was no escalation of violence prior to the election.

The group's profit forecast in the 1993 annual report now appeared to be conservative and forecast turnover for the full year was expected to rise to R1,3bn from a previous forecast of R1,1bn, while earnings a share was expected to rise to 100c from 85c. The dividend was expected to be 22c, he said.

Group equity increased to R193,3m (R168,7m), which included R2,7m from the sale of certain assets in Frame.

(180)

# Micor profit leaps despite static trading

BDay 24/2/94

MICK COLLINS

DIVERSIFIED industrial group Micor Industrial Corporation saw turnover increase 10,4% to R304,2m for the six months to December from the previous year's R275,6m.

Despite static market volumes, pre-tax profit soared 115% to R1,5m (1992: R711 000) and a tax holiday saw the full R1,5m go through to after-tax profit.

This resulted in attributable earnings rising 117% to R1,56m which, after an extraordinary item, translated into an earnings a share rise of 103% to 6,3c (3,1c).

The extraordinary item of R175 000 resulted from the writing off of goodwill arising from the acquisition of a subsidiary. (180)

The directors said the satisfactory results were an indication of the continuing attention given to tighter management.

"This is further borne out by the commensurate greater increase in profit levels than in turnover levels in markets where volumes have remained static."

LONRHO

FM 4/3/94

# Becoming leaner and stronger

**Activities:** *UK-based multinational, with mining, agricultural, commercial and industrial interests in 48 countries.*
**Control:** *D Bock with 19% is the largest shareholder.*
**Chairman:** *M J R Leclezio; Joint MDs: R W Rowland & D Bock.*
**Capital structure:** *766,5m ords. Market capitalisation: R7,9bn.*
**Share market:** *Price: 1 040c. Yields: 2% on dividend; 7,4% on earnings; p:e ratio, 13,5; cover, 3,8. 12-month high, 1 150c; low, 525c. Trading volume last quarter, 3,8m shares.*

| **Year to Sep 30** | **'90** | **'91** | **'92** | **'93** |
|---|---|---|---|---|
| Turnover (£m) | 5 476 | 4 846 | 3 866 | 2 700 |
| Pre-int profit (£m) | 272 | 207 | 179 | 233 |
| Pre-int margin (%) | 5,0 | 4,3 | 4,6 | 8,6 |
| Earnings (p) | 23,6 | 14,2 | 1,2 | 15,1 |
| Dividends (p) | 15,7 | 13,0 | 4,0 | 4,0 |
| Net worth (p) | 216 | 204 | 171 | 138 |

**Just when** it seemed the group would display all the signs of profit fatigue for the third successive year, it has returned results which are a huge improvement on those for 1992. In the process it has wrong-footed the market.

New joint CE Dieter Bock has cause to feel fairly chipper, both with Lonrho's comparatively handsome bottom line and the effect on his personal finances — after all, he did borrow £UK100m (about R500m) to finance his purchase of a large chunk of the enigmatic Tiny Rowland's stock. The results have pushed Lonrho to R10,40 and that makes Bock's personal holding worth about R1,5bn — not a bad appreciation, though he can argue he's had to put up with a lot of abuse to get it.

Essentially, turnover has been trimmed by £1,2bn to a modest £2,7bn; however, operating profit from a reduced asset base held up well at £146m, asset sales brought in a profit of £87m and the interest burden was £30m lighter. The year's profit comes out at £112m — 1,6 times larger than 1992's dismal £42m and that reflects a big improvement in the trading margin.

At 15,1p a share, EPS compares well with the previous 6,4p and the terrible 5,1p of 1991. The dividend is unchanged at 4p, giving cover of 3,8 times — a ratio the group hasn't come close to approaching since 1977. It is certainly indicative of the conservative policy Bock intends to follow.

In financial terms, what has really characterised Lonrho over 1993 has been its substantial asset sale. It has disposed of VAG, its UK Volkswagen and Audi franchisee (£81m), sold *The Observer* to *The Guardian* for £27m and got rid of Krupp Lonrho for £113m. All that is reflected in a decline in fixed assets to £1,7bn and a sharp reduction in long-term loans, now more than halved to

**Lonrho's Rowland** ... *still ready for a scrap*

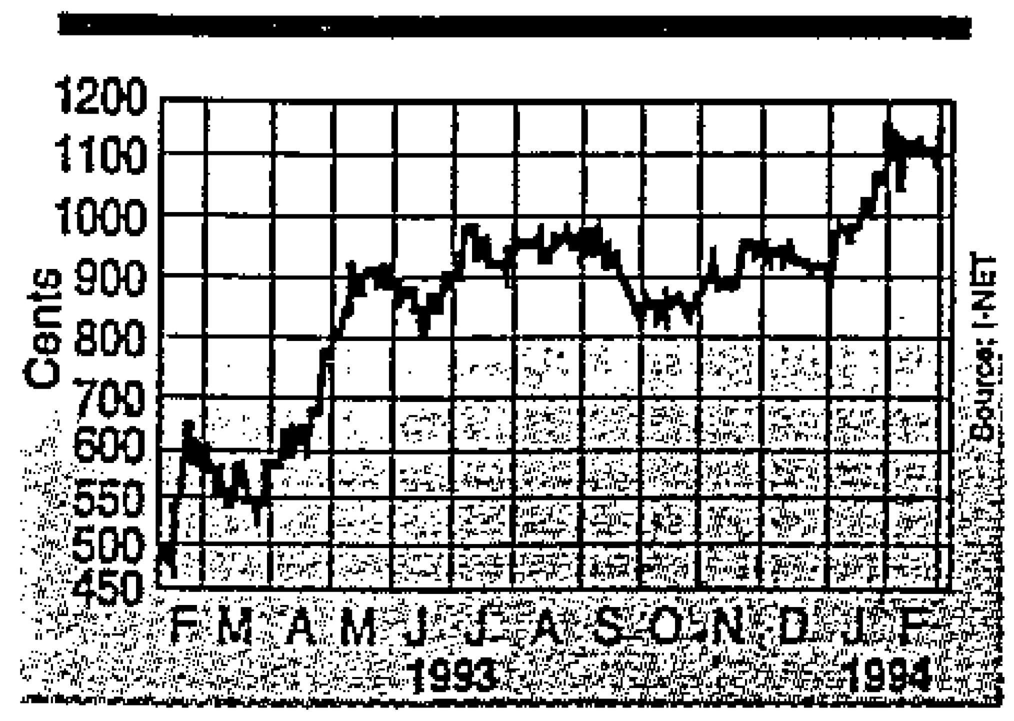
£307m (1992: £754m).

But what has always fascinated shareholders and the market is the unusual nature of Lonrho's eccentric boss, Tiny Rowland. He took over the company in then Rhodesia in 1961; proof of his acumen is provided in the report's 33-year financial record, not 10 or 20 years, but the full Rowland reign is proudly exhibited.

Rowland (76) knows he has to go but, being a man of huge energy, it is not a subject he views with favour. He moved to find a replacement in Dieter Bock; when he had secured him with trumpetings of how he saw him as a son, the reality of succession became cold and distasteful. Bock represents Lonrho's future; Rowland its past. It is something he deeply resents and this is why he has given Bock such a hard time.

My colleagues write about the fight going on in the Lonrho boardroom. I am unconvinced. At 76, Rowland has the capacity — and probably the stomach — for a good scrap. He's been in plenty and, whatever his detractors may say, he's seen off some formidable adversaries. In these circumstances, Bock is displaying all the signs of maturity:

**Lonrho Plc**




180

he is ~~keeping~~ calm, presenting as small a target as possible and humouring his famous mentor.

In the process, he is getting his own way more often than not. Rowland's old gang is on its way to retirement: chairman Rene Leclezio (73), deputy chairmen Robert Dunlop (64) and Paul Spicer (65) and non-executive director Sir Peter Youens (78) are to leave during the year. The terms of their departure haven't been announced but they are hardly poverty stricken.

According to the annual report, Leclezio's holdings in Lonrho are worth about R2,7m, Dunlop's about R3,9m, Spicer's the same and Youens about R2,9m. All hold substantial share options and they've been earning well — according to the annual report about £350 000 a year (except Leclezio who went off with £1,6m last year).

For a hugely diversified group with 640 companies operating in 48 countries, its profit contribution is strangely distorted: mining contributes a modest £335m to turnover but £72m or 54% of profit from continuing operations. Much of that is centred around the contributions made by Western Platinum and Duiker in SA and the Ashanti goldfields in Ghana, which Lonrho intends floating soon and expanding further.

Intriguingly, no-one is making any predictions about the conglomerate's prospects for 1994. *David Gleason*

CLINIC HOLDINGS FM 4/3/94

## Share still lagging

**For a group** which has consistently grown earnings, in real terms, throughout the recession, it's hard to fathom why Clinic Holdings' share price is so poorly rated compared to other listed medical groups and the sector average.

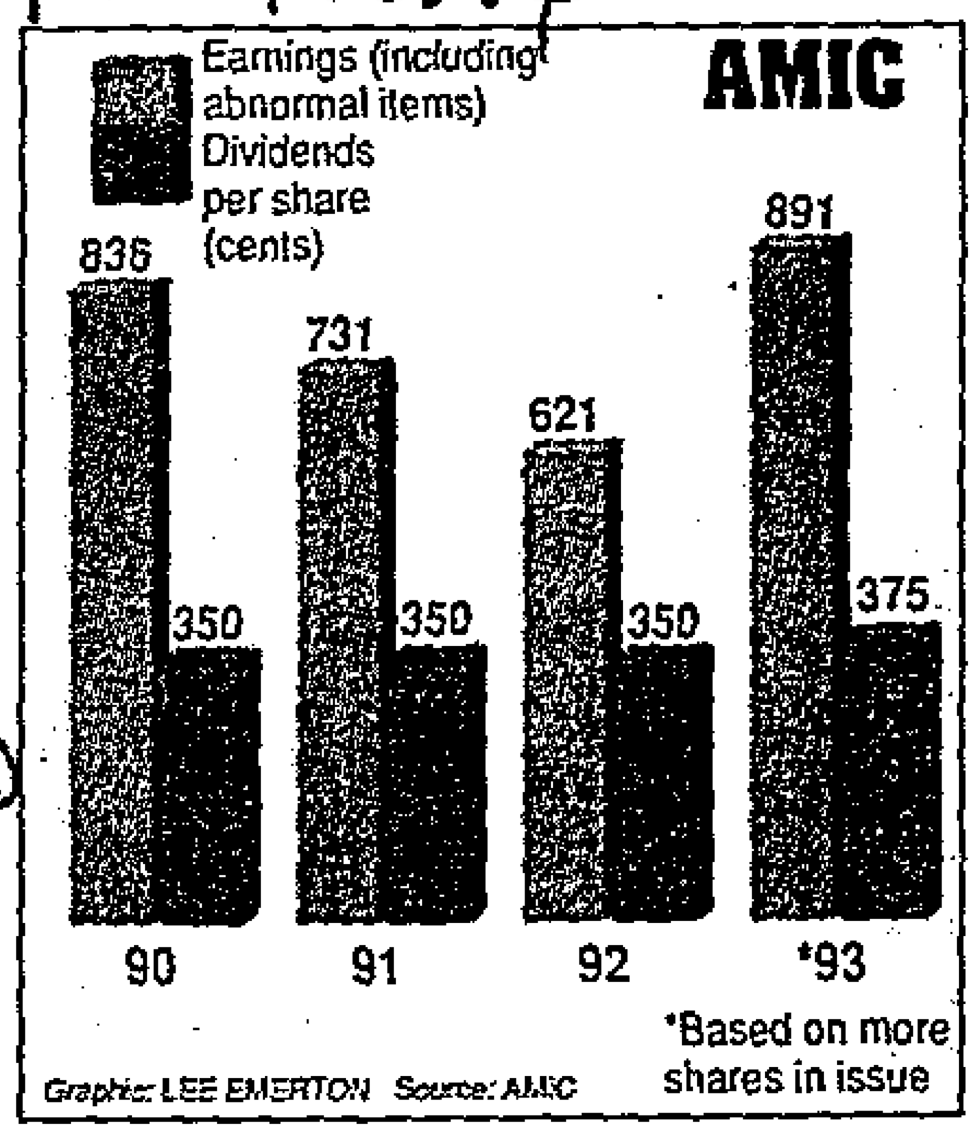
Previously, the separation of Clinic's property and trading operations was seen as a factor hampering the share price; until last year the properties were held in an unlisted company controlled by the directors and which received rentals from the listed company. The split of assets certainly attracted criticism, to which management was slow to respond.

The merger of the property and operating interests, with effect from the end of 1992, is reflected in the accounts for most of the financial year. The transaction, financed through issue of R400m convertible debentures and a R160m long-term loan, has helped push gearing up to 35% (1992: 32%), though that has not strained the balance sheet.

# Amic surge points to economy's health

B/Day 4/3/94

ANDY DUFFY




IN WHAT it termed a clear sign that the economy had turned the corner, Anglo American Industrial Corporation (Amic) lifted earnings 23% to R436m for the year to December, and raised its dividend for the first time since 1989.

The group, which draws its earnings from the engineering, construction and petrochemicals industries, said income would continue to rise this year, barring political disruption. (180)

Amic was also building up cash, offering a scrip alternative to the dividend, and was hunting for overseas partners to expand into new sectors.

"We are a microcosm of SA industry," chairman Leslie Boyd said. "It is good news for SA because clearly we reflect what is happening in the economy."

The results — which arrest a three-year decline in earnings — show Amic reaping the benefits of last year's restructure.

Turnover jumped 30% to R8,78bn as sales from Amquip and construction group LTA were consolidated after Amic increased its holdings in both.

But "substantial" improvements across the operations lifted pre-tax income 47% to R606m. Attributable earnings hit 739c (621c) a share on an expanded share base, though a R90m windfall stemming from the change in the tax rate lifted the figure to 891c. The dividend rose 7% to 375c.

Mainstay Scaw Metals, which contributed more than a fifth of earnings, lifted equity-accounted income to R112,5m (R76m), bolstered by higher exports.

A lighter debt burden helped lift AECI's contribution to R93,5m (R64,6m), despite weak international markets. The company's fortunes this year hung on the next government's ability to support the industry's international drive.

Tool producer Boart remained under

To Page 2

## Amic

B/Day 4/3/94

From Page 1

pressure, leading to further rationalisation. But the market firmed in the final quarter of last year to leave earnings static at R46,4m. The recovery was continuing.

Higher volumes, dollar export prices and a weaker rand underpinned an 80% rise to R66m in Highveld Steel's contribution. Steel production was surging, Boyd said, but vanadium's outlook was bleak.

Paper and pulp markets began to stabilise last year, propelling Mondi's contribution to R72,1m (R32,1m). Production was running close to capacity, and earnings this year were expected to leap 60% given the rise in paper prices. (180)

Construction business LTA and sugar producer Tongaat-Hulett both posted gains, despite depressed markets. Among Amic's other income sources, only engineering group Dorbyl marred the performance. Attributable earnings fell 41% to R55m, while cost-cutting left it with extraordinary charges of R59m.

Boyd said the improvements seen in the last quarter of 1993 had continued into 1994, and would strengthen through the year. He said GDP could hit 4% — a forecast way above that of most economists.

Amic's reshaping was now complete, and had improved group control and cash management. Its borrowing capacity had also grown, and was now well over R500m. Despite a 34% rise in debt to R1,8bn, stemming from its exposure to the Columbus expansion project, Amic's gearing was confined to 17% (12%). Cash and deposits were up 18% at R1bn.

Amic was searching for more overseas partners. It had already tied up with Korean conglomerate Daewoo.

AMIC FM 11/3/94

## Long horizons

**Without fail,** every observer has pointed at Amic's preliminary results for 1993 as proof of a turning economy. On the face of it, this important group's rejuvenated performance certainly supports that view. (180)

Turnover increased to R8,789bn; it is a big number and it is up 30%. However, this is obscured by the first-time inclusion of LTA, brought to account by Amic in 1993 as a subsidiary after its acquisition of Anglo American's 49% shareholding. LTA's nine-month turnover was R1,379bn — over the full year probably about R1,780bn. After Amquip is brought to account, the turnover increase was about 6%. FM 11/3/94

On that basis, what is all the fuss about? It comes in attributable earnings *before* an abnormal credit of R436m (1992: R354m), an increase of 23%. Of particular interest is the increase in the trading margin: 3,8% in 1992, 5% last year. That alone accounts for about R100m of Amic's operating increase. It indicates, contrary to the evidence elsewhere, competition in some areas has eased and demand has grown. (180)

The deferred tax credit arising from last year's tax bonus has been taken above the line; the effect is to enhance earnings by a net R90m, giving EPS of 891c (1992: 621c). The improvement is large enough to excite market interest, so a restrained approach is called for. The method of bringing the tax credit to account is valid but encourages distortions. Amic's directors have chosen to ignore the windfall when paying a dividend; the increase is a modest 25c or 7%.

### ON A ROLL

| Year to December 31 | 1992 | 1993 |
|---|---|---|
| Turnover (Rm) | 6 782 | 8 789 |
| Operating income (Rm) | 256 | 439 |
| Attributable (Rm) | 354 | 526 |
| Earnings (c) | 621 | 891 |
| Dividends (c) | 350 | 375 |

The balance sheet is remarkably strong; retained earnings are nearly R2bn and cash and deposits exceed R1bn. Long-term borrowings are up 250%, at R965m. Chairman Leslie Boyd says these are largely attributable to the Columbus stainless steel project. Amic is hell-bent on development. Last year, its expenditure on capital projects was R876m, this year it will be well over R1bn.

Amic is tied irrevocably to the commodity cycle. There has been talk about reducing its exposure to this sector, but it will be almost impossible to change it materially. Principal operating units remain Scaw (steel and engineering), AECI (chemicals), Mondi (paper and pulp), Highveld (steel) and Boart (mining-related products).

Scaw's contribution to earnings was R113m, well up on 1992's R76m. Much of this is due to higher export volumes and better prices and the increase was achieved despite a dreadful result from associate Haggie, where earnings fell by 40%.

Mondi reported a 67% improvement in earnings and a contribution to Amic of



**FOX**

R72m, more than double its return for 1992. International paper and board markets are stabilising; pulp prices are improving. It's reasonable to presume Mondi will return stunning results for 1994.

Finally, of the larger operations AECI produced an increase of nearly R29m in its contribution to Amic's coffers, Boart International remained steady at R46m and Highveld nearly doubled its contribution, at R66m. All these except Boart indicate an improving domestic economy.

Not surprisingly, the counter is on a 12-month high of R155, giving a p:e of 17. Because of the deferred tax distortion, it will take some doing to repeat this performance next year. It is plainly a stock for investors with long horizons.

*David Gleason*

# AMIC

Anglo American Industrial Corporation Limited

Incorporated in the Republic of South Africa · Company registration number 63/05282/06

FM 11/3/94

## Chairman's statement, Results and Notice of capitalisation share award and right of election to receive instead a final ordinary dividend for the year ended 31 December 1993

(180)

Although 1993 brought little general improvement in trading conditions in South Africa and internationally, Amic achieved a significant increase in earnings, thereby reversing a three-year decline. Earnings rose by 23 per cent to R436 million, and by 48 per cent to R526 million if abnormal credits arising from the release of deferred tax are included. Reflecting the greater number of shares in issue, earnings per share increased by 19 per cent to 739 cents, excluding the tax release, and by 44 per cent to 891 cents including it. On behalf of the board I wish to take this opportunity of congratulating everyone concerned in this creditable result.

The board has decided to award capitalisation shares to members registered on 18 March 1994, on terms to be announced on 14 March. Members may, however, decline the award and elect to receive a final dividend of 265 cents per share. Our major shareholders have indicated that it is not their intention to elect to receive the dividend. The dividend which may be received, together with the interim of 110 cents, brings the total to 375 cents, compared with 350 cents last year.

### Economic environment

The operations and interests of Amic constitute a microcosm of South African industry, not least in its exposure to world markets. Indeed one of the objectives of the business review initiated in 1993 is to diminish our vulnerability to the commodity cycle. Last year was characterised by a distinctly patchy improvement in world trade, the contraction of economic activity in Europe and Japan more or less offsetting sustained growth elsewhere; and in South Africa by the first stages of recovery from the most protracted recession this century, which in real terms reduced gross domestic product (GDP) by as much as five per cent.

Starting from that low base, the upturn initially was largely a response to more normal agricultural conditions after the devastation of the 1992 drought. In time, however, the benefits of improved farm incomes, together with a higher gold price, better global trading conditions in steel, pulp and paper and a few other commodities, and lower domestic interest rates, spread to other sectors of the economy, notably mining, manufacturing and transport. By the fourth quarter the recovery had become widespread, with fixed investment at long last turning upwards as a result of increased public spending on infrastructure and private sector expenditure on new capital projects, such as the Columbus stainless steel venture. Consumer spending too has been buoyed by growing domestic confidence and increased use of credit following the reduction of household indebtedness.

Over the entire year GDP grew by one per cent, but that masked a much more robust rate of growth in the second half. Tight monetary discipline kept inflation, as measured by the consumer price index, below 10 per cent throughout the second half of the year, which enabled the prime overdraft rate to be reduced by a further two percentage points. Further reductions can be expected after April, when the higher VAT rate introduced in the last Budget drops out of the year-on-year calculation of inflation.

### Group operations

Taking full opportunity of the improvement in certain markets, Scaw Metals increased its equity accounted earnings, including abnormal credits, to R113 million from R76 million, and retained its position as the principal contributor to Group profits. Scaw benefited particularly from higher export volumes and prices for its rolled steel products, while the grinding media and foundry divisions did well in the circumstances prevailing. Earnings at Haggie Limited, in which Scaw has a 35 per cent interest, fell by 40 per cent to R35 million as a consequence of poor trading conditions in most of its niche markets.

Highveld Steel increased its attributable earnings to R127 million from R71 million. That reflected higher volumes, a weaker rand in terms of US dollars, and higher dollar export prices. Steel sales in South Africa were considerably higher than in 1992, thanks to the orders for capital projects, the low inventories held by merchants and the revival of agricultural demand, and Highveld was able to bring steel production back to full capacity in the last quarter. Vanadium consumption remained depressed, and with the continuation of cheap offerings from Russia prices declined to the level last experienced in the recession of the early 1980's.

For Mondi, a measure of stability returned to international markets towards the end of the year, and pulp and paper prices started to rise as new capacity began to be absorbed by renewed growth in consumption. Production of pulp, paper and board rose further to 1,19 million tons in 1993 and higher quality targets were attained, enabling Mondi to increase penetration of export markets. Domestic demand also improved, and all production facilities are now running at or close to capacity. Earnings more than doubled to R136 million.

The Boart group continued to experience depressed conditions in all its international markets excepting Australia and the Far East, and further rationalisation and restructuring had to be undertaken. In South Africa earnings were 10 per cent higher than in the previous year. Overall, group earnings were virtually unchanged at R46 million. LTA has changed its year-end to 31 December to conform with Amic, and has just reported for a nine-month period. Notwithstanding the severity of the recession in building and construction, LTA increased, on an annualised basis, earnings by 8,5 per cent and dividends by 26 per cent and at the year-end had contracts outstanding of R2,0 billion, against R1,5 billion the previous year.

AECI's PVC and polyethylene operations again suffered from weak markets internationally, and at home from the lack of effective anti-dumping measures. The explosives division encountered intense competition in the local market but succeeded in maintaining earnings. Good rains brought about higher sales of fertilizer in the fourth quarter, though the real benefit will only accrue in 1994. Soda Ash Botswana is still cause for concern: prices and demand remain low and a further cash injection from shareholders will be required in 1994. For the whole year AECI's attributable earnings were 45 per cent higher at R237 million, owing mostly to lower interest rates on foreign and local borrowings.

The Tongaat Group's operations in the year to March 1993 were severely affected by the drought, which almost halved sugar production in the 1992 calendar year and caused a further contraction in 1993. Milling capacity is being rationalised as part of a long-term policy of reducing costs. However the performance of other divisions, together with a substantial reduction in finance costs, enabled the group to increase attributable earnings to R179 million. In the half-year to 30 September earnings per share rose by some 8 per cent and the interim dividend was increased.

The McCarthy group performed well in the year to June 1993 and has just announced a 12 per cent increase to R56 million in earnings for the half-year. The motor, furniture, clothing and other trading operations all contributed to the latest result. Ventron Corporation raised attributable earnings by 11 per cent to R55 million on a virtually unchanged turnover in the year to February 1993. In the subsequent half-year earnings fell by 12 per cent as a result of the pressure on margins and the cost of starting a number of new enterprises.

The Dorbyl group continued to incur serious losses, particularly in its contracting division, and was forced to close some operations permanently and reduce its workforce. Attributable earnings declined by 41 per cent to R55 million, and rationalisation measures accounted for extraordinary charges of R59 million. Earnings of the Rennies group fell by 5 per cent to R52 million in the year to June 1993, owing largely to a fall in imports. There has been a good recovery in the subsequent half-year.

I should also mention the progress of our smaller companies, which sometimes owed more to their positive response to adversity than to

FM 11/3/94

(180)

improved trading conditions. Kolbenco achieved a 65 per cent increase in earnings to R13 million, Conlog a 70 per cent increase to R5 million, while Amquip reported substantially better results, at R5 million. N F Die Casting, steadily overcoming the new plant's teething problems, halved its losses to R5 million, and by the fourth quarter had started to earn profits.

## Group developments

We have made good progress toward the objectives set by our business review, namely enhanced financial efficiency, the consolidation of certain industrial interests, and diversification designed to diminish the impact on our results of the commodity cycle. On 1 January 1994 the operations of Scaw Metals, Boart International (South Africa), Control Logic and Kolbenco became divisions of the newly formed Amic Industries Limited. This will not only make for greater financial efficiency, but provide an appropriate vehicle for financing new investments and developments.

Consolidation of industrial interests held jointly with Anglo American Corporation was carried further by our acquisition of the Corporation's 49 per cent shareholding in LTA with effect from 1 April 1993, making LTA a 70 per cent-owned subsidiary. On 1 January 1994 we acquired Anglo American's 20,6 per cent interest in The Tongaat Group, taking our holding to 43,5 per cent. I am confident of the benefits that will flow from these changes and that these investments will make a progressively greater contribution to our earnings.

An important example of diversification was the decision to enter the aluminium beverage can market through Highveld's Rheem division. I am pleased to report that the new plant has exceeded rated capacity virtually from start-up and that the quality of the product has won high acceptance in the marketplace. As a result we expect Rheem to make a significant contribution to Highveld's earnings in 1994. Another promising example is our joint venture with Daewoo of Korea, announced in July 1993, to seek new development opportunities in South Africa. As a first step, a 30 per cent interest in Gentech, a manufacturer of domestic electrical appliances, was acquired shortly afterwards and the manufacture of colour television tubes and other products is under active investigation.

I referred earlier to the intensity of international competition in the explosives and chemical industries, and its effect upon AECI, the leading South African producer and one of the largest contributors to our earnings. To preserve and strengthen the viability of the domestic industry and to make it world competitive, AECI and Sasol decided to merge their complementary interests in chlor-alkali and petroleum-based products from 1 January 1994. From the same date AECI formed a joint venture with ICI, into which it sold its explosives business. It now becomes a participant in ICI's explosives business worldwide. An important consequence of these realignments is that AECI simultaneously became a subsidiary of Amic.

Easily the most significant of the new ventures we have on hand is Columbus stainless steel. Construction of the new plant, which is being integrated with the original works at Middelburg, is proceeding apace and by 31 December 1993 Highveld and its equal partners, Samancor and the Industrial Development Corporation, had spent R1,27 billion on the project. Cost to completion is budgeted at R3,5 billion, and commissioning is due to commence late in 1994 and continue through 1995.

Group capital expenditure for the year was R876 million, of which R688 million related to expansion projects and the balance to replacement of assets. By the year-end the debt/equity ratio had increased slightly to 17 per cent (1992 – 12 per cent); such low gearing gives us adequate scope to fund known commitments and such new opportunities as may occur.

## Industrial relations

By 1993 wage negotiations in the metal industries had become increasingly protracted, arduous and disruptive. Employers and trade unions came together in one large forum which tended to be characterised more by posturing than by the constructive exchange of ideas. Last year, endeavouring to find a better way, the two sides adopted a down-stream approach, conducting negotiations through small working groups. Each concentrated on a particular field, and the agreements so arrived at then passed to a plenary session for approval and ratification. The success of the new approach may be judged by the fact that the final settlement was reached without undue delay, deadlock or declaration of a dispute. The main settlement consisted principally of a seven per cent rise on actual rates of pay for all job categories, a reduction in job grades from 13 to five, and the introduction of training schemes to enable employees to acquire different skills, not only a more advanced qualification in the same skill. Wage negotiations in fields outside the metal industries were also conducted without incident, and with results that were acceptable to both parties.

Some of our operations on the East Rand have not escaped the effects of the appalling escalation of violence there, most of it politically related. The managements concerned are taking every possible step to prevent such incidents from spilling over into the workplace, and indeed are doing their best to help stabilise the situation in the local communities.

## The future

The recovery already underway, supported by what promises to be an exceptionally favourable agricultural season, has the potential to accelerate appreciably in 1994, with GDP growing perhaps by as much as four per cent. However, with global recovery overall likely to remain restrained, the industries most dependent on external markets can hardly expect more than a moderate improvement in prospects. South Africa's own growth will therefore differ in character from the norm, where the upturn typically has been preceded by a sharp rise in exports, responding to the buoyancy of world trade. On this occasion the quickening in domestic activity is likely to be led by rising private and public investment spending. Imports in due course will rise too, so reinforcing the need for prudence in monetary policy and careful husbanding of the gold and foreign exchange reserves, which have now shrunk to the equivalent of only six weeks of imports, despite the $850 million loan from the International Monetary Fund.

The key to ensuring that recovery can be sustained thus lies in maintaining an economic environment conducive to private fixed investment on a substantial scale. The abolition of sanctions and our new political acceptability are simply pre-requisite to that objective – they do nothing to generate investment in themselves. Politicians, businessmen and trade unions have a common concern that South Africa should be not only democratic but prosperous. In the long run politics is the handmaiden of economics – it is not the other way round. The way ahead therefore lies in building on the progress the country has made in its economic management over recent years, and in finding ways of rectifying the injustices of the past without resort to over-ambitious policies that in time will inevitably abort growth, prosperity and, finally, democracy itself.

The practice of extending the policy-making process through fora representative of the interests concerned has been of considerable value at this transitional stage of our affairs – notwithstanding the consequential delays – because it has broadened the acceptability of the decisions taken. In the new South Africa, however, consensus ought not to be pursued to the point where it could enfeeble policy and action. Government must govern in the knowledge that the right decisions are not necessarily popular in the short term.

As far as Amic is concerned, the gradual improvement in trading conditions during 1993 has continued into the first quarter and we expect it to strengthen through the remainder of the year. All our subsidiaries and associates are budgeting for increased earnings. Subject only to the risk of politically related disruption, I am therefore confident that Amic will achieve a further material improvement in its results in 1994.

We must all hope that such disruption will be averted, for reasons that are basic to the country's future, and that no effort will be spared to arrive at an inclusive election. Ours is without question a heterogeneous society. That can be a source of strength, if accommodated in a constitution that devolves power appropriately from the centre, and a grave source of weakness if it is not. There is so much evidence around the world of the danger of centralist approaches as to leave our own leaders no excuse for failing to reach resolution on this crucial issue.

## Directorate

On 17 August 1993 Donald Ncube, hitherto an alternate member of the board, was appointed a full director. His contribution to our affairs, particularly in the field of human resources, is greatly appreciated.

On 1 January 1994 Mike Sander, who succeeded Gavin Relly as chairman of AECI, was appointed a deputy chairman of Amic. With effect from 1 February 1994 Peter Watt, deputy chairman of the Altron Group, replaced Charles Stride as alternate director to Bill Venter. I should also like to welcome as alternate directors Cedric Savage and Terry Rosenberg, chief executives respectively of the Tongaat and McCarthy Groups.

Also on 1 January and in accordance with the articles of association, the board appointed an executive committee to direct and monitor the Group's activities. While its decisions on major matters are of course subject to the authority of the full board, I am sure that it is going to play a constructive role in the development of our operations.

L Boyd

Johannesburg
4 March 1994

*Amic's thirtieth annual report for the year ended 31 December 1993 will be posted to members on or about 21 March 1994.*

*The annual general meeting of members will be held at 44 Main Street, Johannesburg, at 12:00 on Friday, 13 May 1994.*

Fm 11/3/94 180

**Capitalisation share award and right of election to receive instead a final dividend**

As indicated in the accompanying statement by the Chairman, the directors have resolved to award capitalisation shares to ordinary shareholders registered in the books of Amic at the close of business on Friday, 18 March 1994 ("the record date"). The terms of the capitalisation award will be published on Monday, 14 March 1994. Instead of the capitalisation award shareholders may in respect of all or part of their shareholding elect to receive a final dividend of 265 cents per ordinary share in respect of the year ended 31 December 1993 ("the election"). The new ordinary shares to be issued pursuant to the capitalisation award will be issued as fully paid up by way of capitalisation of part of Amic's distributable reserves.

Documentation dealing with the capitalisation award and the election will be posted to shareholders on Friday, 25 March 1994. In order to be valid, completed election forms will need to be received by the company's transfer secretaries by no later than 12h00 on Friday, 15 April 1994. Should such election forms not be received by such date, Amic will automatically issue capitalisation shares to all relevant shareholders concerned. Application will be made to The Johannesburg Stock Exchange and the London Stock Exchange for the capitalisation shares to be listed with effect from the commencement of business on Friday, 29 April 1994.

Shareholders are advised that the share registers will be closed from Saturday, 19 March 1994 to Friday, 15 April 1994, both days inclusive.

The right to elect to receive a dividend is not available to shareholders in any jurisdiction in which it is illegal to grant the same.

**Salient Dates**

| | 1994 |
|---|---|
| Announcement of basis of capitalisation award | Monday, 14 March |
| Last day to register for award of capitalisation shares and right of election to receive instead a final dividend | Friday, 18 March |
| Registers closed from<br>to (inclusive) | Saturday, 19 March<br>Friday, 15 April |
| Shares listed ex the award of capitalisation shares and ex the final dividend on The Johannesburg Stock Exchange and on the London Stock Exchange | Monday, 21 March |
| Circular and form of election posted to shareholders | Friday, 25 March |
| Last day to make the election for a final dividend instead of the award of capitalisation shares (by 12h00 local time in Johannesburg and London) with no late forms of election being accepted | Friday, 15 April |
| Share certificates and/or dividend cheques posted | Thursday, 28 April |
| Dividend payment made. Listing of capitalisation shares commences on The Johannesburg Stock Exchange and the London Stock Exchange | Friday, 29 April |

By order of the board

Anglo American Corporation of South Africa Limited
*Secretaries*

per: A V Waterston
Divisional Secretary

Transfer Secretaries
Consolidated Share Registrars Limited
1st Floor, Edura
40 Commissioner Street
Johannesburg 2001
(P O Box 61051
Marshalltown 2107)

Barclays Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU
England

Registered Office
44 Main Street
Johannesburg 2001
(P O Box 61587
Marshalltown 2107)
South Africa

London Office
19 Charterhouse Street
London EC1N 6QP
England

4 March 1994

# Factory employment up first time in years

(180)

Own Correspondent

JOHANNESBURG. — Employment in the manufacturing sector rose for the first time last year since the end of the 1980s. CT 17/3/94

According to Development Bank figures, the number of jobs rose by 19 400 (1,32%) last year to 1,47 million. The sector is the most important provider of employment in the economy, with government services a close second.

Government services and finance have been the only sectors in which employment has increased consistently during the recession.

The Development Bank's figures are not official employment statistics. Only the Central Statistical Service numbers carry an official stamp.

# BUSINESS

# Hands-on approach helps to contain costs at Scharrig

Star 17/3/94

**BY STEPHEN CRANSTON**

Scharrighuisen Holdings, which operates opencast mines and rehabilitates collieries, achieved a 25 percent improvement in earnings to 78,9c a share, on a comparable basis.

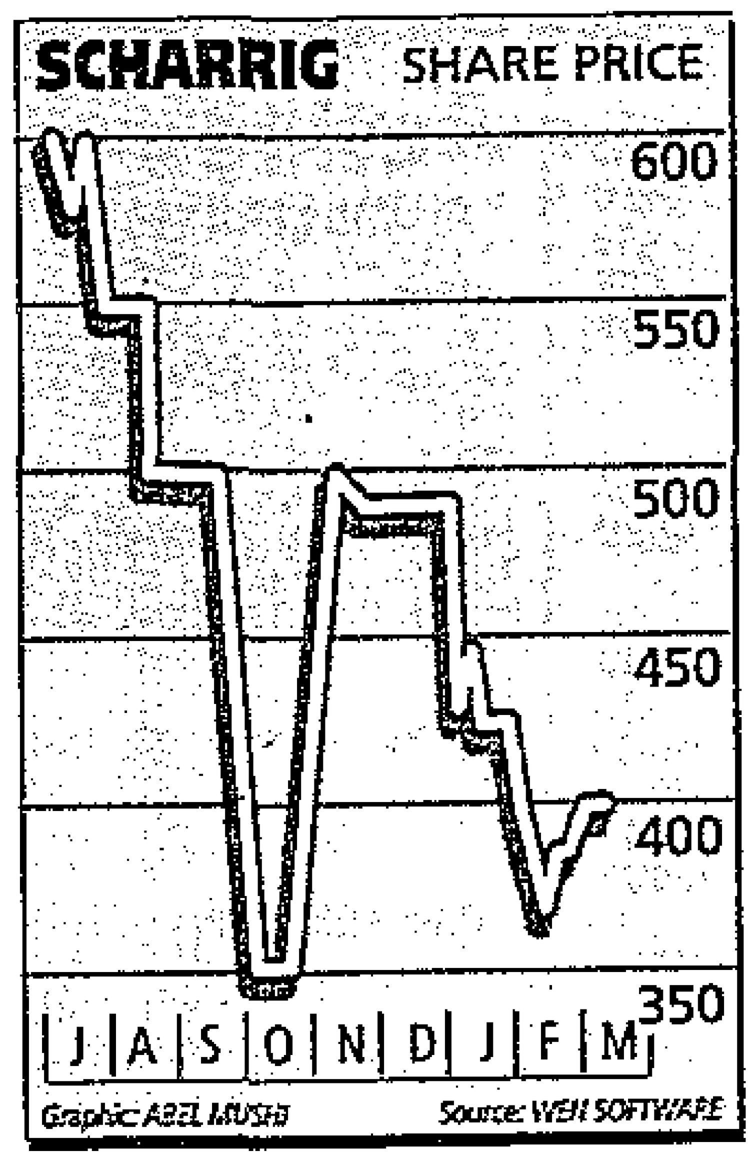
The dividend was down 10 percent to 27c, but since the last year-end Scharrighuisen separately listed its mining division and gave a holding in Scharrig Mining to its shareholders by way of a dividend in specie.

In its maiden year as a listed company, Scharrig Mining declared a dividend of 8c and its earnings per share increased by 15 percent to 24,4c.

The major success of the year was the large increase in earnings from the industrial division, which jumped from R308 000 to R3,8 million.

Its main contributors are New Joules, which supplies railway equipment and NWN, which rebuilds plant for outside parties.

In Schamin, a major new contract with an existing customer was secured and operations started in November 1993, though this was too late to give any material benefit to profits.




But MD Laurie Fisher says it will ensure that turnover increases markedly this year.

Export prices for coal are under pressure and Schamin has been obliged to absorb most of its increased costs such as diesel. (180)

The pre-tax margin fell from 25,4 percent to 22,4 percent.

Group turnover increased by 34 percent to R156,1 million, of which R137,3 million is accounted for by Schamin.

Since 1991, Schamin has acquired Frigate, Norman and Trojan Opencast Mining. NWN Automotive Precision Engineering has been the most recent acquisition by the industrial division.

Scharrighuisen prides itself on a hands-on approach and its top management spend most of their time on site or in the workshops.

It has been able to achieve greater efficiencies and lower costs in its acquired companies.

Fisher says the group intends to list the industrial division, which will depend on the performance of current investments, the possibility of further acquisitions and market conditions. The year's performance by the industrial division was a good start.

The Scharrighuisen share price has been a poor performer recently having fallen from 500c in October to 400c at a time when the market has been in a strong upward trend. Soft international coal prices have been a major contributoe to this decline.

Scharrighuisen has a p:e of 5,0 and Schamin a p:e of 8,2. Both companies have recovery potential but the fringe of the mining industry, where the group operates, is unglamourous and unlikely to get a premium rating.

# W&A has long haul ahead, say analysts

B/Day 28/2/94

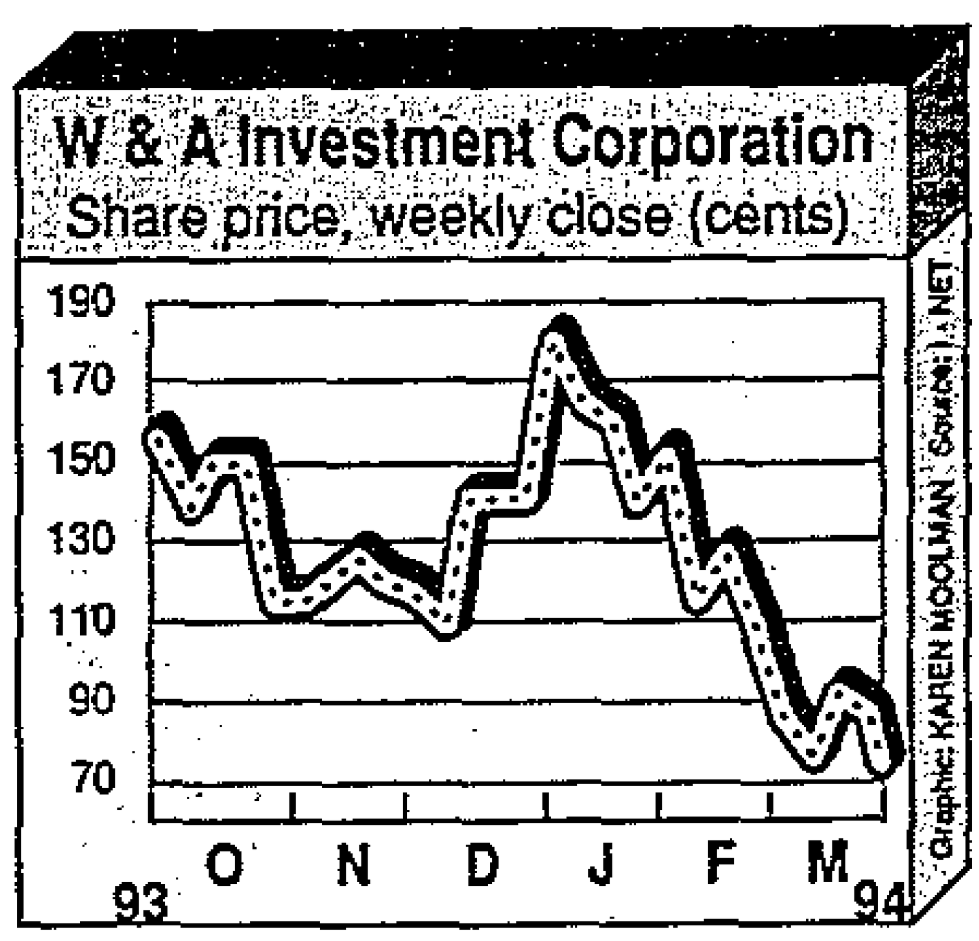
**MARCIA KLEIN**

W&A would not be able to solve its problems in the short or medium term, and would have to look at selling its assets and raising funds, analysts said yesterday.

Commenting on the group's R155,7m attributable loss for the year to end-December, they said although executive chairman Raymond Hasson said various businesses were sound and had produced good results, it was clear that some of its major unlisted subsidiaries — notably National Bolts and Safshoe — had done poorly and were in need of attention.

It was significant that joint auditors Arthur Andersen and Kessel Feinstein openly differed in their opinion on the treatment of the financial statments.

According to Kessel Feinstein's national technical partner Frank Timmins, its complaint was that the R50m provision set aside in 1992 in respect of exceptional and non-recurring items had not been used to reduce the 1992 loss but to reduce the losses in 1993. (180) ~~(233)~~




However, if the R50m had been dealt with as Kessel Feinstein intended, the attributable loss would have been R205,7m rather than the R155,7m reported.

Analysts said that if Kessel Feinstein's view was applied, the results of its unlisted subsidiaries would have been significantly worse. This meant that, apart from its debt problem, things were also not promising at an operational level.

Extraordinary items of R473,6m included various write-offs and provisions in some of its subsidiaries and associates. While it would obviously have to try to trade profitably, its overriding concern would be reduction of debt.

One analyst said the group could probably get R300m if it disposed of Gentyre, R80m for Vektra and R20m for McPhail. If it used all of this money to repay debt, then his estimate was that it would have a debt burden of R540m.

In addition to selling its assets, it would still have to raise money. It had sold JD Group for R160,8m, and this had done little in the way of reducing gearing. It had also raised R647m in a rights issue, with little effect. Analysts said that with confidence in the company at such a low level, it would be difficult to raise funds.

It is believed that the group has the backing of its banks, largely because the banks have no option with such a significant exposure.

# Major contributor lets Berzack down

BDay 2/3/94

MARCIA KLEIN

INDUSTRIAL group Berzack Brothers's earnings dropped by 5% to 35,5c (37,2c) a share in the six months to December on the back of lower earnings from major contributor Voltex and losses in electrical accessories distributor Sanlic.

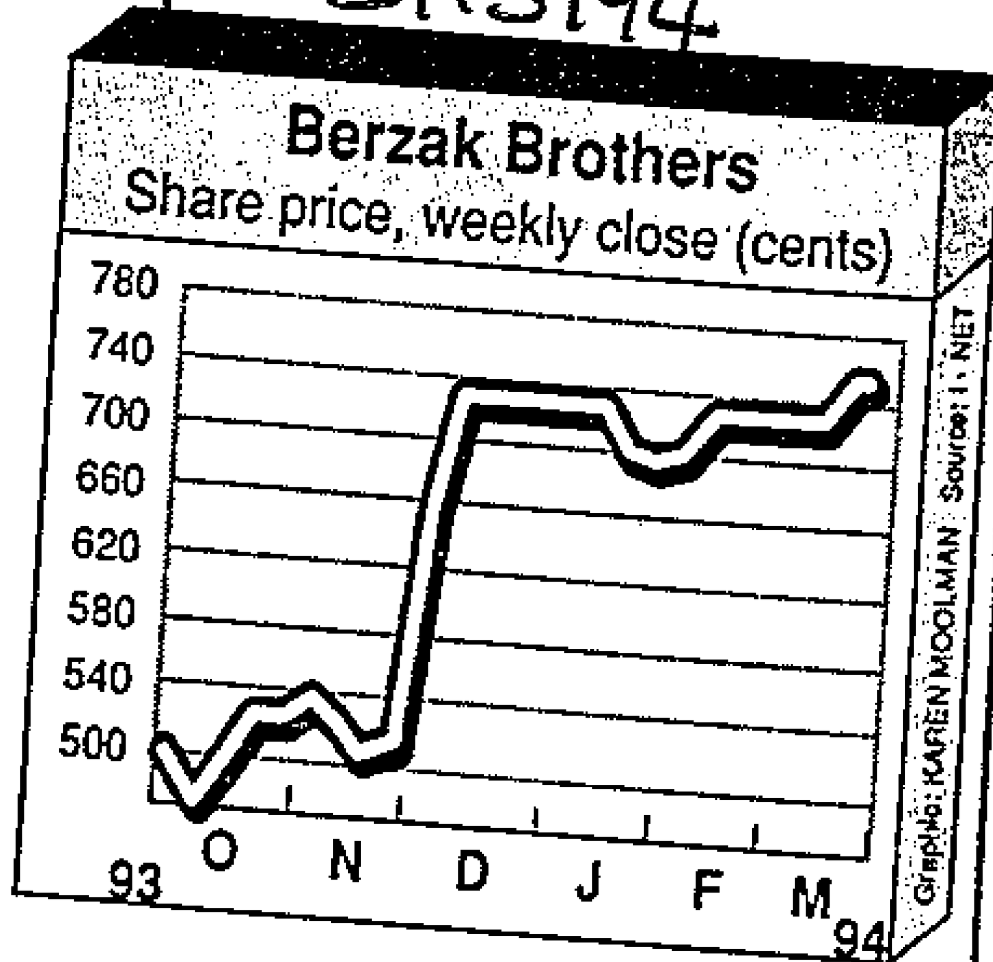
Cabling company Voltex's earnings dropped 14% to 6,59c (7,67c) a share as an increase in the effective tax rate offset a 4% rise in pre-tax profit.

Taking into account the full conversion of the debentures, earnings were 12% lower at 5,49c (6,23c) a share. Despite the lower earnings, the interim dividend was maintained at 2,75c a share.

Directors said Voltex continued to experience tough trading conditions. Lower-priced products constituted a larger proportion of sales. Sales rose 7% to R503,3m (R470m), and operating income declined 11% to R40,7m (R45,9m). Net finance costs were reduced 51% to R6,2m on the back of R12m received from the disposal of offshore arm Bennet & Fountain and R5m from the sale of some unlisted investments. Directors said the programme of cost containment and working capital management had contributed to the substantial reduction in group debt and finance costs.

But the improvement in pre-tax profit was offset by tax, with the tax rate virtually doubled.

Sanlic continued to show losses, although the loss of 0,7c a share represented an improvement on the 1,9c a share loss in the previous year. Negotiations "to determine the future of the company" — announced late last year — were at an advanced stage, and an announcement was expected within a fortnight.




Intermediate holding company Elcentre, whose results reflect the contributions of Voltex and Sanlic, reported a 7% drop in earnings to 15,8c (17,08c) a share, and maintained its interim dividend at 6,25c a share.

(180)

Ultimate holding company Berzack-Illman reported earnings of 25,6c (26,4c) a share, and declared a maintained interim dividend of 9c a share.

Directors said Voltex was in a strong position to supply electrical and cable requisites for industrial, mining and parastatal projects.

Financial Mail



REGIONAL RELATIONS

# No clean slates

**With the** exception of the governors of the central banks of both SA and Botswana, no other governor of a central bank in sub-Saharan Africa has served out one full term. And most of them have been the scapegoats of intolerant governments frustrated at the failure of their own economic aspirations.

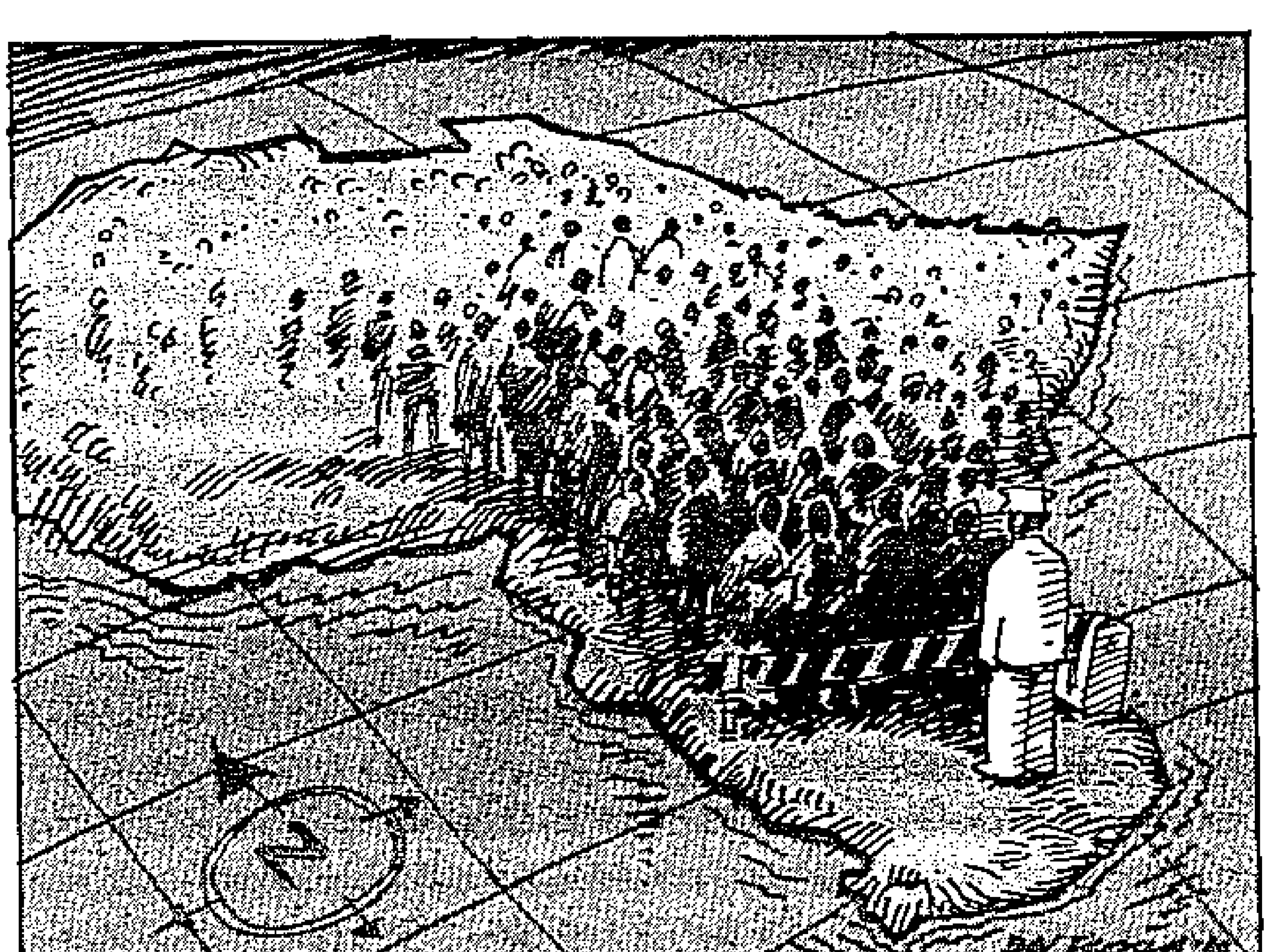
Now that, in its extremity, may be an apocryphal story. But it is near enough to the truth to be seen as grim reality by the eight governors of sub-Saharan central banks who, with 20 other senior bankers from this region, gathered in Somerset West last week to discuss regional banking and trade cooperation.

And it explains why the question of central bank independence found widespread support among those present.

Were it politically possible for these 28 bankers to join hands and run the region sensibly, they would undoubtedly be doing so now.

Our guess is that there are some governors who would happily hand over their responsibilities to the SA Reserve Bank or a regional central bank and let the various governments stew in their own dubious sovereignty.

Unhappily, political reality precludes any such arrangement. So most bankers look for no more than a gradual harmonising of their philosophies towards greater monetary discipline — and therefore realistic interest rates — leading to stable prices and currencies as well as moves towards fiscal orthodoxy. Thereafter, they would like to see a more formal arrangement leading to freedom of trade and exchange and joint infrastructural development. A formal trade bloc or common market — which implies some political harmonisation and freedom of movement — is in reality still some way off for most countries in this region.



The exception is the Preferential Trade Area, which consists of 16 countries in eastern and southern Africa. They are replacing their preferential treaties over the next few months with a quite advanced common market agreement (see *Economy*) which will ultimately lead to freedom of movement of all their peoples.

They believe that an enlarged market will foster investment and lead to greater prosperity — and they would like SA as a member right now.

Certainly, the structure of this Common Market for Eastern and Southern Africa (Comesa) has much to recommend it. But there are domestic considerations that will inhibit a new SA giving membership serious thought in the immediate future. One is the existence of the Southern African Customs Union, much favoured by those former protectorates who belong to it.

For it is administratively convenient and is the conduit through which SA dispenses what amounts to aid. During the apartheid years this was a way of SA clandestinely asserting its influence.

A new SA government, facing domestic pressure for social upliftment, is going to want to renegotiate this arrangement with its immediate neighbours. And it is a union that has about it, in any event, some of the odour of repression.

The Southern Africa Development Community, the membership of which overlaps both Comesa and the customs union, was formed to reduce the region's dependence on SA and shows no sign of being reinvigorated into a vehicle for a common trade area.

It too carries political baggage, some of which is a preference for the former trade practices of eastern Europe.

The real problem for a new SA is that, despite its growing export of manufactures to its sub-Saharan neighbours, if it be too liberal in its relations with its poorer neighbours, it will be hit by a flood of migrant workers.

Unemployment will rise to even greater heights; it will come under trade union pressure very quickly to close its borders.

On the other hand, some of our neighbours believe their opposition to apartheid needs to be acknowledged by a new SA in the form of at least preferential trade, investment and employment agreements. And some of our large customers within the industrialised world expect SA to accept the role of economic leader within the region.

It is a situation that is going to provide our new ministers of finance, trade and foreign affairs with some interesting — and taxing — challenges. Especially as the ANC tends to nurture its friends, no matter how curious their allegiance. There is another complication. Some of our neighbours are also our competitors in world markets to which we export raw materials and agricultural produce.

Of course, none of these problems precludes the immediate implementation of freedom to trade and exchange. And a harmonisation of monetary policy and banking practice in the region would certainly make implementation less tricky.

This won't happen until the economic policies of the new government have been espoused. What a pity the ANC felt it could not attend this meeting of regional bankers arranged by the *FM* and sponsored by the Reserve Bank, Stanbic, the Development Bank of Southern Africa and the IDC. ■

THE TRANSITION

FM 25/3/94

# Take nothing for granted

## But the centre should be strong enough for the election to hold

**With the** general election just four weeks away there are serious problems.

The situation in Natal is explosive and only courageous political leadership will prevent it degenerating into utter chaos. Campaigning in the province is clearly impossible; so is a free and fair election at this stage.

But Natal's agony is far outweighed by what is happening in the rest of the country. Except for a few Reef townships, which tend to mirror the conflict in Natal, the campaign is rolling forward with remarkable success when judged against the original potential for disaster. There is good reason to believe that free and fair elections will be held in most areas and that the results will be judged free by the Independent Electoral Commission and accepted by all participating parties.

The mere fact that we can sit back a month before polling day and take stock of the campaign, on the basis of how the parties are performing rather than the rate of decline towards chaos, is evidence of how well we are doing.

Of course things could change dramatically before April 27. A month is a long time in SA politics and much will hinge on how the Natal crisis is resolved. But right now the outlook is promising, thanks largely to the political sophistication of the main contesting parties and an awareness by their leaders of the need to preach moderation and tolerance rather than resistance and revenge.

In addition, the parties have accepted the authority of the IEC and are using its mechanisms to resolve disputes rather than resorting to retribution. The ANC, in particular, clearly wants the campaign and the election to be seen by SA and the world to be legitimate and is doing a remarkable job under the circumstances of keeping its disparate and volatile supporters in check.

Though the main parties formally launched their election efforts in early January, preliminaries began last year when it was clear that the multiparty talks would produce a firm election date. The campaign is now in full swing with public meetings, door-to-door blitzes, whistle-stop tours, lunches, dinners, press conferences, TV debates, talk shows and all the other elements that make up democratic election campaigns elsewhere in the world.

There has been disruption of meetings and other activities; rivals are generally intolerant of one another. But this was to be expected, given the background against which the elections are taking place and the distinct lack of a democratic culture in SA. None of these incidents, even collectively, has come anywhere near to threatening the election. There is no doubt that the overall situation is far better than pessimists were predicting when the date was announced last year.

Leon


**Posters** ... *up the poll*

Head of political studies at the University of the Western Cape, Vincent Maphai, believes the campaign is less acrimonious than it might have been because the main parties realise the need to underpin the reform agreements and protect them from conservative opposition groups. The leaders also know that they will serve together in a government of national unity after the election, and that what they say and do now may come back to haunt them later.

In addition, says Maphai, the differences between the ANC, the NP and the DP have narrowed considerably in the past few months, not ideologically but in their acceptance of broad democratic principles based on federalism.

The campaign so far has lacked any real surprises, except perhaps the decisions by the CP and Inkatha not to participate. Most CP supporters are expected to back Constand Viljoen's Freedom Front, as are many Inkatha supporters. Neither the CP nor its militant allies on the Right are expected to be a major threat to the holding of the election.

It is significant that all communities and ethnic groups are represented on the ballot paper. Inkatha's boycott is based on political rather than ethnic Zulu factors; there is strong evidence to suggest that the ANC in fact represents more Zulus than Inkatha. There is still no doubt that the ANC will win well, with the NP coming a poor second. The third largest number of seats will probably now go to the Freedom Front, followed by the DP and PAC.

The biggest potential surprise among the smaller parties is likely to come from the Luso SA Party (Lusap) which claims to represent the interests of 750 000 people of Portuguese origin. Other fringe parties that have an outside chance of winning one or more national assembly seats are the socialist Workers' List Party, the Africa Muslim Party, Dikwankwetla Party from QwaQwa and Amichand Rajbansi's Minority Front. A total of 27 parties are registered to participate in the election.

A guesstimate of the outcome at this stage would be 220-240 seats for the ANC, 60-80 for the NP, 15-20 for Constand Viljoen's Freedom Front, 10-12 for the DP, 8-10 for the PAC and 6-8 for Lusap.

As a rule of thumb a party will need to win about 41 000 votes in a 75% poll to get one seat in the national assembly. Parties with at least 80 seats in the national assembly will be entitled to nominate one of two deputy presidents. If only one party has 80 seats or more, the second largest party will be entitled to the second deputy president's post. Parties with at least 20 seats in the national assembly will be entitled to at least one Cabinet seat.

The NP is expected to win control of the western Cape and the northern Cape.

The outcome in Natal is unclear. If a free election is held in the province the ANC will probably receive more votes than any other party, but will not win an outright majority. The NP is likely to hold the balance of power. All other six provinces are expected to be won comfortably by the ANC.

However, neither UWC's Maphai nor Human Sciences Research Council political analyst De Wet Schutte expect the ANC to win an overall two-thirds majority. Maphai says the party will be "extremely lucky" to get 60%. "A proportional representation system makes it very difficult for a party to win a landslide. To get two-thirds of the vote the

BUSINESS

# ANC plans shake-up for industrial sector

(180)

APLT 28/3/94

BRUCE CAMERON
Business Editor

THE African National Congress has given notice that it intends a major overhaul of industrial policy.

ANC head of economic planning Trevor Manuel has told a Dectra Incentives & Finance Specialists industrial development conference in Cape Town that the focus should be on small and medium business creation.

He said the two sectors were the key to sustainable growth in the new South Africa.

"We cannot improve our economic environment if the barriers for entry are not reduced."

A number of key changes required and these included:

- Easier access to finance by small and medium business entrepreneurs;
- Greater attention to job creating industries;
- Anti-trust legislation to create greater competitiveness;
- Identifcation of manufacturing strengths to enable South Africa to compete more effectively in world markets;
- A major revision of incentive schemes;
- Improved research and development; and
- Human resources development.

"The industrial strategy required should generate employment; produce basic commodities for consumption; ease the balance of payments constraints by enhancing the balance of trade; and raise the general level of productivity in the economy."

Mr Manuel said the shortage of capital for small and medium business was evident from the way the Industrial Development Corporation targeted large companies. This left many small to medium companies to miss the boat.

Much of the focus of the IDC seemed to be on companies with a turnover of between R60 million to R100 million.

"These amounts may seem small by international standards but they are large by South African standards."

Mr Manuel said incentive schemes had generally been inefficient. An example was where companies had set up "a desk and a telephone" in Bisho, Ciskei, and claiming it was a company headquarters to take advantage of incentives. He said incentives had to be genuine, producing proper results.

The concentration of capital in South Africa gave rise to anti-competitive behaviour.

He repeated his concerns about "six conglomerates controlling SA industry".

Unnecessary cross holdings of companies would be a target of proposed ANC anti-trust legislation to make industries more competitive.

On job creation Mr Manuel said capital/labour ratios were becoming increasingly disproportionate.

There was a rising tendency towards large capital intensive projects, such as Alusaf and Columbus, which did not create many new jobs.

A World Bank study of South African industry had found capital intensive industry at the cost of job creation was creating a major structural deficiency in the economy.

# Manufacturers under pressure

B Day

MICK COLLINS

LOCAL manufacturing businesses will come under increasing pressure as markets open up to the world and exports grow, says T&N Holdings chairman Colin Hope in the group's annual report. 28/3/94

"Our group has for several years been concentrating on lowering the cost base and this will remain one of our main thrusts."

He said export sales had continued to grow from R58m in 1992 to R75,7m in 1993 — a 31% increase. (180)

Participation by the group in the worldwide T&N car parts network was improving prospects for local manufacture and distribution.

Hope said the improvement trend in earnings a share for the group continued, with a 16% increase to 99,6c for 1993 (1992: 86c).

"The board has decided to seek to increase the dividend cover to ensure adequate funding for future expansion. Operating profit for the group is 3,7% down, compared with 1992. This drop is indicative of the competitive markets in which we operate."

Net third party debt had been reduced to R43m giving a gearing ratio at year end of 28%.

Financing costs were also down 14% despite the additional debt of about R11m taken on via the acquisition of the remaining shares in Dancor Limited, which was now a wholly owned subsidiary.

Announcing T&N's results last month CE Bill Cooper said the group was now the largest manufacturing car part exporter in SA, with exports at about 15% of turnover.

# Malbak earnings hit by soft consumer demand

Star 29/3/94

**BY STEPHEN CRANSTON**

Malbak's results for the six months to February indicate that consumer demand is even weaker than realised.

Earnings per share increased five percent to 58,2c, which was below market expectations. (180)

Chairman Grant Thomas says while Malbak has consistently predicted a modest increase in earnings, market optimism has been fuelled by the jump in gross domestic product (GDP), which in turn has been pushed by high agricultural upturns.

Turnover rose eight percent to R5,8 billion. With pressure on sales volumes and heavy competition, the operating margin plunged from 7,2 to 6,6 percent and operating profit was down one percent to R384 million.

Reduced borrowings and interest rates led to a reduction of a third in interest paid to R43 million.

The effective tax rate fell from 35,5 to 31,7 percent, helped by assessed losses at Tedelex. These factors enabled taxed profit to rise 11 percent to R233 million.

The branded consumer products division was the largest contributor to earnings at 21 percent. Ellerines increased earnings once again and Tedelex returned to profitability.

Thomas says Tedelex has not been one of Malbak's most successful investments, but that its time should come as electrification leads to increased demand for white and brown goods.

Malbak Motor Holdings, the third leg of that division, was also a strong contributor, despite the shortage of new vehicles. Used cars sales were better as a result, but overall sales would have been even better with adequate supply.

Of the three main listed contributors, SA Druggists had the happiest time, with earnings per share up 25 percent.

Foodcorp lifted earnings four percent. The contribution from Holdains was down because of restructuring costs in the foam packaging division and a strike at Carlton Paper.

Internationally, MY Holdings acquired Insight Cartons in England, and Malbak agreed to reduce its holding in MY to 65 percent, enabling the listing to be moved to the main board of the LSE.

Thomas expects consumer spending to remain sluggish for the rest of the year.

Trading will be affected by the large number of public holidays in April, and probably an unofficial celebration of the President's inauguration on May 10.

# Firms expect days of nil production

B/Day 30/3/94

(180)

Business Day Reporter

THE majority of 176 companies canvassed on what stance to adopt during the election period said they did not foresee any production from April 27 to 29, if not over an even longer period.

The survey, conducted by Andrew Levy & Associates at the request of their clients, found that 115 of the companies (65,3%) had already formulated a position for election week, while the rest had either not formulated a policy, were currently drafting one, or had adopted a "wait and see" attitude.

The majority of those which had formulated a position — 31% — wanted business as usual, giving time off for voting.

Other positions were:

- Total shutdown for a week with workers working time in or taking annual leave — 13%;
- Off on April 27 and 28, to be worked in — 14,6%;
- Off between April 27 and 29, to be worked in or taken as leave — 12,1%;
- April 26 and 28 as time off — 4%;
- April 25-28 as annual leave — 4%;
- April 26 to May 2 off, to be worked in — 2,6%;
- April 26-29 off, to be worked in — 4%; and
- April 26-28 off, providing transport for normal work or one day off for problems — 4%.

Other positions formulated by companies included one day paid and one unpaid; a shutdown on April 29 only; to remain open for those who could and wanted to come to work; and working short time during the week for closure between April 26 to May 5 on the basis of working time in.

Of those companies attempting to work normally during election week, the policy for those employees who did not arrive at work would be one of no work, no pay, no discipline, unless leave had been requested.

Of the companies which had formulated a position, 10% of union members rejected that position, 46% agreed to the position, and 44% had not yet discussed the position with their unions or concluded discussions.

GRINAKER HOLDINGS

# Weathering the storm

FM 1/4/94

## Diversification has offered protection in uncertain times

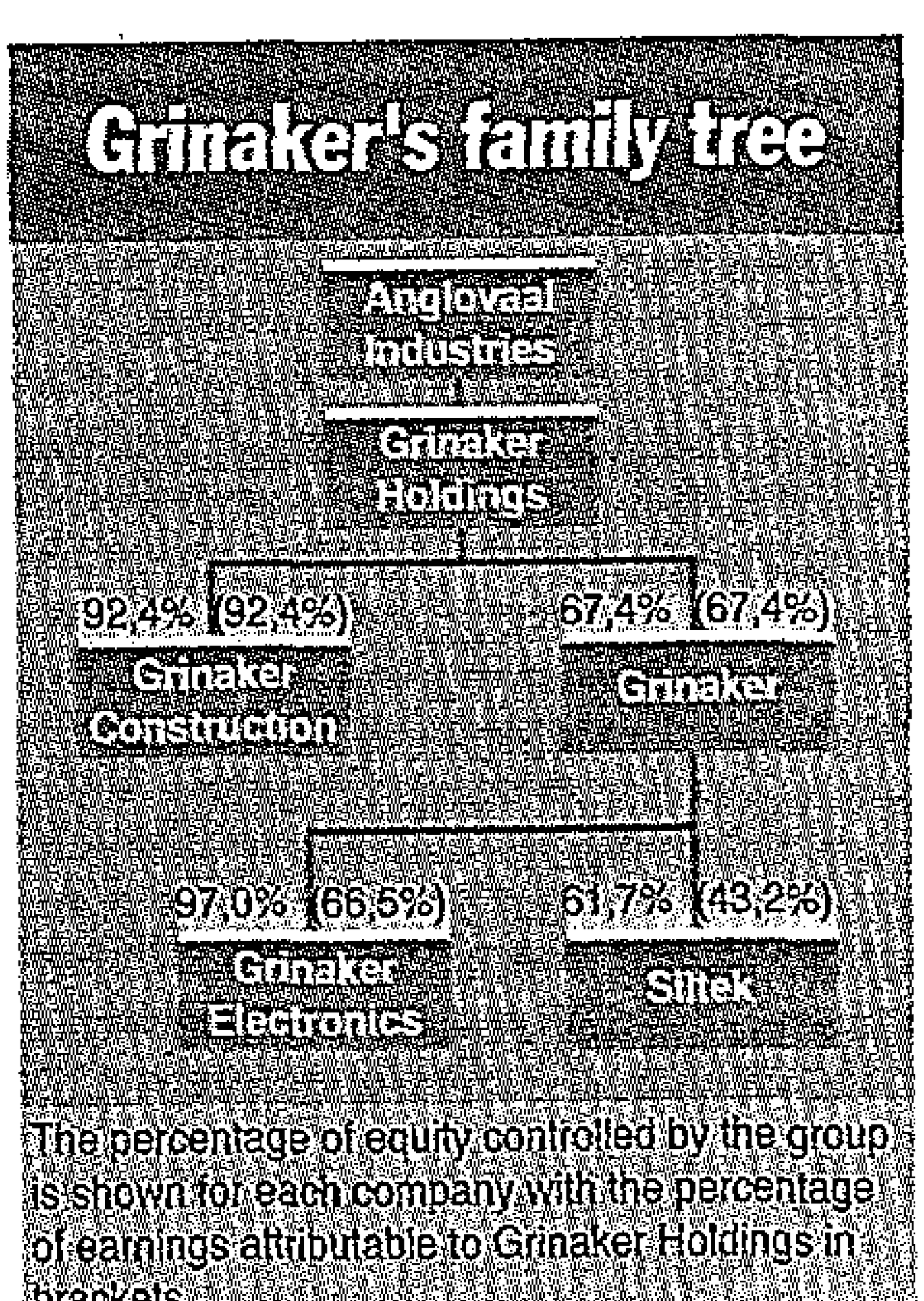
(180)

**Grinaker MD** Jack Saulez identifies strongly with yachtsman Bertie Read: he too is experienced in navigating Grinaker through stormy waters and changing tides. While Read's last gripping experience took only a few months, in 1992 Saulez completed a horrific three-year journey in which the earnings of Grinaker Holdings (Grinaker) landed in the red and the share price bottomed at R3 — a six-year low.

The good news for shareholders is that, 18 months later, profits again grace the income statement in all three of Grinaker's operations — Grinaker Construction, Grinaker Electronics and Siltek; the immediate holding company of the last two is the listed Grinaker Electronics (see graph). The share, at R11, has made good progress on the long road back to March 1989's R12,50 high.

Shareholders have a lot to be thankful for. Without diversification in the late Seventies, from civil engineering into electronics, results would have degenerated further. Conditions in the building industry have been keenly competitive with low margins. Housing and property development divisions will continue to have low volumes, pending better business confidence and the emergence of an acceptable national housing policy.

Two years ago Grinaker was forced to downsize and restructure Construction. The exercise involved retrenchments — its workforce is now two-thirds of 1980's 15 000.




More than R21m was written off in bad debts and land values; with retrenchment costs, this resulted in Grinaker recording a R15,9m attributable loss at the end of financial 1992.

The 1993 year was one in which Construction learnt one of the building industry's most important lessons: one small mistake can swallow margins. A major road contract in Malawi turned sour and major losses were incurred. Profits would otherwise have been well above budget — but then the cost-cutting measures, which will undoubtedly benefit this division in the long run, would never have been carried out.

The electronics sector hasn't exactly been kind to Grinaker either. Five years ago, Electronics derived most of its revenue (90%) from defence radio communication systems. This percentage now stands at just above 60%. The changing circumstances on SA's borders and resultant cuts in defence spending forced Electronics to diversify quickly.

Saulez says: "New business from the mining sector, trunking, fleet management and antenna systems, has led to an improvement in capacity usage."

**Project management**

Financial 1994's interims support this: 1993's interim R4m loss has been converted into a R4,1m profit. Export drives are bearing fruit and now constitute a fifth of sales. Divisions offering project management and system design services are doing well and the manufacturing divisions are trading significantly better than two years ago.

Maintenance and logistic support contracts continue to perform satisfactorily and "we've opened the door to the extensive civilian air traffic control market by last year's acquisition of an 80% interest in Delgi."

Electronics recently acquired a one-third stake in Fleetcall, formed to establish, own and operate public trunked radio networks. Radio trunking is halfway between conventional two-way radio and cellular phones. The Department of Posts & Telecommunications gave Fleetcall the go-ahead to build these trunk networks in January. Benefits will be felt only in the medium term.

Expansion into the high-growth computer information technology market — by a major investment in Siltek in 1984 and a controlling interest (69%) in 1987 — provided Grinaker with the cushion it so desperately needed. Siltek has produced real earnings growth each year for the past three years.

Its latest interim results show EPS rising 21% to 42,3c on a 16% rise in turnover to R609m — in the traditionally weaker half of the year, at that. HiPerformance Systems, local distributor for Hewlett-Packard, performed well as did associate Q Data. A few weeks ago Q Data announced a 45% rise in earnings.

Siltek, now responsible for 70% of earnings, also underwent a metamorphosis in the Nineties. A shift in the industry from proprietary systems (where software and systems are compatible only with a particular computer) to open systems (where they are compatible with many) has taken place and Siltek has had to adapt accordingly.

Only last year, Siltek's four networking

**Saulez** ... *back to safe waters*

companies — Microsciences, Tecnetics, Tran and Grinaker Network Systems — were merged to form Centera. Saulez won't divulge numbers but says the new company has been successful in winning "significant" business.

Siltek has also recently done a little shopping of its own. In November, it acquired a half-share of Telecorp (Pty) and merged this with the business of its subsidiary Teleboss SA (Pty).

Because of all the restructuring, diversifying and acquisitions, Grinaker had a significant improvement in profitability for the half-year to December 31. Earnings at R12,8m were up 66% on the year-ago R7,7m. Higher liquidity and lower interest rates resulted in a R2,8m improvement in net interest charges and the effective tax rate dropped marginally to 36%. The interim dividend increased a fifth to 6c a share.

Operating profit is expected to continue to grow and exceed that of the first half. However, because of an expected drop in income from investments, and a substantially higher effective tax rate, full-year earnings should be only moderately higher.

Conditions remain particularly difficult in Construction, which improved its earnings by 69% to R5m on a 16% rise in interim turnover to R518m. Though the civil engineering division is turning, the building in-

# Amic companies budget for increased earnings

Star 14/4/94

**BY STEPHEN CRANSTON**

From left: Leslie Boyd, Mike Sander, Hilton Davies and Tony Trahar.

The gradual improvement in trading conditions that Amic experienced last year continued into the first quarter of this year, with conditions expected to strengthen over the remainder of the year.

All subisidiaries and associates, which include AECI, paper giant Mondi, Tongaat-Hulett and the McCarthy group are budgeting for higher earnings this year.

Amic has shown its confidence in the future by spending R866 million last year, much of it accounted for by its one-third share inthe Columbus stainless steel project, on which R1,27 billion has been spent so far.

Amic still plans to diminish its vulnerability to the commodity cycle.

But the expertise of its top management, starting with Les Boyd himself, who has spent a lifetime in the steel industry, and his three deputy chairmen — Tony Trahar, who chairs Mondi, Hilton Davies, chairman of mining supplier Boart, and Mike Sander, the boss of AECI — is concentrated on capital-intensive nonconsumer industry.

An analyst says that as a cyclical stock Amic might underperform in recession, but beats other conglomerates during an upturn.

If it tries to acquire a greater consumer focus, it is in danger of underperforming, both in good times and bad.

Amic has good reason to feel confident at the moment, and its strong share price means that the market is also confident. (180)

Davies says there is a new air of confidence about the future at Boart, which was recently restructured from a divisional into a regional structure.

The Canadian operations returned to profitability for the first time in several years and market share increased in the Pacific Rim and South Africa.

Scaw Metals remained Amic's largest contributor as exports increased, better prices achieved and production costs controlled.

Mondi faced poor markets, in which turmoil had been created by the devaluation of the Swedish and Finnish currencies in 1992.

In the second half, markets improved and Mondi's earnings before abnormal credit increased from R61 million to R100 million.

On the minus side, Dorbyl and NF Die Casting made losses.

# Denel creates an informatics group

Star 14/4/94 (180)

**BY ROY COKAYNE**

Industrial and armaments group Denel has restructured its information technology activities into a new division, Denel Informatics, comprising six business units, which are expected to achieve sales of R400 million in the 1994-95 financial year.

Denel, a private company whose shareholding is 100 percent government-owned, is aiming for a listing on the Johannesburg Stock Exchange by 1996, Denel managing director Johan Alberts said at the launch of Denel Informatics in Pretoria earlier this week.

Alberts said with a stock exchange listing Denel could enlarge its position and product base, grow and employ more people, better utilise the capital invested in the company and earn more foreign currency.

Also, if the government needed money, a listing would provide it with an opportunity of quickly getting some.

Alberts said foreign clients were concerned about possible government interference if Denel were not listed.

Denel Informatics was one of the largest operations of its kind in South Africa, providing focused information technology solutions to a wide variety of clients in the commercial, industrial and government sectors.

Denel Informatics would consist of a number of business units and subsidiaries including:

- Infoplan Information Technology Services for the South African Defence Force.
- Intersolve Health Informatics providing information technology services for the health-care community such as hospitals and clinics.
- Infovan, a provider of network services.
- Excelsa, providing information technology services for the industrial, manufacturing and engineering sectors.
- Computer Foundation Geographical Information Services.
- ID Technologies Card Technology.

Alberts said the establishment of Denel Informatics was the result of an evolutionary process which started in 1978 with the launching of Infoplan, the group's current information technology arm, to provide information technology services for the SADF and Armscor.

He said Infoplan became a division of Denel in April 1992 and in terms of its new mandate had successfully addressed new markets with a wide range of locally developed solutions, concentrating on all facets of systems integration.

In 1994-95, Denel expects that more than 30 percent of revenue will come from newly developed markets and by 1997 about 50 percent of revenue will flow from business in the commercial and industrial sectors.

Alberts said Denel's investment in the information technology industry was a motion of confidence in the contribution that information technology could and would make in the economic and social upliftment of South Africa.

The board of Denel Informatics will be chaired by Denel's executive director for informatics and properties, Peet van den Heever, with Joubert van Rensburg as general manager. The other board members will include Leon Bartel and Professor Ronel Erwee.

# T&N export strategy begins to bear fruit

BDay 6/5/94

MUNGO SOGGOT

AUTOMOTIVE, industrial, mining and manufacturing company T&N Holdings' strategy of channelling a significant chunk of its capacity into exports was now paying off, CE Bill Cooper said yesterday.

Commenting after the group's AGM, Cooper said: "We have continued to invest in capacity. When the upturn comes we will be able to supply both local and export markets. We intend increasing exports from 15% to 25% of our overall turnover."

Strong cash flow would enable the group — whose brand names include Silverton Radiators, FHE Heat Exchangers, Payen Gaskets, and AE Engine Parts — to reduce costs.

Cooper said that without a strong export drive SA's economy would become increasingly marginalised.

"SA is driven by its balance of payments. We must not only become larger exporters, but we must also become more efficient and productive manufacturing exporters. This is the only way we will be able to create more jobs."

He warned that to do battle in the global arena, SA companies would have to have confidence in themselves and the future of the country. He added that fast-moving foreign operators were already looking to secure niches in the local market.

"Upward mobility of black people in the workplace up to now has been extremely difficult. But I believe that a new dispensation and diminishing levels of violence will facilitate the creation of new opportunities. (180)

"If we do not compete on an international scale, we will not be able to create the jobs that are so vital for the peace and stability that SA deserves," he said.

Cooper was upbeat about the future of the local car industry. He predicted car prices would remain stable, and some might even drop.

But less competitive players would be forced out of the market.

# Tongaat's revamp pays off

S/Times (Buss)

**By SVEN LUNSCHE**

CEDRIC SAVAGE . . . a group with capacity to spare

TONGAAT-Hulett, Natal's largest industrial group, mirrored the improvement in the economy by lifting earnings a share by 16,1% to 213,8c in the year to March.

The group offers a total dividend of 83c (1992-93: 73c), but shareholders may take capitalisation shares at a rate to be determined next week.

Managing director Cedric Savage says that all divisions improved their performance in the second half.

Group turnover rose 2,7% to R3,98-billion and operating profits were almost unchanged at R266,3-million (R270-million).

The bottom line was boosted by a cut in finance costs from R77,4-million to R55,2-million as gearing improved from 6,4% to 1,1%.

Borrowings were reduced by R107,9-million to R25,3-million after international food group CPC International acquired 50% of Tongaat's consumer-food operation this year.

Mr Savage says there was a noteworthy improvement in business in the second six months.

"The continued implementation of strategies to improve competitiveness resulted in a marked improvement in operating income from the interim stage.

"The restructuring of the divisions, largely completed last year, also had the effect of a net reduction in operating costs." (180)

Mr Savage says Tongaat's capital expenditure was about R180-million last year, mostly on the Heatonville sugar-irrigation project.

The board has approved R10-million for preliminary investigation expenses on the proposed aluminium hot rolling mill expansion.

Cost of the project is estimated at R1,6-billion. 8/5/94

Mr Savage says improved liquidity and cash flows place Tongaat in a favourable position to take advantage of investment opportunities.

"The expected post-election emphasis on infrastructural development will directly benefit our brickmaking and aluminium divisions, while the joint venture with CPC International gives us access to global technology in food processing."

The sugar division is expected to benefit from deregulation of the industry.

Mr Savage says: "Most of our divisions have spare capacity, which will allow us to benefit from the expected growth in the economy."

The group expects to increase earnings in the current year.

# Manufacturing sales up

JOHANNESBURG. — Spurred by a large increase in beverage and motor vehicle sales, seasonally-adjusted manufacturing sales rose 1,8% in the month to February, the Central Statistical Service (CSS) said.

The CSS said textile and food sales were also strong in the month, but sales of metal products and electrical machinery fell significantly. (180) CT 10/5/94

It said seasonally adjusted manufacturing production increased 0,9% in February — higher production figures were recorded in 18 of the 28 major manufacturing groups.

# Manufacturing production dips

SAMANTHA SHARPE

MANUFACTURING production was sluggish in the three months to February, falling a seasonally adjusted 0,4% against the previous quarter, latest Central Statistical Services (CSS) figures showed. B/Day

Sacob economist Keith Lockwood blamed pre-election jitters and reduced domestic retail consumption for the slump. 11/5/94

But the quarterly contraction was not an indication that the manufacturing sector was in dire straits, Lockwood said. "Latest Sacob survey results show 79% of manufacturers expected their sales to increase over the next 12 months."

Economists attributed the slowdown to excess production at the end of last year following a rise in business confidence. They warned against reading too much into the subdued production figures.

The CSS figures showed a 0,9% month-on-month rise in production in February compared with January's 2,2% fall. (180)

A substantial pickup in the sales of beverages and motor vehicles as well as increases in food and textiles sales helped lift manufacturing sales 1,8% over the same period, the CSS said.

# Clyde strengthens earnings 16% to R3,6m

BiDay 13/5/94

AMANDA VERMEULEN

MINING and industrial sector steel product manufacturer and supplier Clyde Industrial Corporation reported a 16% increase in earnings to R3,6m (R3,1m) in the year to end-February. (180)

Earnings a share increased to 20,5c (17,8c) and a dividend of 2c was declared.

Turnover increased a marginal 2,4% to R104,7m (R102,2m) but pre-tax income slumped 8,2% to R4m from R4,4m. A much reduced tax payment of R430 000 (R1,3m) contributed to the 15,8% increase in net income after tax to R3,6m (R3,1m).

The directors said performance in the last six months of the period had been encouraging. They said the closing of a section of Iscor's heavy mill could have a detrimental effect on parts of Clyde's business but this should be more than compensated for by improved trading conditions.

## COMPANIES

# Best and worst in new economy

S/Times 15/5/94

(180)

**By KEVIN DAVIE**

WINNERS and losers in the new South Africa have been identified by economist Nick Barnardt.

Those who could be hurt by change appear to be suppliers to the SA National Defence Force, up-market medical and pharmaceutical sectors and manufacturers of highly protected goods, such as cars, textiles, clothes and electrial appliances.

Also likely to suffer are synthetic fuel producers, those who gain from the general export incentive scheme (GEIS), bottle stores and producers of expensive alcoholic drinks and other luxuries.

Mr Barnardt, of stockbroker Ed Hern, Rudolph, says: "Banks will probably not have an easy time, having to contend with margin pressures which tend to arise when short-term interest rates move up. They could lose business through development of the corporate commercial paper market."

Financial and other companies exploiting deferred tax or similar "loopholes" to reduce their effective tax rate stand to lose from the Government's effort to raise "the effective tax intake from the corporate sector".

Equity sectors which should benefit include imports and exports, transport, especially shipping and aviation, car rentals, hotels and tourism.

Metal and mineral exporters should benefit from higher world prices and moderate rand depreciation implicit in abolition of the financial rand.

Mr Barnardt says: "The biggest price re-rating could occur in stocks highly attractive to foreign investors on the basis of their actual and potential competitiveness on world markets and/or natural synergies with foreign companies."

A major beneficiary of change could be construction.

Furniture, textiles and appliances will gain from the housing and electrification drive, but some could be hit by lower import duties.

Retailers and wholesalers could profit from higher consumer spending.

Turnover for those involved in machinery, electronics, office and business equipment should grow by 10% a year in real terms.

Mr Barnardt sees rapid internationalisation (with fast import flows), a less inequitable spread of personal incomes, high government borrowing (especially in the late 1990s) and recovery of private fixed investment as key features of the new economy.

"This will combine to reflect structurally high real interest rates, especially on the short-term side."

The inclusion of IFP and NP members in the Cabinet plus the fact that the ANC's contingent includes economic moderates, will probably prevent the RDP from being implemented in irresponsible fashion.

Mr Barnardt believes the deficit before borrowing could fall in the next two to three years, but it is likely to accelerate before the 1999 elections.

Share prices should benefit from an influx in foreign funds and from growth in domestic corporate profits in the next five years. But the scale of gains from present levels will be limited by increases in real domestic interest rates, by rights issues, new listings and commercial paper flotations.

# Poor sugar earnings sour CG Smith's performance

BDay 17/5/94

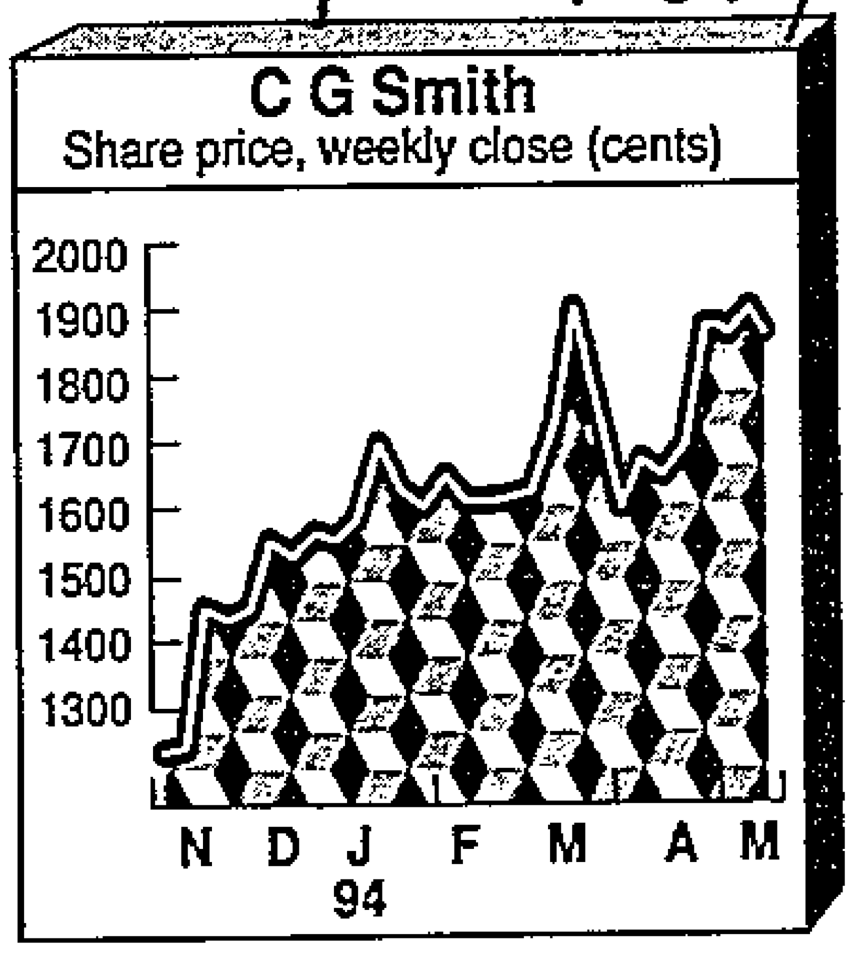
MARCIA KLEIN

CG SMITH increased its interim earnings 6% to 48,7c (46,1c) a share to March as real growth in most of its food, packaging and textile operations was partly offset by a sharp 78% drop in earnings at CG Smith Sugar.

The group, whose interests include Tiger Oats, ICS, Nampak, Romatex, and pharmaceutical and fishing operations, increased its turnover 6% to R10,17bn (R9,56bn). But operating profit edged up a slight 3% to R750,7m (R728,5m) on the back of the decline in sugar earnings and pressure on margins across the group caused by intense competition following a decline in demand for non-durable consumer products.

Lower interest rates and average borrowing levels were reflected in a significant drop in funding costs. This, together with lower taxation, enabled CG Smith to lift taxed profit 11% to R471,3m from R423,2m.

A decline in income from associates, reflecting the consolidation of the results of former associate Sea Harvest (now a subsidiary), saw attributable profit rise 6% to R229,2m (R217m). This included a marginally higher contribution by food and fishing to 31% of earnings, and a drop in the contribution of sugar interests to 7% (14%). Pharmaceutical interests made up 10% of earnings, packaging and paper 47% (44%) and textiles and bulk liquid storage 5% (2%).




A 6% higher interim dividend of 12,4c (11,7c) a share was declared.

Separately listed CG Smith Foods' earnings were 6% down at 142,8c a share — on an 8% turnover rise to R7,44bn — mainly because of CG Smith Sugar's profit drop (180)

CG Smith Foods chairman Robbie Williams said that results would have been much higher excluding sugar.

Tiger Oats's earnings rose 12% on the back of rationalisation and cost cutting. There was little growth in demand and market conditions remained tough. Pharmaceutical companies Adcock Ingram and Logos performed well, and Oceana Fishing and ICS reported increased earnings.

Packaging group Nampak continued to do well, while textile group Romatex reported a strong recovery. CG Smith chairman Derek Cooper said directors were happy with the group — which unbundled from Barlows last year — and its product mix. Directors were continually reassessing the strategic positioning of all the companies. Changes had already been made at ICS and Romatex, and had been initiated at Tiger Oats and CG Smith Sugar.

Although April had been a good month, Williams said he was waiting to see May's figures as there had been some forward buying in April.

The directors were expecting CG Smith Sugar to show a marginal decline in the full year. The benefits of "the many rationalisations and restructures" should materialise as consumer confidence returned. CG Smith was expecting reasonable earnings growth for the full year.

## Bid to amend Bill of Rights

AMANDA VERMEULEN

THE Freedom of Expression Institute has launched a campaign to amend the Bill of Rights because it is concerned about limits on freedom of speech and the right to information, says deputy chairman Raymond Louw.

The FXI was formed in January after a merger between the Campaign for Open Media and the Anti-Censorship Group.

The campaign, to be launched next month, would push for a parliamentary Act to entrench greater freedoms in these areas.

Co-ordinator Jeanette Minnie said FXI was unsatisfied with a Bill which allowed for a right to information only if other rights were threatened. Rights of access and non-access should be defined, especially where national and state security, confidential financial information and personal health details were concerned.

Minnie said the campaign would aim to promote access to information and freedom of expression to first degree rights. It would also call for the recognition of group and individual rights.

# SA 'must modernise its industrial plant capacity'

EDWARD WEST

CAPE TOWN — SA businessmen should speed up their investment in modernising SA's aging industrial plant capacity if it wished to be competitive in world markets, Industrial Development Corporation chairman Christo Wiese said last night.

At an SA Institute of International Affairs function, Wiese said government should also reduce trade barriers and tariffs — a move to which it was already committed under GATT — reduce or even abolish exchange control mechanisms and remove the red tape associated with dealing with other countries.

He said there was agreement in business circles that the new government should be seen to quell violence and crime, and that it should create an international image of economic control and competence.

Stellenbosch University African Politics Prof Willie Breytenbach said the re-emergence of SA into the international community, which was being divided into trading blocs, raised trade bargaining prospects, such as possible joint bargaining by African commodity producers on prices. SA could not afford to be antagonistic towards the US, the world's dominant economic power.

As the strongest southern African country, SA would also have to adopt a benevolent attitude towards its neighbours, Breytenbach said. SA should also not be seen to be using its production strength to de-industrialise other African countries. SA businesses should not only exploit, but contribute to the development of other African markets.

Institute director John Barrat said that with the admittance to international organisations, institutions and functions, SA should not overreach itself in relation to its commitments, with intervention in Rwanda a possible case in point.

US Vice-President Al Gore's request before the inauguration of Nelson Mandela as President, that SA intervene in Rwanda was strange, especially considering the fact that it was proving difficult for the US administration to get congress approval for US foreign intervention.

FM 20/5/94

(180)

# CG SMITH LIMITED

## INTERIM REPORT AND DIVIDEND DECLARATION [illegible]

*Turnover up 6%*

*Earnings per share up 6%*

The unaudited consolidated results of the group for the six months ended 31 March 1994 are set out below. There have been no changes in accounting policies during this period. Figures for the six months ended March 1993 have been restated as a result of the new accounting distinctions between subsidiary, joint venture and associated companies that were applied since the date of the previous interim statement. Where appropriate, comparative figures have also been restated to reflect the increased number of shares following the 10 for 1 share subdivision implemented in November 1993.

### Group income statement

| | Unaudited Six months ended 31 March 1994 Rm | Unaudited Six months ended 31 March 1993 Rm | Change % | Audited Year ended 30 Sept 1993 Rm |
|---|---|---|---|---|
| Turnover | 10 174,6 | 9 560,4 | 6 | 19 142,1 |
| Net operating profit | 750,7 | 728,5 | 3 | 1 444,6 |
| Net funding costs | 30,1 | 69,5 | | 122,9 |
| Profit before taxation | 720,6 | 659,0 | 9 | 1 321,7 |
| Taxation | 249,3 | 235,8 | | 436,8 |
| Profit after taxation | 471,3 | 423,2 | 11 | 884,9 |
| Share of profits of associate companies | 5,4 | 18,0 | | 29,6 |
| Profit after taxation including associate companies | 476,7 | 441,2 | 8 | 914,5 |
| *Attributable to:* Outside shareholders in subsidiaries | 247,5 | 224,2 | | 471,2 |
| *Attributable to:* Shareholders in CG Smith Limited | 229,2 | 217,0 | 6 | 443,3 |
| Extraordinary items | (3,6) | (7,0) | | (51,6) |
| Profit after extraordinary items | 225,6 | 210,0 | | 391,7 |
| Number of ordinary shares in issue (000's) | 471 195 | 470 814 | | 470 978 |
| Weighted average number of ordinary shares on which earnings per share is based (000's) | 471 091 | 470 695 | | 470 804 |
| Earnings per ordinary share (cents) | 48,7 | 46,1 | 6 | 94,2 |
| Dividends per ordinary share (cents) | 12,4 | 11,7 | 6 | 32,7 |

### Segmental analysis

| | Unaudited Six months ended 31 March 1994 Rm | % | Unaudited Six months ended 31 March 1993 Rm | % | Change % | Audited Year ended 30 Sept 1993 Rm | % |
|---|---|---|---|---|---|---|---|
| Contribution to attributable earnings | | | | | | | |
| Food and fishing | 71,3 | 31 | 64,4 | 30 | 11 | 141,9 | 32 |
| Sugar and related activities | 15,1 | 7 | 31,3 | 14 | (52) | 46,8 | 11 |
| Pharmaceuticals | 23,1 | 10 | 20,9 | 10 | 11 | 46,2 | 10 |
| Packaging and paper | 108,4 | 47 | 94,8 | 44 | 14 | 187,6 | 42 |
| Textiles and bulk liquid storage | 11,3 | 5 | 5,6 | 2 | 102 | 20,8 | 5 |
| | 229,2 | 100 | 217,0 | 100 | 6 | 443,3 | 100 |

### Group cash flow statement

| | Unaudited Six months ended 31 March 1994 Rm | Unaudited Six months ended 31 March 1993 Rm | Audited Year ended 30 Sept 1993 Rm |
|---|---|---|---|
| Cash generated from operations | 1 083,8 | 1 081,3 | 2 141,9 |
| Requirements for continuing operations | (882,5) | (495,1) | (1 039,1) |
| Cash available from operations | 201,3 | 586,2 | 1 102,8 |
| Dividends paid (including outside shareholders) | (218,4) | (188,8) | (309,0) |
| Cash retained from operations | (17,1) | 397,4 | 793,8 |
| Other movements | 84,6 | 44,4 | 177,9 |
| Cash available for investment | 67,5 | 441,8 | 971,7 |
| Investment in future operations | (223,2) | (188,4) | (492,2) |
| (Increase)/decrease in funding requirements | (155,7) | 253,4 | 479,5 |

FM 20/5/94

(180) ([illegible])

## Abridged group balance sheet

| | Unaudited 31 March 1994 Rm | Unaudited 31 March 1993 Rm | Audited 30 Sept 1993 Rm |
|---|---|---|---|
| **Capital employed** | | | |
| Total shareholders' funds | 5 673,0 | 5 017,9 | 5 314,8 |
| Deferred taxation | 316,5 | 297,0 | 302,5 |
| Long-term borrowings | 843,7 | 872,5 | 856,3 |
| | 6 833,2 | 6 187,4 | 6 473,6 |
| **Employment of capital** | | | |
| Fixed assets and investment | 4 724,9 | 4 422,5 | 4 657,4 |
| Current assets | 6 274,2 | 5 556,7 | 6 155,7 |
| Stocks | 2 674,2 | 2 495,1 | 2 525,9 |
| Debtors | 2 986,3 | 2 625,0 | 2 807,7 |
| Cash and deposits | 613,7 | 436,6 | 822,1 |
| Total assets | 10 999,1 | 9 979,2 | 10 813,1 |
| Current liabilities | 4 165,9 | 3 791,8 | 4 339,5 |
| Short-term borrowings | 795,0 | 668,6 | 851,0 |
| Creditors, provisions and shareholders for dividends | 3 370,9 | 3 123,2 | 3 488,5 |
| | 6 833,2 | 6 187,4 | 6 473,6 |

## Other salient features

| | Unaudited 31 March 1994 Rm | Unaudited 31 March 1993 Rm | Audited 30 Sept 1993 Rm |
|---|---|---|---|
| Net worth per ordinary share (cents) | 588 | 530 | 552 |
| Net borrowings: Total shareholders' funds (%) | 18,1 | 22,0 | 16,7 |
| Interest cover – net (times) | 17,7 | 9,1 | 9,7 |
| Capital expenditure (R million) | 311,6 | 289,7 | 689,4 |
| – expansion | 135,9 | 123,5 | 297,4 |
| – replacement | 175,7 | 166,2 | 392,0 |
| Capital commitments (R million) | 491,2 | 493,1 | 499,6 |
| – contracted | 249,1 | 229,0 | 154,8 |
| – approved | 242,1 | 264,1 | 344,8 |

## Review of results

The Group increased earnings by 6% compared to the corresponding period last year. This performance is considered satisfactory in the light of the difficult trading conditions which have prevailed and particularly in view of the sharp decline in profits sustained by CG Smith Sugar whose earnings were 78% below those of the previous year as a result of the drought. Growth in earnings for the remainder of the Group was, in aggregate, well above the rate of inflation for the period under review.

Turnover rose by 6% while operating profits increased by 3%. In addition to the uncontrollable decline in earnings in CG Smith Sugar, this reflects the continued pressure on operating margins as a result of the intense competition that has followed a decrease in the general demand for non-durable consumer products. Net funding costs, which were well below the previous year, benefited from reduced interest rates and lower average borrowing levels. Income from associates is not comparable with the previous year due to the change in status of former associate Sea Harvest which became a fully consolidated subsidiary with effect from May 1993.

### CG Smith Foods

CG Smith Foods reported earnings 6% below the previous year. This result was influenced by the sharply lower profits from CG Smith Sugar.

Tiger Oats' earnings were 12% ahead of the previous year. The pharmaceutical companies, Adcock Ingram and Logos, continued to perform well despite increased competition and pressure on volumes. The Oceana Fishing Group recorded a small improvement in earnings despite not being able to land its full 1993 pelagic quota. Within Tiger Foods, improved results were achieved by the egg, pasta, oat milling, confectionery, wholesaling and local & international vegetable oil operations, while losses were incurred by the baking, maize milling and broiler operations. Langeberg's results were adversely affected by continued over-supply in international markets and a lower intake of deciduous fruit.

At ICS, a further decline in consumer spending on perishable foods affected the results. Notwithstanding this, an increase in earnings of 6% was recorded. Earlybird Farm, the recently formed broiler joint venture with OTK (Ko-op), performed well. The Clayville dairy sustained a loss for the period. Good progress has been made with the newly formed joint ventures and the full benefits of these should be felt during 1995. Sea Harvest reported earnings marginally below the previous year due to adverse market conditions both locally and internationally.

### Nampak

Selling prices were under pressure and sales volumes declined by 2%. Nevertheless, emphasis on improved efficiencies and cost control resulted in margins being maintained and operating profit increased by 3% in line with the increase in turnover. Funding costs decreased sharply and, with a lower effective tax rate, earnings improved by 15%.

Profits from most divisions in the packaging sector increased despite difficult trading conditions which saw Bevcan's profits remain at the same level as last year and Foodcan's profits decline, both influenced by increased competition. Sales volumes in the paper sector were buoyant although operating profits declined as a result of severe price competition.

### Romatex

The more favourable conditions experienced in the second half of the previous year have continued and this, together with the benefits of restructuring and improved operational efficiencies, has resulted in a further strong recovery in earnings.

The Bulk Liquid Storage division handled increased volumes taking advantage of its recently expanded capacity. Both the Fabrics and Carpets operations increased profitability. In the Industrial division, gains in the Extruded Fabrics, Filtaflo and the Foam sector were offset by difficult conditions in the Automotive and Non Woven sectors.

### Prospects

It is anticipated that the South African economy will begin its long awaited return to a sustained period of growth. The benefits of the many rationalisations and restructures already undertaken by the Group should materialise in a meaningful way as consumer confidence returns.

CG Smith Sugar will bring to account the results of the first half of the new sugar season in the next six months and early estimates are for a substantial recovery in sugar production. Given a stable trading environment and taking into account the expected improvement in sugar earnings in the second half of the year, reasonable growth in earnings for the full year is anticipated.

### Dividend

A dividend of 12.4 cents per share (1993: 11.7 cents) has been declared which represents an increase of 6% over last year.

On behalf of the board

D E Cooper, *Chairman* — R A Williams, *Vice Chairman* — Sandton, 16 May 1994

## Declaration of dividend No 27

Notice is hereby given that an interim dividend of 12,4 cents per share has been declared payable to shareholders registered in the books of the company at the close of business on 17 June 1994.

The transfer books and the register of members will be closed from 18 June 1994 to 26 June 1994, both days inclusive, for the purpose of determining those shareholders to whom the dividend will be paid.

Payment of dividends by way of electronic transfer will be made on 15 July 1994. Dividend warrants will be posted to shareholders on or about 11 July 1994 dated 15 July 1994. Non-resident shareholders' tax will be deducted where applicable.

By order of the board

D A Austin, *Secretary* — Sandton, 16 May 1994

**CG Smith Limited** (Incorporated in the Republic of South Africa)
(Registration number 02/01185/06)

*Directors:* Messrs D E Cooper *(Chairman)*, R A Williams *(Vice Chairman)*, B H Adams, D C Bodley, B P Connellan, A L Crutchley, N Dennis *(British)*, T Evans, R J Goss, G S van Niekerk, G Taylor, C F H Vaux, C Wolpert

*Transfer Secretaries*
Rand Registrars Limited, Block C, 100 Northern Parkway, Ormonde 2091

*Registered office*
36 Wierda Road West, Sandton

JONSSONS

# UNIHOLD Fm 20/5/94

## Wait for recovery

**Activities:** *Manufactures and supplies a variety of industrial products for specialist markets in mining, lighting, automotive and general engineering.* 180

**Control:** *U-Control 53,7%.*

**Exec Chairman:** *J C Haslam.*

**Capital structure:** *59,4m ords. Market capitalisation: R59m.*

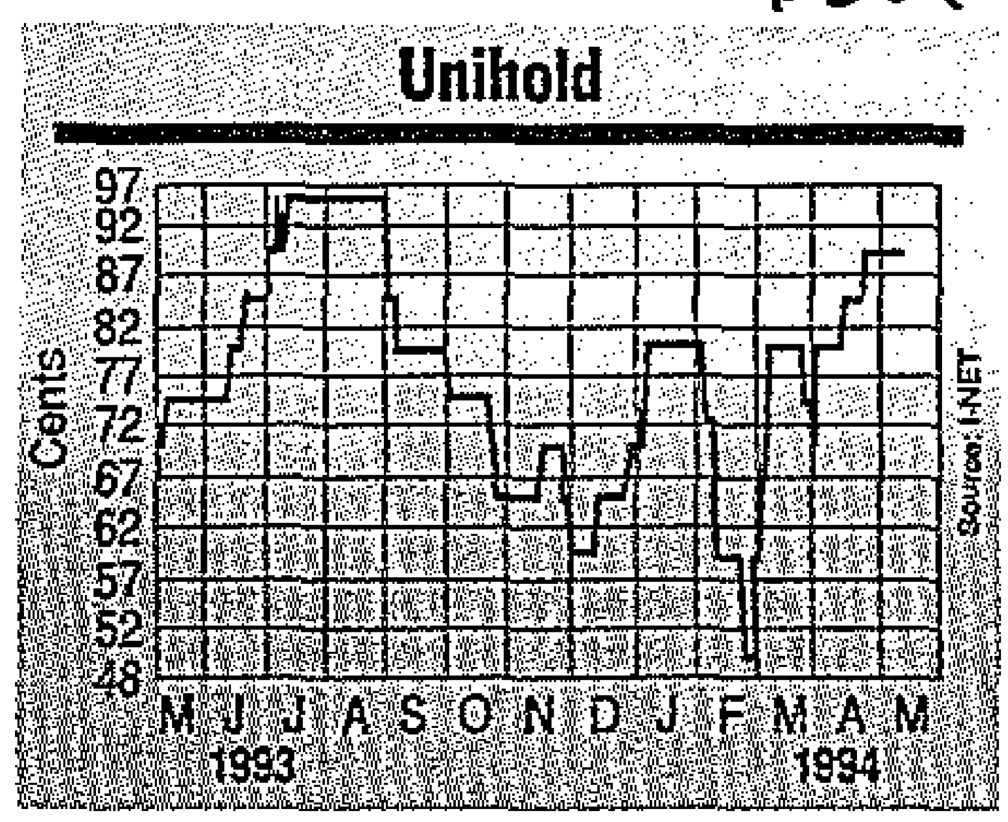
**Share market:** *Price: 100c. Yields: nil % on dividend; 5,5% on earnings; p:e ratio, 18; cover, N/A. 12-month high, 100c; low, 50c. Trading volume last quarter, 1,5m shares.*

| Year to Dec 31 | '90 | '91 | '92 | '93 |
|---|---|---|---|---|
| ST debt (Rm) | 14,6 | 33,9 | 64,3 | 34,6 |
| LT debt (Rm) | 15,3 | 17,4 | 27,0 | 8,2 |
| Debt:equity ratio | 0,55 | 0,68 | 1,07 | 0,83 |
| Shareholders' interest | 0,48 | 0,49 | 0,40 | 0,44 |
| Int & leasing cover | 3,0 | 2,6 | 1,1 | 1,3 |
| Return on cap (%) | 20,3 | 12,5 | 5,4 | 8,0 |
| Turnover (Rm) | 197 | 216 | 287 | 222 |
| Pre-int profit (Rm) | 23,0 | 19,4 | 11,6 | 9,4 |
| Pre-int margin (%) | 11,7 | 9,0 | 4,1 | 4,2 |
| Earnings (c) | 22,5 | 22,4 | 3,3 | 5,5 |
| Dividends (c) | 13,5 | 13,5 | — | — |
| Tangible NAV (c) | 131,8 | 163,0 | 121,4 | 86 |

**Do the** shares of this company, which has been dogged by much misfortune, deserve to be at a 12-month high of 100c?



Fm 20/5/94 180




After a seven-year absence, principal shareholder and founder (in 1968) James Haslam (he indirectly owns 47% of U-Control, which has 54% control of Unihold) resumed both the chair and executive authority. That certainly seems a clear signal of profound concern about the company's fortunes and strategic positioning.

Since 1987, attributable profits have varied from a high of R9,4m in 1988 to a miserable low of R1,9m last year. In between, the bottom line has fluctuated wildly. Not surprisingly, Haslam describes the trading performance as "disappointing."

Disposals were the source of much activity last year. Chairman Bob Arthur stepped down; recently appointed CE Richard du Plessis went the same way; and five other directors signed the attendance register for the last time.

That wasn't all: Unihold substantially reshaped itself by disposing of foundries that make manganese wear parts, principally for the mining industry, and its interest in lighting manufacturers. The sale of foundries to listed Ozz fetched R35,5m; the sale of industrial lighting interests to Powertech R6,7m.

What is intriguing is that both sales were made — partly at least — to reduce crippling gearing problems. In the 1992 annual report, Arthur excitedly told investors the sale of the foundries and certain properties would reduce gearing below 40% (from 106,5%). And when the lighting interests were sold, the company said it would also help to reduce gearing.

Well, the debt:equity ratio has indeed been reduced; unfortunately, it is nowhere near the dreams reported earlier. Borrowings of R42,7m are a lot better than 1992's R91,2m but gearing remains unacceptably high — 83% on a significantly reduced asset base. Haslam intends to get it below 50%; frankly, nothing less will do.

Hopes are nailed largely to a resurgence in the fortunes of the motor industry. The company merged its Walro Automotive division with competitor Auto Cable Industries, now owned equally with Femco Technologies. (In passing, I am surprised this didn't attract the attention of the Competition Board.)

The newly contrived operation didn't live up to expectations in its first four months but Haslam's confidence is undimmed. Auto Cables is budgeted to make a major contribution to 1994 profits. So it should; it now constitutes the single largest investment.

Turnover slumped to R222m (1992: R287m) but that's hardly surprising given the extent of the disposals. A slight improvement in trading margin along with reductions in interest and tax helped considerably and attributable income rose sharply (71%) to R3,3m. That provides an EPS of 5,5c.

However, R18,6m extraordinaries (losses on disposals, goodwill written off, writing down investments and fixed assets) are taken below the line. I can understand why. Taking them above the attributable line would have produced a whacking loss and directors don't like doing that. Like many investors, I can't wait for the introduction of an accounting standard which prohibits this practice.

The balance sheet shows what you should expect after all these difficulties — a substantial and worrying depletion of capital.

None of this is to say that Unihold can't recover; it can, and will do so quickly if the economy moves in its favour. But the answer to the question whether the share deserves to be at a 12-month high is no. Investors should look for unequivocal evidence of sustainable recovery before committing themselves.

*David Gleason*

# Lenco earnings raised 18,3%

BIDay

EDWARD WEST

CAPE TOWN — Lenco lifted earnings 18,3% to 70,73c (59,8c) a share in the year to February 1994 on the back of solid performances in its clothing and plastics divisions and an improved contribution from the footwear division. 27/5/94

Today's published results showed turnover up 13,1% to R671,9m (594,1m). Operating profit rose 23,7% to R73,2m (R59,2m). The interest bill fell to R13,5m (R14m), but tax rose from a zero base to R5,4m leaving taxed profit at R54,3m (R45,4m).

Attributable profit rose 23,5% to R49,8m (R40,3m). Earnings a share were diluted by a higher number of shares. A dividend of 16c (14c) was declared. (180)

Executive chairman Douglas de Jager said the clothing division's performance, led by House of Monatic, had been a major contributor.

The Combined Packaging division remained the major contributor to group profitability.

The Amalgamated Shoes division improved its performance in difficult trading conditions, while Hendler & Hart, the housewares division,saw turnaround slow.

Pyramid Lenco Investment Holdings, which relied on its 50,3% stake in Lenco for its results, reported attributable income of R25m (R20,1m). Earnings a share were 47,13c (39,7c). A dividend of 10,5c (8,85c) a share was declared.

# 345 projects approved for incentives in 1993

CT 27/5/94 Political Staff (180)

LAST year 345 projects — with a total investment of R3,7 billion — creating more than 20 000 jobs were approved for incentives by the Board for Regional Industrial Development, according to the former Department of Regional and Land Affairs.

The Regional Industrial Development Programme contributed 25,6% of the total investment in manufacturing in SA between September 1991 and September 1993, it said in its 1993 report.

# Anglo outstrips market forecasts

BDay 21/6/94

**MADDEN COLE**

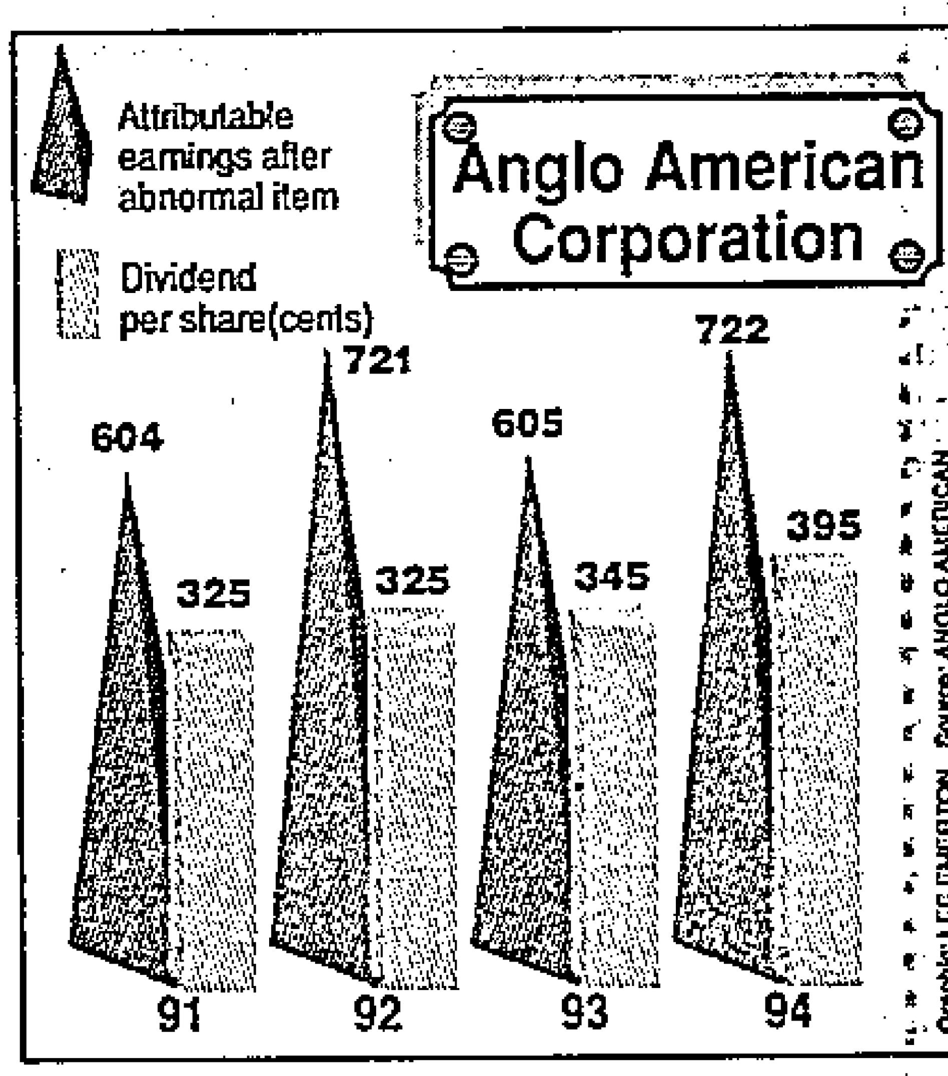
ANGLO American reaped higher income from its gold, diamond and industrial interests to outstrip market expectations for the year to March, pushing attributable earnings up 20% to R1,7bn and hoisting its dividend 15% to 395c. (180)

SA's largest company posted attributable earnings to 722c (605c) a share, and lifted its second-half dividend 18% to 300c.

A 30% improvement in equity accounted earnings to R2,9bn (R2,3bn) lifted net earnings 23% to R2,9bn (R2,4bn), or 1 282c (1 042c) a share. Last year's earnings, which were restated, included an abnormal deferred tax credit of R114m.

Chairman Julian Ogilvie Thompson said the results again showed that geographic and product diversity underscored the group's financial strength and resilience.

Improved investor confidence in SA and an economic upswing, combined with an acceleration in global growth, helped rerate the SA stock market and the group's investments appreciated as a result.




Dividend income from gold, diamond and industrial interests, partly affected by lower dividends from platinum interests, contributed to a 15% increase in income from investments to R1,7bn.

□ To Page 2

# Servgro retains margin despite tough conditions

BDay 2/6/94

**MARCIA KLEIN**

A LOWER tax rate and good performances from most of its interests enabled leisure and services group Servgro International to report a 16% growth in attributable income to R58,9m (R50,8m) for the year to March

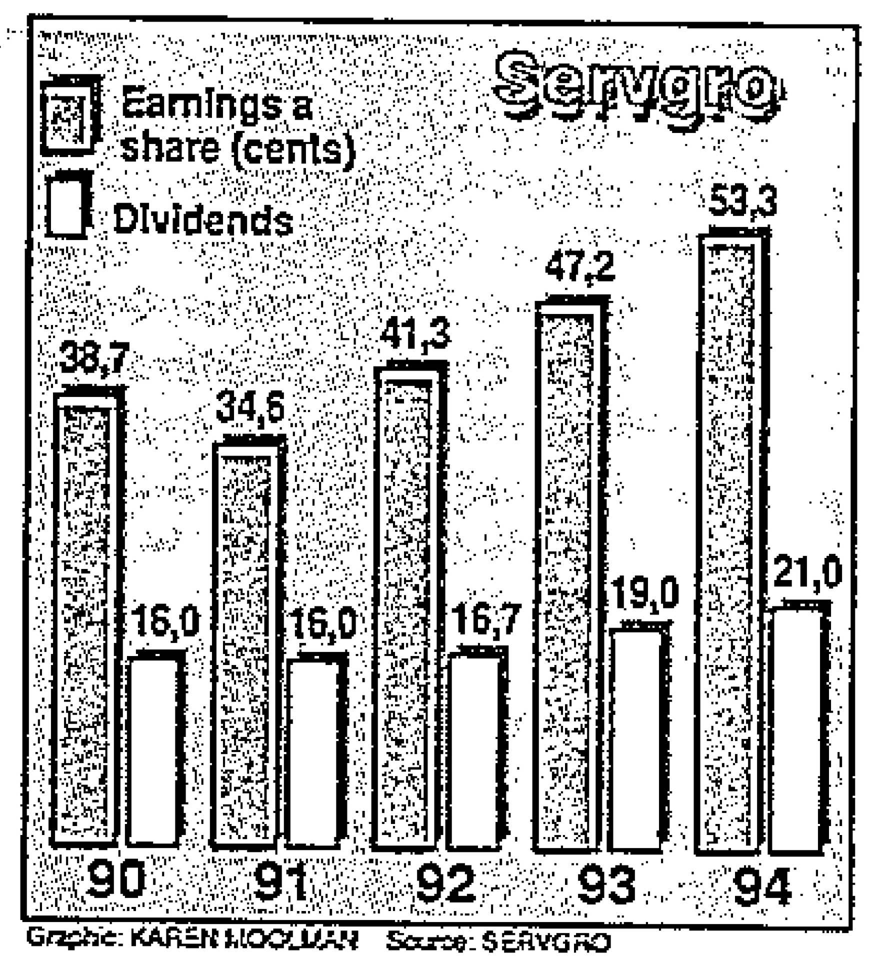
The group, whose interests include Interleisure, Teljoy, Avis, Fedics, Interpark, Price Forbes and Nasionale Pers, increased turnover 5% to R966,3m (R921,4m) under difficult trading conditions.

Chairman Peet van der Walt said although there was only a modest 3% rise in operating income to R121,8m (R117,8m), margin was maintained at 12,6% (12,8%).

Most companies in the stable had shown good growth in operating income, apart from Interleisure.

In addition, operating income of Fedics has been shown on a different basis, as Air Chef is now only partially consolidated. On an apples-for-apples basis, operating income would have been up about 10%.

Pre-tax income showed a marginal improvement to R104,5m. But a lower tax rate enabled Servgro to lift taxed income 15% to R74,9m from R65m previously.



Graphic: KAREN MOOLMAN Source: SERVGRO

Earnings were up 13% at 53,3c (47,2c) a share, and a final dividend of 13c a share brings the full year dividend up by 11% to 21c (19c) a share.

Extraordinary items of R4,2m reflect rationalisation and disposals at Interleisure and Price Forbes.

Van der Walt said that Servgro would begin to disclose the individual performances of its interests in the coming financial year, giving their contribution to attributable income.

For the current year, the group has divided its interests in four.

Fedics, Avis and Interpark collectively contributed 30% to the bottom line, as did Price Forbes — the largest single contributor. Interleisure's share was 22%, Teljoy's 16% and head office 2%.

Price Forbes and Avis had reported sound growth. Fedics' catering division had done well. Teljoy had recently reported an 11% growth in earnings. Interleisure showed a modest decline. (180)

Nasionale Pers showed "a substantial increase" in earnings in the first half, and this trend was expected to continue in the secoind half. Nasionale was still reflected on a dividends received basis.

Van der Walt said a further announcement with respect to its listing would be made within the next 10 days. Nasionale would announce its results before the end of June.

Servgro is forecasting real growth in earnings and dividends on the back of a sound performance by Avis, Fedics and Price Forbes, and a turnaround in Interleisure.

There is still R50m in cash at a holding company level for investment purposes, and the group is looking at opportunities.

The group's share gained 25c or 2,7%, to close yesterday at a new high of 950c from a yearly low of 510c in July last year.

# Servgro hoists earnings 13%

Star 21/6/94

**BY STEPHEN CRANSTON**

Despite a disappointing performance by Interleisure, communications and services group Servgro reports a 13 percent increase in earnings per share to 53,3c in the year to March.

The dividend is up 11 percent to 21c.

Executive chairman Peet van der Walt says the five percent increase in turnover to R966,3 million reflects difficult trading circumstances.

Operating profit was up three percent to R121,8 million, but figures are not wholly comparable as Fedics's Air Chefs business is no longer fully consolidated.

The largest single contributor to attributable earnings was Price Forbes, with 30 percent of the total.

Its broking arm Alexander Forbes had a particularly good year during which the group cemented a relationship with the UK insurance group Nelson Hurst.

Car rental, catering and allied, consisting of Fedics, Avis and Interpark contributed 30 percent.

Avis benefited from heavy demand for rentals made by visiting election observers. Fedics saw a strong performance by its catering businesses, but the contribution from its investment in Protea Hotels was reduced.

Interleisure contributed 22 percent of earnings, with good cinema attendances, thanks to films like Jurassic Park. But film production remained limited.

Teljoy made a 16 percent contribution and produced an 11 percent increase in earnings.

In the longer term, Teljoy Cellular Communications could make a very substantial contribution. (180)

Servgro holds 22 percent of Nasionale Pers, making it the largest single shareholder.

Naspers's contribution is fairly small because it is dividend-accounted, and has a ten times dividend cover.

At this time Servgro has no board representation on Naspers, but this is likely to change if the latter decides to list on the JSE.

An announcement is expected in the next ten days.

Peet van der Walt ... difficult circumstances.

# Toco keen to expand its exports

MUNGO SOGGOT

INDUSTRIAL products manufacturer and marketer Toco Holdings lifted attributable earnings 34% to R21,9m for the 12 months to March, on a 92% leap in turnover to R368m following the acquisition of Park Plus. BDay 8/6/94

Chairman Paul Todd said more than 50% of the group's turnover had been export-related, compared with 30% the previous year.

Earnings a share jumped 26% to 27,3c. Todd said all earnings were being retained to expand Toco's export business. Instead of dividends, five fully-paid new shares for each 100 existing shares would be issued. (180)

Operating income rose 56% to R37,4m. Interest paid, which climbed 20% to R5,4m, reflected the build-up of funding needed for the group's export programme.

The group's building division had been particularly successful after winning major Far East contracts. The special steels division was back in the black after cutting costs and increasing margins, Todd said.

The group was well placed to reap the benefits of higher spending by both the State and the private sector on infrastructural projects. "The new government's reconstruction and development plan has positive implications for our businesses," he said.

# Premier reports 11% earnings rise

B/Day 9/6/94.

MARCIA KLEIN

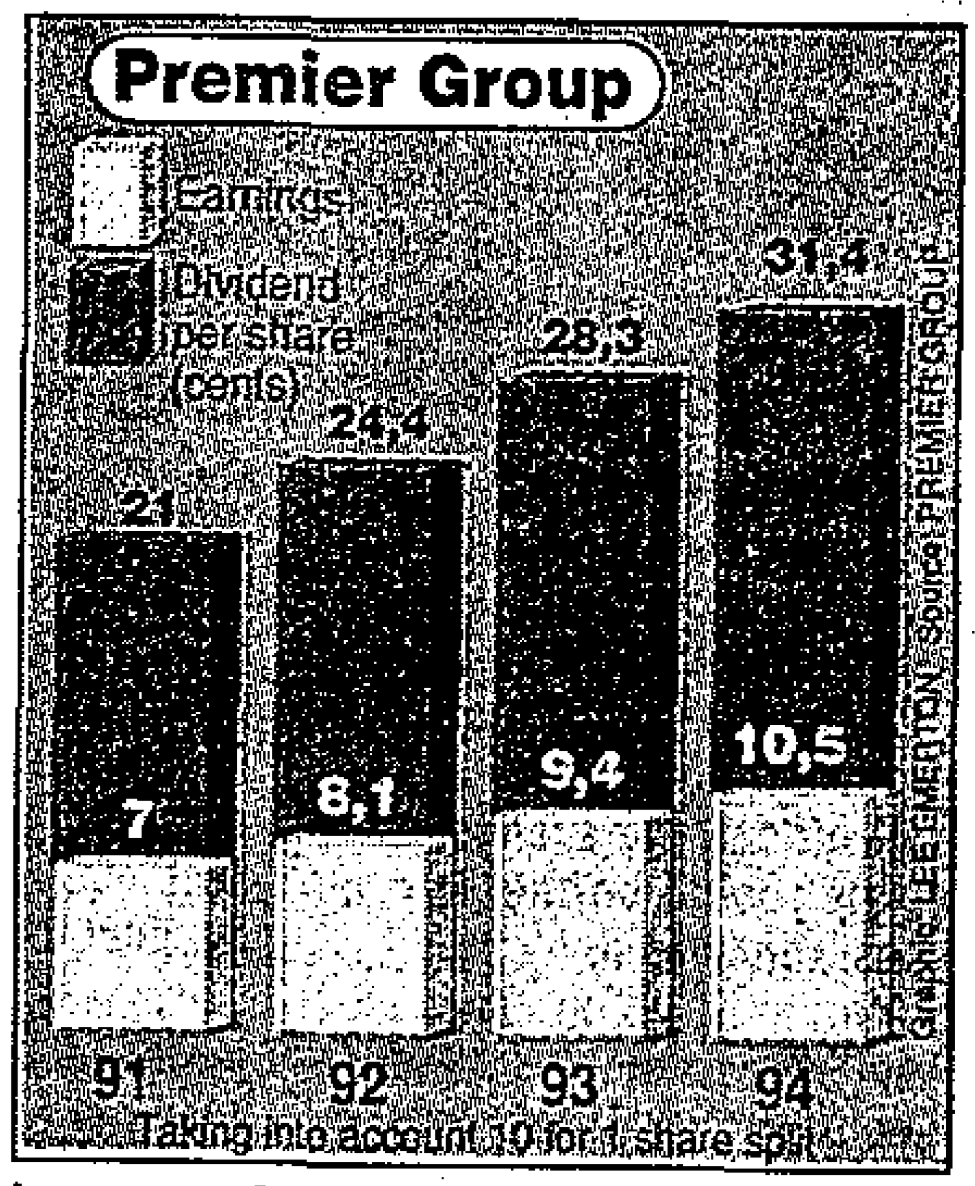
THE Premier Group was able to increase attributable earnings 11% to R259,1m (R233,5m) in the year to April as disappointing results from the core food division and Clicks were offset by the good performances of its other interests.

The group, with interests in food, pharmaceuticals, wholesale, retail, entertainment and leisure, increased turnover 42% to R14,4bn (R10,2bn). But outgoing chairman and CE Peter Wrighton said turnover was not comparable as CNA Gallo, United Pharmaceutical Distributors, foreign food investments and Bonnita had been consolidated for the first time. Turnover was up 9% on a like-for-like basis.

Pharmaceuticals comprised 14% of turnover against 5% in 1993. 180

The 45% rise in trading profit to R634,7m (R438,9m) reflected a slight improvement in margins. Wrighton said the more than threefold rise in interest to R78,9m (R23,7m) — with interest cover reduced to 8 times (18,6 times) — reflected the consolidation of new subsidiaries and the cost of funding those acquisitions as well as significant capex.

A lower tax rate and lower dividend




income and equity accounted earnings — as certain former associates were now consolidated — saw taxed profit rise 33% to R416,9m (R314,5m). After minorities and preference dividends, attributable earnings were 11% up at 31,4c (28,3c) a share. A final dividend of 6,5c brought the full year dividend up 12% to 10,5c.

Wrighton said the performances of Pre-

To Page 2

## Premier

B/Day 9/6/94

From Page 1

mier Pharmaceuticals and Metro Cash & Carry were excellent, while Premier Food and Clicks were under strain. 180

An R88m extraordinary write-off included the restructuring costs of the food division. Wrighton said the group would focus on restructuring Premier Food to become more customer oriented and sales, distribution and marketing driven. Premier Food expected to save at least R40m a year from the restructuring. The group would focus on increasing the number of brands, the range of products and developing more value added products.

A restructured Premier Food could be an attractive partner for an international company, Wrighton said. It was negotiating for international alliances, and one or more could be expected within a year.

The Premier Group was in a position to assist and benefit from the reconstruction and development programme, as it was involved in food, health care and education. It was budgeting for real growth in the coming year.

SCHARRIGHUISEN
Fm 10/6/94

# Back to organic growth

**Activities:** *Opencast mining, earthworks, construction, engineering and plant hire.*
**Control:** *Directors 35,5%.*
**Chairman:** *C Scharrighuisen; MD: L Fisher.*
**Capital structure:** *30,4m ords. Market capitalisation: R242,8m.*
**Share market:** *Price: R8. Yields: 3,4% on dividend; 9,9% on earnings; p:e ratio, 10,1; cover, 2,9. 12-month high, R8; low, R3,50. Trading volume last quarter, 2,2m shares.*

| Year to Dec 31 | '90 | '91 | '92 | '93 |
|---|---|---|---|---|
| ST debt (Rm) | 10,4 | 15,6 | 13,7 | 27,9 |
| LT debt (Rm) | 5,4 | 13,0 | 15,9 | 28,8 |
| Debt:equity ratio | 0,43 | 0,27 | 0,16 | 0,32 |
| Shareholders' interest | 0,52 | 0,52 | 0,60 | 0,54 |
| Int & leasing cover | 4,2 | 9,5 | 31,0 | 16,1 |
| Return on cap (%) | 30,5 | 23,3 | 18,9 | 17,3 |
| Turnover (Rm) | 66,3 | 100,8 | 116,6 | 156,2 |
| Pre-int profit (Rm) | 17,2 | 23,4 | 27,7 | 37,6 |
| Pre-int margin (%) | 25,9 | 23,2 | 28,8 | 24,1 |
| Earnings (c) | 38,2 | 70,8 | 83,9 | 78,9 |
| Dividends (c) | 10,5 | 25 | 30 | 27 |
| Tangible NAV (c) | 178 | 192 | 302 | 302 |

**After dipping** to annual lows in October, share prices of holding company Scharrighuisen (Scharrig) and recently listed Scharrig Mining (Schamin) have recovered strongly. (180)

October's fall probably had a lot to do with confusion in the market about the effects of the Schamin listing. The group published interim results showing lower earnings and a 3c cut in the dividend without explaining that this was because of the separation of the mining interests from the rest of the group.

Management, by providing pro forma figures, is now spelling out the effects of the dilution after the one-for-one dividend in specie which transferred 25% of Schamin to Scharrig shareholders. Ignoring the dividend in specie, holding company earnings would have grown nearly 26% instead of falling 6%.

Schamin, now a 71%-held subsidiary, lifted EPS 14,5% to 24,4c and paid an 8c dividend. Fm 10/6/94

**Cas Scharrighuisen ...**
*healthy pattern of contracts*

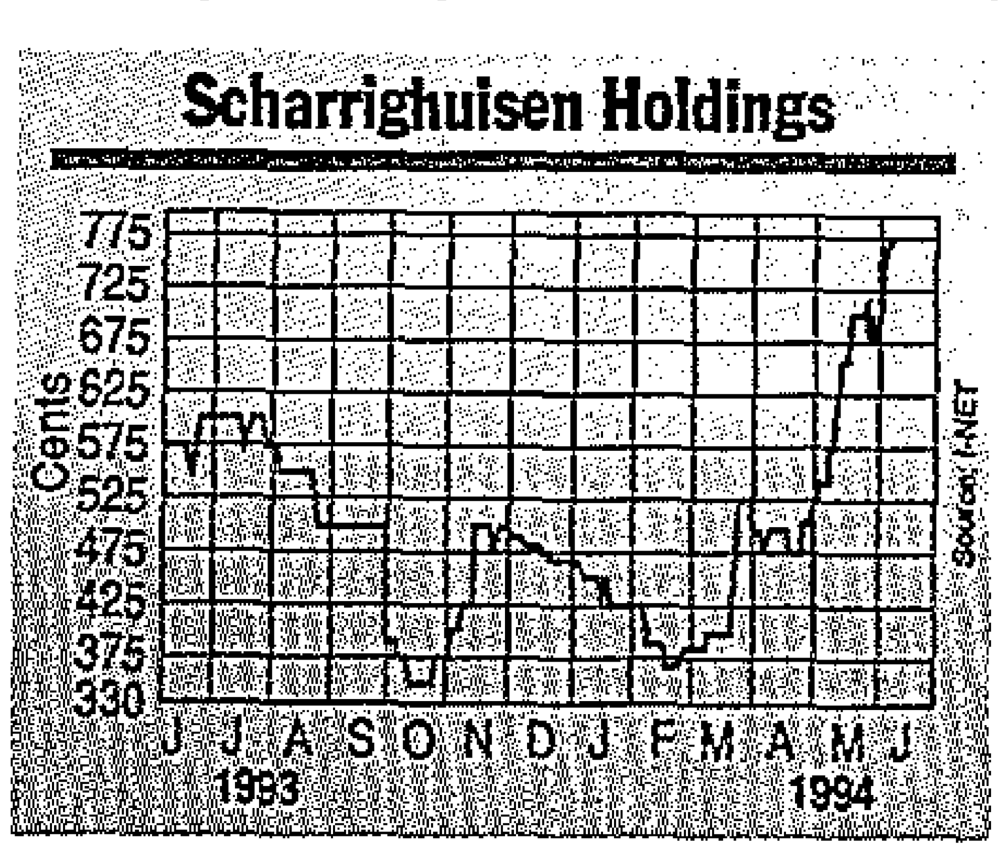
There have been some problems of perception with Scharrig — compounded as the group grew rapidly through acquisitions — but the new structure does offer a clearer view of activities. Open-cast mining remains the core business, now held separately by Schamin with related activities such as bulk earthworks, mine rehabilitation, construction and plant hire.

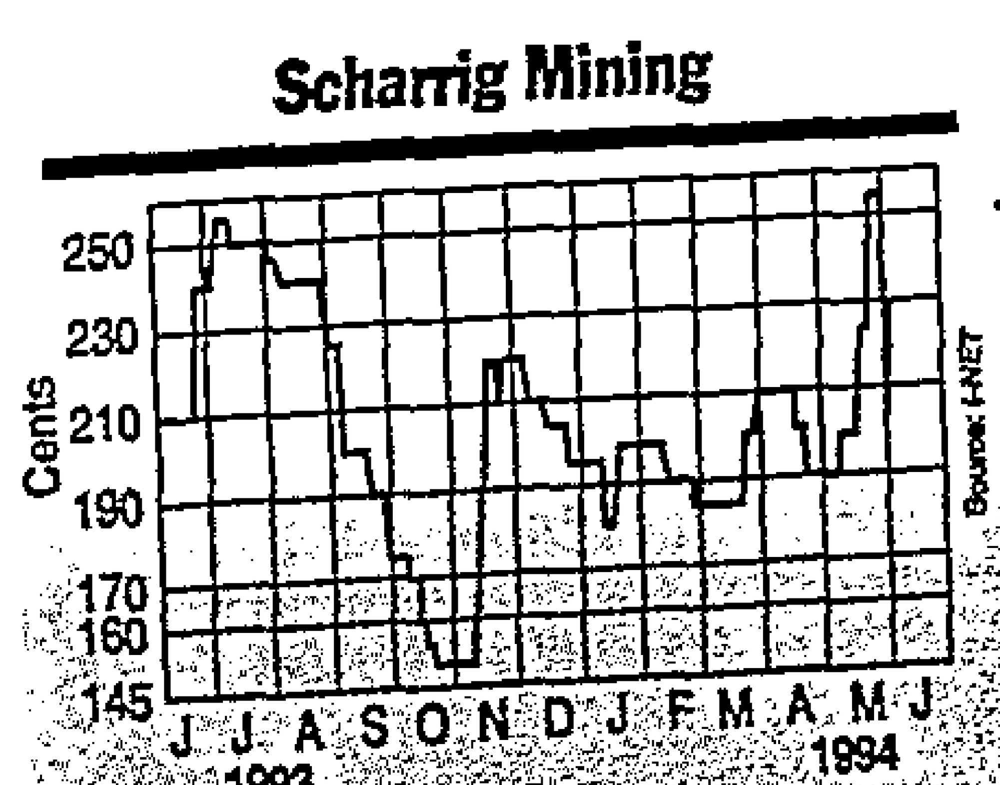
It has been a tough year but results are encouraging and prospects appear good. Chairman Cas Scharrighuisen says the level of contracts on hand and new contracts received places Schamin on track to continue the growth and profitability trends established in the 1993 year. (180)

The industrial (largely engineering) interests are held separately by wholly owned Scharrig Industrial Holdings. Mining remains the dominant source of earnings, though industrial contributed R3,8m to the bottom line.

After its rapid growth through acquisitions, Scharrig is consolidating and, it appears, will concentrate on organic growth. Joint MD Laurie Fisher says the group is able to grow off its asset base, which at the holding level has increased by about 36% to R163m. Acquisitions have pushed gearing to 48% (32%) but Fisher is not concerned about the debt. Scharrig holds R19,2m cash against long-term debt of R29m.

Scharrighuisen says the main aim now is to increase market share. The group operates in fields that will benefit from an upturn — including mining, synthetic fuel, engineering and rail transport — and can also gain from social development programmes leading to a boost in power generation and local government projects. (180)




Fm 10/6/94

Exports, especially industrial, offer potential for new business. Scharrig intends to list the industrial and investment interests in the right market conditions.

Despite the shares' rerating, p:e ratios of 10,1 for Scharrig and 9,2 for Schamin may not be unduly high for the engineering sector now. Tradeability has increased with the listing of Schamin and, with a clearer group structure, investor interest is likely to increase. Management has built up a sound track record. There appears to be fair value in both shares.

*Shaun Harris*

# ANC minerals policy 'won't affect budget'

180 CT 20/6/94

From MICHAEL URQUHART

JOHANNESBURG. — The ANC's new minerals policy will not affect the 1994/95 Mineral and Energy Affairs budget, says ANC mineral and energy policy co-ordinator Paul Jourdan.

He said mineral rights, the abolition of ring fencing and small-scale mining would not be dealt with in the current budget, but minerals beneficiation could be dealt with in the Trade and Industry and Finance Department budgets.

Jourdan expressed concern over mine safety, and said more resources should be given to health and safety.

He said money for increased spending on health and safety could come from savings elsewhere in the Budget, such as the Atomic Energy Corporation.

Another avenue was for mines to pay depending on their health and safety record — as is already done for funding health and safety research. In this way, the culprits would be made to pay.

Mintek and the Geoscience Council would be maintained as they were generally efficient and necessary. Jourdan also said the subsidy for pumping at mines such as ERPM should continue.

Chamber of Mines chief economist Francois Viruly said he did not expect any major changes in the Mineral and Energy Affairs budget, as the present government had not had the time to consider anything new.

What was important was whether the overall Budget would bring about inflationary pressures, especially with taxes such as levies which directly affected working costs. Other industries could partly pass on increased working costs to the consumer, he said, but the mining industry had to absorb any cost increases.

The chamber would be watching for any announcements on the general tax rate or the abolition of ring fencing.

Mineral and Energy Affairs Director-General Piet Hugo said mining policy would not be addressed in the current budget, as discussions with major stakeholders were continuing.

Hugo said the department would be slashed — in line with policy for all departments — as the government looked for savings to help fund its RDP.

# W&A chairman has hopes for future

BY STEPHEN CRANSTON

The W&A debt load has accumulated over the years and is primarily attributable to investments made with borrowed funds in underperforming assets, says executive chairman Ray Hasson.

In the annual report for the year to December, Hasson names the companies which either make no contribution or make a loss, including Badger, Metrotoy, Waco and the Peninsula property venture. Star

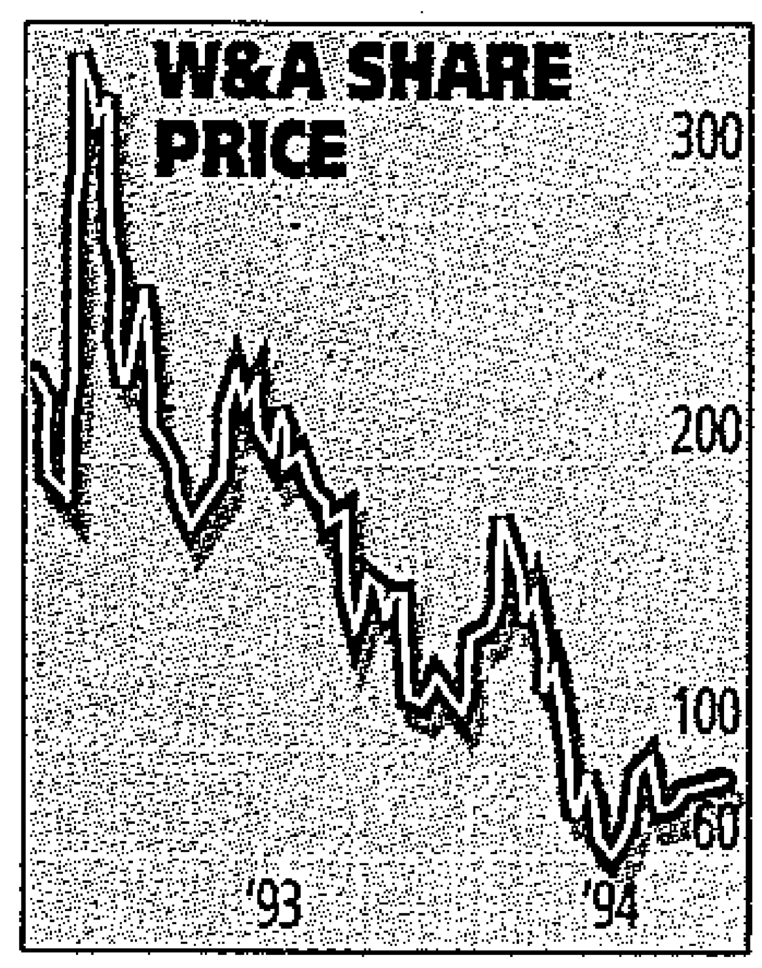
Investment in the Safshoe chain has exceeded R150 million, but a sale of its manufacturing arm Badger to management was never made effective. 22/6/94

Under the old management Badger was not consolidated and all funds transferred to Badger capitalised in a loan account. It is now treated like a subsidiary, which is what it has always been, Hasson insists. (180)

Some R335 million has been invested in Waco International, which includes the Australian, US and Hong Kong scaffolding interests. For the last three years it has reported attributable losses of A$45,6 million.

There are prospects that Waco will become profitable this year, but it will not pay dividends.

In 1990, W&A made loans of R10 million to a coal supplier in the Eastern Transvaal to secure supplies of certain grades, and further loans were made to develop the mine. The total of loans and accrued interest on December 31 exceeded R125 million.




Hasson hopes better trading conditions will relieve the group from providing further support.

Hasson says it proved imposssible to implement the disposal programme planned in 1993.

The uncertain political and economic climate militated against the sale of businesses at acceptable prices. The disposal of Metrotoy through the sale or closure of the various sections proved costly.

But Hasson still believes that W&A holds real value to build a future.

"It should prosper, provided we can capitalise fully on its excellent operating companies, while solving problems of debt and cash flow shortfall at corporate level.

He believes W&A will come close to break-even this year.

# Encouraging or not? (180)

Business Staff ARGUS 25/6/94

LIFTING the five percent import surcharge on capital and intermediate goods would not necessarily encourage capital intensive production, according to economist Alan Hirsch.

He said all manufacturing sectors — from clothing to steel — were technologically behind South Africa's competitors and potential competitors and needed to buy new equipment.

Mr Hirsch, who works in UCT's Development Policy Research Unit and is a member of the National Economic Forum's Trade and Industry Task Force, said that although the removal of the surcharge did bias pricing in favour of capital intensity, this was not significant as long as domestic policies encouraged labour intensive production.

He expected the impetus for industrial restructuring to come from tripartite bodies such as the National Economic Forum. The Trade and Industry Task force had recently shifted its attention from trade policy to supply-side issues and was looking closely at industrial training and technical development.

Sectoral task forces were studying conditions in particular industries.

Tariff reforms, which came into effect from January 1 next year, would also encourage business to set new priorities.

Mr Hirsch said the government had clearly decided to prepare the framework for a supply-side response before stimulating demand. This framework should be ready before the next Budget.

W&A FM 1|7|94

# Facing cash flow drains

**Activities:** *Investment holding company with subsidiaries in manufacture and distribution of industrial and consumer products, coal mining, property administration and development.*

**Control:** *F S Group through Waicor (51%).*

**Chairman:** *R R H Hasson. Joint deputy chairmen: T W Rolfe and H R van der Merwe.*

**Capital structure:** *486,8m ords; 18,9m preferred ords; 26,5m "A" var rate comp conv debs; 6,3m "B" var rate comp conv debs; 21,9m "C" var rate comp conv debs; and 149 900 6% red shares. Market capitalisation: R436m.*

**Share market:** *Price: 90c. 12-month high, 230c; low, 60c. Trading volume last quarter, 8,6m shares.*

| Year to December 31 | '91 | '92 | *'92 | '93 |
|---|---|---|---|---|
| ST debt (Rm) | 197,6 | 279,2 | 408,5 | 356,0 |
| LT debt (Rm) | 867,7 | 1 126,3 | 1 263,0 | 874,9 |
| Debt:equity ratio | 0,87 | 2,1 | 2,45 | 2,3 |
| Shareholders' interest | 0,34 | 0,23 | 0,21 | 0,23 |
| Int & leasing cover | 2,1 | 1,4 | nil | nil |
| Return on cap (%) | 12,5 | 8,0 | 4,6 | 6,2 |
| Turnover (Rbn) | 3 228 | 3 189 | 3 218 | 3 564 |
| Pre-int profit (Rm) | 335,5 | 237,6 | 144,6 | 144,7 |
| Pre-int margin (%) | 10,3 | 7,0 | 4,5 | 4,1 |
| Earnings (c) | 68,5 | (40,0) | (146,1) | (41,2) |
| Dividends (c) | 43,3 | 11,0 | 11,0 | nil |
| Tangible NAV (c) | 239 | (32) | (33,9) | 2,4 |

* Restated. 180

**Each new** report from this group brings more revelations and sheds more light on the enigma of W&A and the many anomalies that were apparent to outsiders.

The 1993 annual report — not for the first time — presents a picture of a conglomerate groaning under excessive debt and negative cash flow, but which also has various prob-



FM 1|7|94.

lems at operating level that debase results from good performers. It is in a condition that makes a mockery of the fanciful expansion strategy pursued and persistently defended by former chairman Jeff Liebesman.

As current executive chairman Ray Hasson puts it: "This debt load has accumulated over years and is the product of a variety of factors, notably the investments made with borrowed funds in underperforming businesses."

After wading through the report, which is far more candid than any previous one published by W&A, though no less tardy in its publication, some general impressions spring to mind. Among these:

□ The asset disposal programme is essential to reduce debt and address the negative cash flow, but it greatly complicates the investors' task in taking a view on the share as there is no knowing what activities will remain and what the quality of earnings will be;

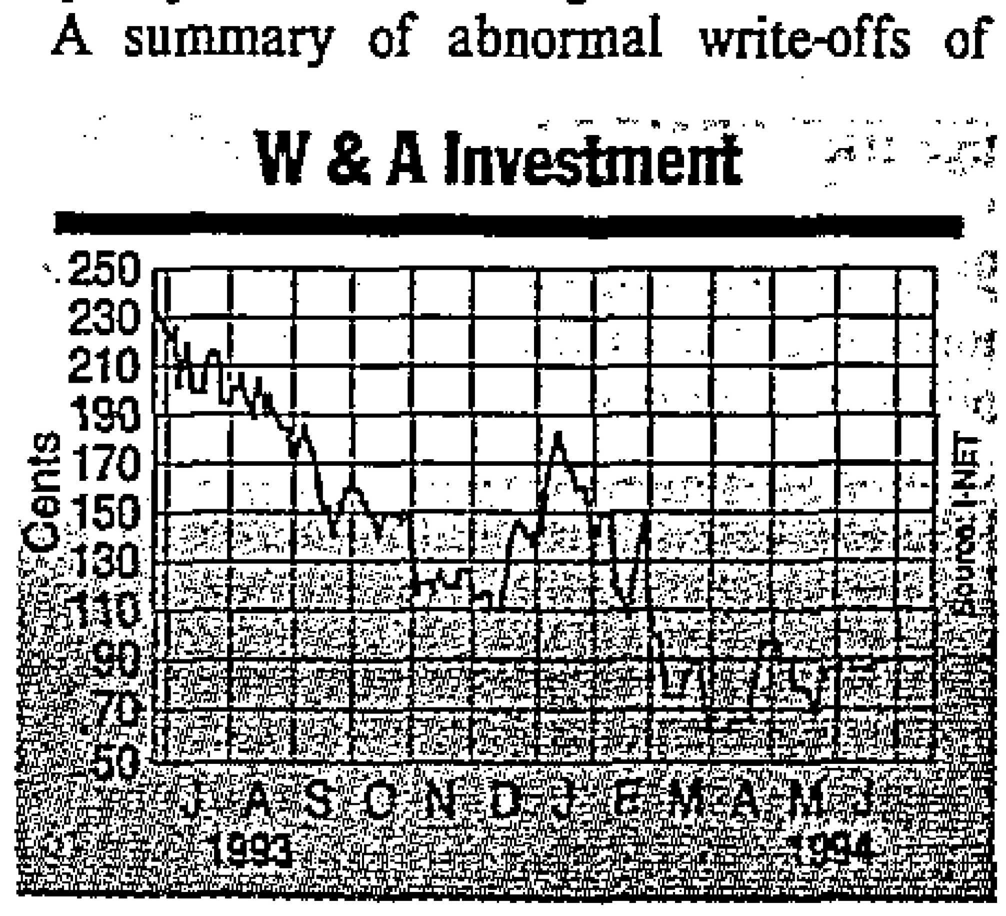
□ On the evidence of these accounts the vaunted "asset situation" often cited in the past has ceased to exist. Ordinary shareholders' funds after deduction of R251,8m intangibles has withered to just R1,6m out of total capital employed of R2,3bn. Tangible NAV at year-end was just 2,4c, compared with the current share price of 90c. If it's assumed convertible debentures are converted now, tangible NAV is still only 60c;

□ The investment record has been dismal, in execution as well as in concept. This ranges from curious investment decisions, such as the now notorious coal mine that appeared in debtors, to assets that turned sour (or sourer) after they were acquired, such as the Edworks shoe business; and

□ While recognising that the new accounting practices instituted under Trencor's control could be ultraconservative, the breadth of write-offs across the group makes the previous approach to financial management seem strange to say the least. Actions such as these leave the reader wondering whether the departure of Liebesman and his financial director Neville Cohen will be a sufficient exodus of top management to enable a restoration of confidence.

Stock was slashed by R132m, from R550m to R418m, with R100m lopped off finished goods and merchandise. Taken at face value, this suggests ambitiously valued stocks and exaggerated profits reported in earlier years, and helps to explain the wide disparity between earnings and cash flow.

A summary of abnormal write-offs of




**W&A's Van der Merwe** ... *agreement worsened losses*

stock totalling R34,5m shows these spread across 11 group companies, though National Bolt accounted for the largest item of R22,5m. Similarly, the abnormal write-offs of trade debtors (R10,2m) involve eight companies, but National Bolt was responsible for R8,3m(180)

A longer list goes into the combined extraordinary and prior year write-offs totalling R492m, or R625m if the "hanging debit" of R133m previously deducted from shareholders' funds is included. This includes 15 group companies plus a R141,9m write-off at corporate level and a R65m provision for losses on sales of investments and contingencies. Among larger items here are the R89,6m write-down to market value of the AAF investment in the UK and R36m relating to Waco International, which is listed on the Sydney Stock Exchange and holds the Australian, US and Hong Kong scaffolding interests.

Hasson reveals that over the years the group has invested R335m in this company, and for the past three years it has reported operating and extraordinary losses attributable to ordinary shareholders, of A$45,6m. He says that, though there are "reasonable prospects" that Waco will be profitable in 1994, dividends may not be paid for the year.

Elsewhere among the unlisted interests are R52,5m losses on the coal mine which previously was not consolidated; R25m loss arising from discontinued operations at Metrotoy; and R19,9m losses previously not consolidated and provisions at Badger, production arm of the old Edworks.

The R141,9m write-offs at corporate level comprise 22 items, the largest being a R23,7m provision for loss on loans to company and subsidiary companies' share incentive schemes. Second largest is a R22,4m write-down of the 30% investment in Hansen Beverage, a US-based distributor of naturally flavoured mineral water; one has to ask: which, if any, of Liebesman's international

FM 1/7/94

investments was successful? Also notable is a R16,6m item for scaffolding depreciation; this covers two years and was due to a change in accounting policy.

Some of the smaller write-offs are also interesting. There is, for example, R1,8m for a "payment made to a potential investor in the group after unsuccessful negotiations." This was a payment to Christo Wiese who had been been involved in negotiations with W&A when a deal was struck with Trencor. After Wiese made threatening noises, he was awarded this settlement.

Hasson explains the exposure to the coal mine started when, in 1990, W&A lent R10 m to a coal supplier in the eastern Transvaal to secure supplies of certain grades of coal. To help with the development of the mining operations further loans were made, all secured against coal stocks and reserves, and other assets. By December 31 loans and accrued interest exceeded R125m. Consolidation of this interest, Wakefield Investments, resulted in an attributable loss for W&A of R8m (1992: R41,3m) on turnover of R4,2m.

Deputy chairman Hennie van der Merwe says the coal operation is now cash-flow neutral and, with market conditions improving, efforts are being made to sell these assets. A binding agreement with a contractor, which has now been cancelled, worsened the losses and inhibited asset sales at an earlier stage.

National Bolt was the other large local lossmaker. The industrial and automotive fasteners, tools and equipment division lost an attributable R22,7m (1993: R1,6m) on turnover of R338,9m. National Bolt's margins were squeezed by competition, reduced margins and higher production costs. Hasson says rather vaguely that a reinforced management team is showing "promising results."

Safshoe, formed out of the old Edworks, along with Badger, has been another profit drain. Thanks to these activities, the consumer distribution division — which also houses the profitable Housewares (see *Fox)* and textiles companies — lost R6,1m (1992: R14,6m) on turnover of R384,1m.

Hasson notes that acquisition costs, subsequent trading losses and thereafter the cost of repositioning and developing this retailer as Safshoe, which is now pitched at a lower-income market, has exceeded R150m. He adds that Safshoe, which is in a development phase, continues to improve but is not yet providing a positive return.

Given the mix of manufacturing and international activities, W&A might be expected to have fairly high margins. But the 1993 margin dropped to 4,1% — well down from 10,3% on the accounts of 1990 — giving operating profit of R144,7m on R3,6bn turnover. A net interest bill of R231m left a pretax loss of R86m. Net cash flow was a negative R96,1m; the net financing requirement was a negative R194,7m last year and R401,2m in 1992.

A cash flow shortfall of R50m has been budgeted for this year, which Van der Merwe says has been fully catered for with bank finance. He adds that so far this year the group is doing better than budgeted, so the funding requirement could be lower. However, while better operating results would help, a turnaround in cash flow depends crucially on debt reduction.

The target is to reduce debt by about R600m. In addition to the post year-end sale of W&A's interest in JD Group for R160,8m, the plan to list Housewares announced this week will effectively raise R94m for W&A (R77m through the pre-flotation sale of Housewares and the removal of R17m debt).

It's hoped further asset sales will follow, perhaps within weeks. But the prospect of raising enough funds without a rights issue this year cannot be good. Van der Merwe says this question is being left open until more progress has been made with disposals. Four criteria are being applied to any asset sales: they must improve NAV, earnings and cash flow and reduce gearing; Van der Merwe says at least three of these must be met.

Some disposals could bring capital profits which would help to strengthen the balance sheet. However, given the uncertainty about which assets will remain and the prospective earnings quality, the share can be seen only as speculative.

*Andrew McNulty*

# Sell-offs 'key to W&A's survival'

BIDay 1/7 1994

MARCIA KLEIN

W&A's ability to sell major assets for a fair price is the key to its longer-term survival, analysts say.

The question was whether the group was able, in what had become a more favourable economic environment, to obtain fair prices for its assets, they said yesterday.

Announcements on disposals and what W&A has referred to as "other recapitalisation measures" are expected soon.

Gentyre, one of the jewels in the W&A crown, could be sold to Consol or Anglo, both of which are believed to have made bids. One source said Consol could pip Anglo to the post, Competion Board approval allowing.

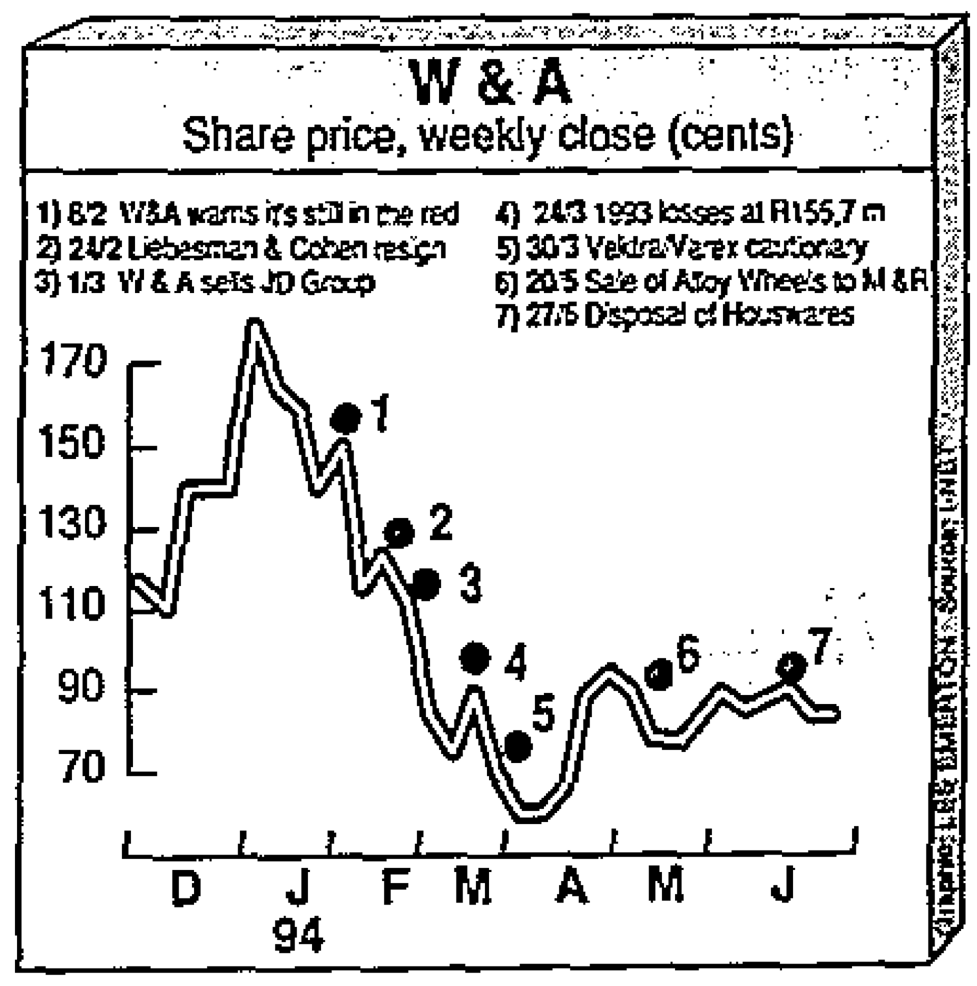
Varex, which had issued more than one cautionary, was also likely to be sold soon, and there was the possibility that McPhail would soon be disposed of. Between them, these assets could realise hundreds of millions of rands.

W&A said its gearing was 142,4% at the December year-end. Deputy chairman Hennie van der Merwe said W&A was aiming to bring gearing down to below 30%. Disposals had brought gearing down 27% so far, but it was still "clearly way too high" at more than 100%.

Various strategies, including the sale of assets and other unspecified recapitalisation measures, were being considered.

The May 1993 R647m rights issue and the R160,8m sale of its interest in JD Group had done little to bring down gearing.

Executive chairman Raymond Hasson admitted in the annual report that the rights issue should have corrected the gearing problem which had accumulated over years and was the product largely of




"the investments made with borrowed funds in underperforming businesses". But group debt was over R1bn at year-end.

Benefits of the rights issue were dampened by write-downs and provisions of R492m, losses in AAF Industries, and the fact that some businesses — in which R650m had been invested — contined to make no contribution or incurred losses. The problem was exacerbated by difficulties in disposing of assets.

Although its interests were budgeted to be cash flow positive for the year, interest of R100m would cause a cash flow shortfall of about R50m this year. (180)

W&A has managed to make some significant disposals. UK-based AAF Industries sold Alloy Wheels International to Murray & Roberts for about £19m. W&A disposed of its 80% stake in Housewares to a consortium led by founder and chairman Melvyn Gutkin for R77m — realising a profit of R28m. Van der Merwe said W&A was getting full value for the disposal.

# Producer prices rise sharply

180

ST 14/7/94

By AUDREY D'ANGELO
Business Editor

THE producer price index (PPI) rose sharply to 7,5% year on year in May from 6,2% in April, due mainly to the weaker rand and higher world oil prices. They helped push the imported component up by 1,7% month on month to 4,7% year on year.

But higher prices for meat and vegetables helped push up the local component by 8,1% year on year and 1,2% month on month.

The rise in the PPI was bigger than economists expected and some predict that it will reach 10% by year end.

Pointing out that meat prices are now 40% higher than at this time last year, Old Mutual economist Johan Els said: "We were expecting prices to rise as farmers built up their herds again after the drought, but this is more than we expected. It should taper off a bit soon.

"Overall, the PPI is heading for an average of between 7,5% to 8% for the year, which is not too bad.

"It implies upward pressure in the Consumer Price Index, which we expect to bottom out this month or next."

Sanlam chief economist Johan Louw said the PPI was at its highest level since April last year and he expected it to reach 9% by year end. "Everything is pointing to it being in double figures again next year."

The main reason for the steep rise was the higher imported component, due to the weaker rand and higher oil price. Fortunately, inflation overseas was still subdued.

"Even in the US inflation won't go above 3,5% or 4% from the present 3%. I think people in the US are over-concerned about inflation. Wage and salary rises there are still very subdued.

"Japan has virtually no inflation, it is very low in France and the UK and Germany is starting to win the fight.

"So we shall not be importing inflation except through the weakening rand."

The movements of the rand over the next 12 months would depend on what was happening to the capital account of the balance of payments and to the dollar.

The rand could stabilise if the capital account improved. "If we abolish the financial rand it will put downward pressure on the commercial rand but I don't think that will happen before the middle of next year. By that time we should have narrowed the gap between the commercial and finrand."

Southern Life economist Sandra Gordon said underlying inflationary pressures seemed to be picking up a bit. She expected the PPI to be 9% by year end and to average 7% for the year.

She expected the rise in fresh meat prices to slow in about two months. The 8,4% month on month rise in vegetable prices was seasonal.

Nick Barnardt, economist with stockbrokers Ed Hern, Rudolph, said he expected the PPI to be close to 10% by year end, and the CPI to be 8,5%.

Discussing the local component of the PPI, Barnardt said meat prices had risen "massively" by 10% month on month. "Fresh meat is given a weighting of 3% on the index and has contributed about 0,3% or 0,4% to the monthly rise."

held at the centre, available — indeed, crying out for — deployment in productive investment. Borrowings climbed to R682,9m from R364,4m, mainly because of the financing of Huntcor/HLH's new Komati sugar mill. FM 15/7/94

The major new investment was the 13,5% stake in cellular phone company Vodacom, in which Rembrandt's ultimate capital outlay is estimated at R100m. For the rest, little apparent progress has been made towards improving and focusing the investment portfolio. (180)

Management has indicated the portfolio will be concentrated on holdings where the group can add value. Apart from the palpable need to get rid of, or achieve turnarounds in, perennial under-performers like Metkor/Dorbyl, this suggests there could be further sales of smaller interests such as those in Engen, Sappi and Malbak. There is, however, the potential for a robust profit upswing in key components of the portfolio, particularly Gencor and Absa.

Signs of a more assertive stance by group management should help to brighten sentiment and narrow the rating gap. The share should in any event remain in demand because of Rembrandt's high cash generation and its record of consistently producing real growth in earnings and, especially, dividends.

*Andrew McNulty*

REMBRANDT GROUP

FM 15/7/94

# Needs to dispel some clouds

(180)

**Activities:** *Investment company with interests mainly in banking and financial services, forestry and timber processing, printing and packaging, engineering, adhesives, life assurance, medical services, mining, petrochemical products, portfolio investments, pulp and paper, cellular communications, tobacco products, food, wine and spirits and various other trade mark products.*
**Control:** *Rupert and Hertzog families.*
**Chairman:** *J Rupert; MD: M H Visser.*
**Capital structure:** *522m ords. Market capitalisation: R13,31bn.*
**Share market:** *Price: 2 550c. Yields: 1,7% on dividend; 7,9% on earnings; p:e ratio, 12,7; cover, 4,6. 12-month high, 3 675c; low, 2 425c. Trading volume last quarter, 13,7m shares.*

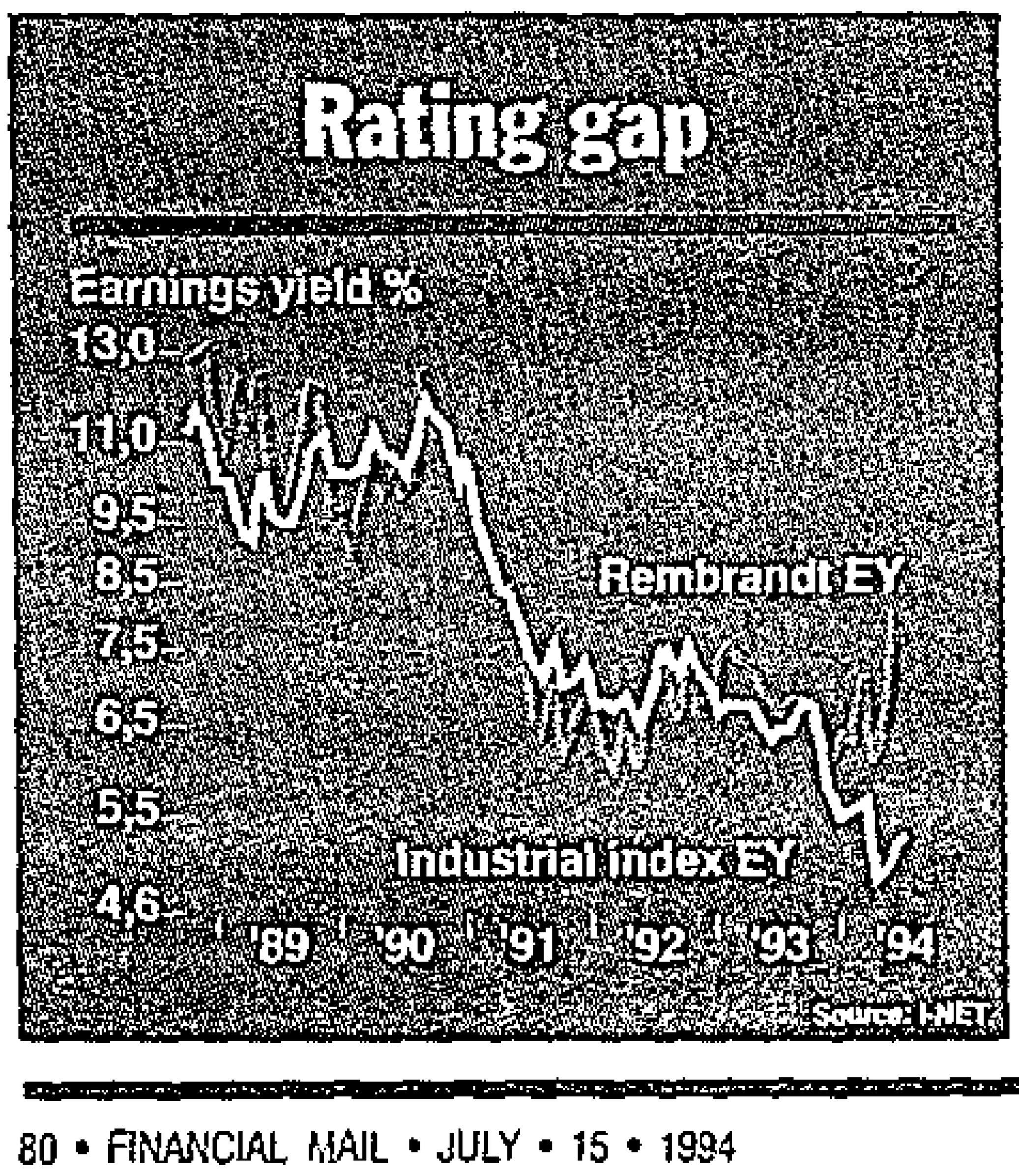
| Year to March 31 | '91 | '92 | '93 | '94 |
|---|---|---|---|---|
| ST debt (Rm) | 113 | 33 | 71 | 79,4 |
| LT debt (Rm) | 89 | 196 | 293 | 603,5 |
| Debt:equity ratio | 0,5 | 0,3 | (0,2) | (0,4) |
| Turnover (Rm) | n/a | n/a | 4 349 | 4 701 |
| Pre-int profit (Rm) | 1 032 | 1 164 | 1 321 | 1 413 |
| Net income (Rm) | 865 | 941 | 956 | 1 049 |
| Earnings (c) | 166 | 180 | 182,1 | 200,9 |
| Dividends (c) | 30 | *32,6 | 36,2 | †43,4 |
| Tangible NAV (c) | 885 | 1 055 | 1 343 | 1 681 |

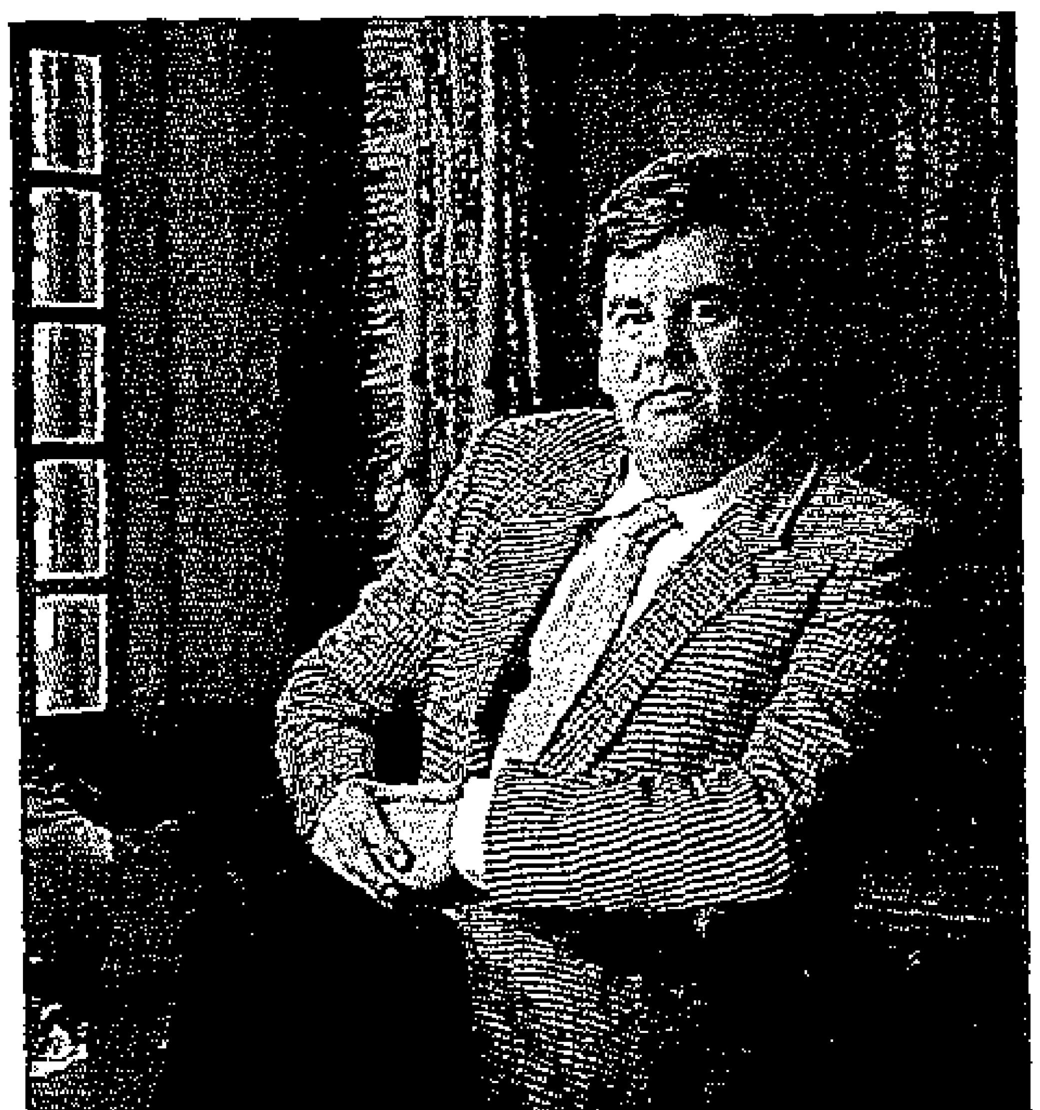
* Excludes special dividend of 30c. † Excludes special dividend of 14,5c.

**This group** continues to boast some exceptional strengths: steady, double-digit earnings and dividend growth, a dominant share of the tobacco products market, powerful cash flow and high liquidity. Yet the share has recently been a laggard.

Based on earnings yield, it now stands at a marked discount to the JSE Industrial index for the first time since the sharply favourable rerating of Rembrandt in early 1990, when the market recognised the quality of operations that remained after the unbundling of Richemont in late 1988 (see graph).

The index has been driven this year partly by the renewed interest in cyclical and other recovery stocks whose profits could swing sharply upwards in an economic upturn. This may have contributed to the consistently performing Rembrandt losing favour. But





**Rembrandt's Rupert** ... *cigarette consumption fell 3%*

two other factors have also dampened sentiment: concerns ahead of the Budget about potentially stringent increases in excise duties on tobacco products; and disquiet about the investment portfolio, which, some analysts say, is viewed as unfocused and holding too many poor performers.

Higher duties announced in the Budget were nowhere near as large as some had feared. Analysts estimate the impact on retail prices of cigarettes at 5%-6%, hardly enough to curb sales significantly. This is not to say there won't be further increases later; experience overseas has shown that sales of tobacco products are not insensitive to price. As the table shows, Rembrandt's trade mark group, mainly comprising the tobacco operations, contributed just over half total earnings last year. So their profitability and cash generation remains crucial.

However, if markedly higher duties are to be phased in over several years, as appears to be the intention, Rembrandt should be able to cushion the effects by improving productivity and striving to increase its already dominant market share. This seems to have been the approach management adopted over the past year.

Chairman Johann Rupert says cigarette consumption in the local market fell by 3% over the period, though the tobacco division maintained, and even slightly improved, its position in the market. Industry price increases were restricted to 7,7% in nominal terms; but cost increases, particularly for tobacco leaf and imported materials, were significantly higher.

Rupert adds the division's operating income remained "relatively static" because of adjustments to marketing expenditure and the continued control of overheads. A lower effective company tax rate was behind the division's 18,8% rise in attributable earnings.

"Prospects for the tobacco division are still uncertain and as yet there has been no evidence of a consumer-led revival," he says. "Productivity and cost containment measures will remain a priority in the coming year."

Mining interests, with 20,9% (1993: 25,2%), are the next largest earnings contributor, though these figures are heavily affected by the unbundling of Gencor. Non-mining interests formally held by Gencor — Rembrandt now directly holds 6,8% of Engen, 7% of Malbak and 5,1% of Sappi — are no longer included in this division. Also, after Gencor's change in year-end from August to June, only four months of its attributable income was taken into Rembrandt's half-year to March.

The other major mining investment, Gold Fields (effectively 17,2%-held), lifted its EPS 11,4% in the six months to December, thanks to the higher rand gold price. But its dividend remains on a plateau.

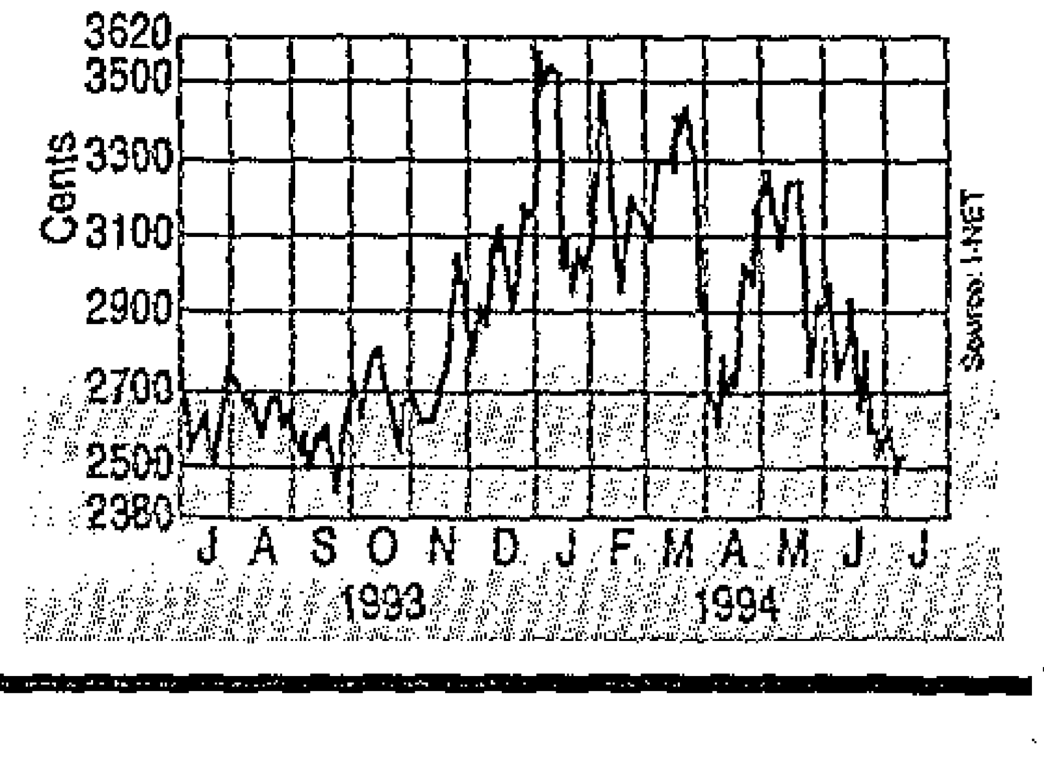
The industrial interests — 11,1% of earnings — rose 27,4%, partly on the turnaround by Rainbow to R17m earnings after a R77m loss. But profitability of much of the industrial portfolio remains low and is capable of much greater recovery. Only dividends will be taken in from the Engen, Sappi and Malbak holdings. And their first dividends declared after the unbundling will only be accounted for in the year to March 1995.

Earnings from financial services (8,2% of the total) dropped 3,4% largely because of the weak performance of 9,9%-held Absa. After disposals of SBIC, Momentum Life and, last year, Boland Bank, the only other stake here is 18,3% of Sage Group, whose fully diluted EPS rose 20%.

Another 9,5% (R99,8m) of group earnings was derived from corporate and other interests, primarily the services and treasury divisions.

Net cash inflow, after dividends paid and investments, totalled R154m (1993: R137,6m). However, both the operational cash flow and disposals have resulted in year-end cash resources ballooning to R987,m (1993: R517m). Much of this is

**Rembrandt**



igs
n

capital projects
g Alusaf, Colum-
ds and the Oli-
ater treatment
irg.
been awarded a
ojects, including
i to Fairbreeze
of the North
- which we are
h venture with
the rate of eco-
second half of
onfident that we
ieve growth in
ds," he said.
ernment's low-
es should pro-
ncreased activ-
n industry, but
mpanies were
fingers burnt a
is no clarity on
al and regional
moving in, but
major player in
once they got

ors 'set
s out'

D WEST

— SA inves-
te in UK group
likely to be di-
t 17% because
ity to follow
a £93m issue,
Jeffrey Her-
terday.
ssue would be
tly finance
30m acquisi-
the Swedish-
itional weld-
group Esab.
ild be offered
four basis at
tion was ex-
than double
arter.
local inves-
said they
ble to follow
ause of local
ge controls.
biggest local
he said, in-
Life, with a
anlam, with
lay, Charter
count on a
Esab.
rter would
ler its bid if
ugust it did
Esab, but "I
academic

# Malbak could get 5% growth

YURI THUMBRAN

CONSUMER holding group Malbak could achieve a 5% growth rate for the financial year to August, analysts said yesterday.

Executive chairman Grant Thomas said the group had aimed at a growth rate of between 1% and 5% since its half-year results were announced earlier this year.

"We predicted a modest increase in earnings per share for the year ending Agust 31." B/Day 19/7/94

Thomas was optimistic Malbak could recover gradually as the company felt the positive effects of the economic upturn.

He said results for the second half of the financial year had been difficult to predict in view of uncertainty surrounding the election period.

"The election went much better than expected, while the new government has settled in without major problems."

One analyst said he expected a "mixed bag" from Malbak at group level. He predicted that its food arm, Foodcorp, its branded consumer products led by Ellerines and its health care outlet SA Druggists would make a sound contribution to Malbak's income base.

But packaging and paper company Holdains was not expected to add much to Malbak's earnings for the financial year.

Thomas said the economy showed signs of a return to real growth. 180

Another analyst said Malbak was on target for a growth rate of 5%. He said Malbak had been affected by constrained consumer spending which had caused pressure on sales volumes and operating margins.

"This has had a major effect on Malbak's operating performance," he said.

Malbak's ruling price yesterday was 1900c a share, which is 300c off its annual high, but 775c higher than its previous low recorded in October.

267

# Chemserve increases attributable profit 20%

B/Day 19/7/94

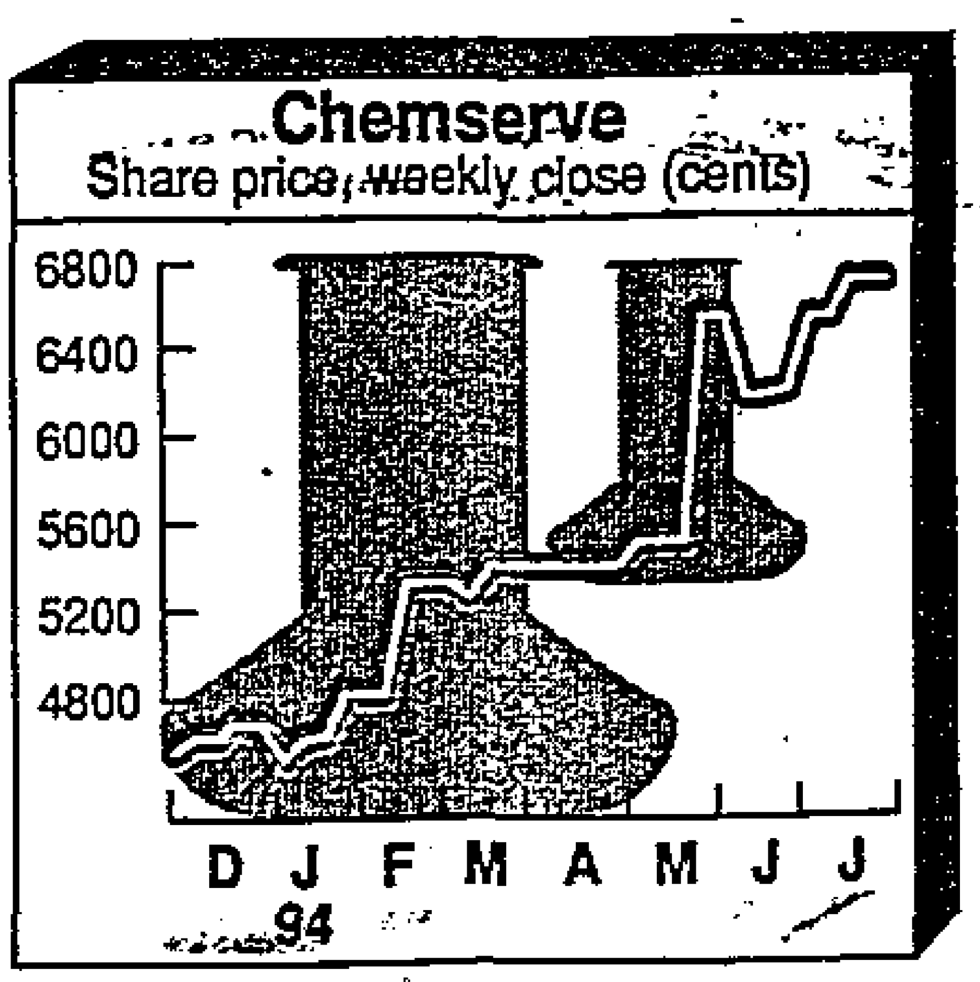
ROBYN CHALMERS

SPECIALITY chemicals group Chemical Services (Chemserve) boosted attributable profit 20% to R13,1m (R10,8m) for the six months to June against a background of lacklustre trading conditions.

The organisation went on an acquisition spree during the last financial year and carried out major restructuring to counter the effects of the prolonged recession.

Earnings rose 20% to 203c from 169c a share and an interim dividend of 66c against 60c was declared. Directors were confident that forecast earnings of 470c (402c) a share for the full year and a dividend of 170c (155c) would be achieved.

A 39% hike in turnover to R340,1m (R245,2m) was achieved largely on the back of new businesses acquired during the second half of the previous year. These accounted for 25% of the increase while the group's traditional operations recorded a rise of 14% in turnover and 8% in physical sales volume.




Trading profit rose almost a third to R31m but the trading margin declined to 9,1% from 9,7%. MD Lex van Vught said this was the result of a change in product mix to lower-margin distributed goods and the continued underperformance of two new acquisitions.

"Holpro Fine Chemicals and Saarchem operate in the chemical distribution and trading business, where margins are traditionally low. We were aware of this when we bought the companies and both firms have been restructured which we believe will result in an improved performance by year end," he said.

An effective tax rate of 41,5%, including the transition levy, left the tax charge at R11,3m against R9,4m previously. Post-tax profit rose to R15,9m from R12,7m.

Van Vught said the trading environment during the half year was not particularly exciting, and the expected economic benefits of a successful transition had not yet filtered down.

"We had significant success in the export market and although exports will never be a big facet of the business, we are seeing increased demand from Africa and South America," Van Vught said. Exports made up 6% of Chemserve's sales against 3% two years ago.

# SABS chief warns of muddle over standards

(180) ARG 21/7/94

Business Staff

DURBAN. — Concern is mounting that the way in which some European industrial standards certification organisations operate in South Africa threatens the credibility of International Standards Organisation (ISO) accreditation.

Opening an expansion at the Island View Storage tank complex at Bayhead, Durban, SA Bureau of Standards president Jean du Plessis said some European organisations were offering cut-price ISO audits.

"Just a small firm can take four or five audit days to be assessed for the ISO 9000 mark and I have seen one of these European groups advertising their services at a total of R2 000," he said.

"That works out at about R10 or R12 an hour and if you believe you can get a proper audit for that price, then you believe in fairies."

Without integrity, the ISO 9000 quality mark would increasingly lack integrity, cease to have any standing in foreign trade and "ultimately die".

Dr Du Plessis said South Africa was a leading ISO nation, with about 1 300 companies holding the ISO 9000 accreditation.

The SABS retained membership of the technical committee of the ISO at "great expense".

A revision to the ISO 9000 was expected to be published within about the next month and the SABS would hold half-day seminars around the country for holders and companies working towards accreditation.

SAFICON Fm 22/7/94

# Benefiting from cost cuts

**As if** to emphasise its revival, Saficon's 15c dividend for financial 1994 was 1c higher than 1993 earnings. That highlights the depths which this motor and merchant trading group plumbed and also proclaims the extent of the recession. (180)

At face value, Saficon's 1994 results must give chairman Sidney Borsook cause for satisfaction. Turnover rose 6,4% to R2,9bn but operating profit soared R20,4m or 42% to R68,7m. That rise goes right through the income statement. Interest paid fell R6m and not even a tax bill nearly double 1993's could take the shine off the attributable line: R22,5m against 1993's R5,1m.

I would like to say the balance sheet is stronger — and it is in many areas. But the drawback lies in borrowings. Long-term loans are R9,8m (R34,1m), short-term R89,6m (R3,2m). So not only has total interest-bearing debt mushroomed to R99,3m (I'm startled when indebtedness nearly trebles in a year), its composition has changed materially. When the *FM* wrote on the preliminary results (*Fox* June 18), we drew attention to this and to the inevitable change in gearing, which has moved from 1993's 14:1 to 34:1. Borsook's response was that though it has grown, it has to be seen in the context of total debt of R553,6m (1993: R514,2m). (180)

Fm 22/7/94

**Activities:** *Trades motor vehicles, manufactures components, controls building materials supply and manufacturing company Boumat.*
**Control:** *Sakers 50,4%.*
**Chairman:** *S Borsook; CE: K J Hipper.*
**Capital structure:** *35,8m ords. Market capitalisation: R268,5m.*
**Share market:** *Price: 750c. Yields: 1,9% on dividend; 8,4% on earnings; p:e ratio, 11,9; cover, 4,2. 12-month high, 850c; low, 260c. Trading volume last quarter, 345 000 shares.*

| **Year to March 31** | **'91** | **'92** | **'93** | **'94** |
|---|---|---|---|---|
| ST debt (Rm) | *66,8 | *64,9 | *96,9 | *144,1 |
| LT debt (Rm) | 17,0 | 17,8 | 34,1 | 9,8 |
| Debt:equity ratio | 0,51 | 0,39 | 0,14 | 0,34 |
| Shareholders' interest | 0,29 | 0,30 | 0,36 | 0,34 |
| Int & leasing cover | 2,1 | 2,0 | 1,5 | 2,4 |
| Turnover (Rm) | 1,46 | 1,53 | 2,70 | 2,88 |
| Pre-int profit (Rm) | 55,3 | 44,8 | 48,3 | 68,7 |
| Pre-int margin (%) | 3,8 | 2,9 | 1,8 | 2,4 |
| Earnings (c) | 49 | 53 | 14 | 63 |
| Dividends (c) | 14 | 13 | 4 | 15 |
| Tangible NAV (c) | 542 | 586 | 602 | 650 |

* Includes capitalised finance leases.

**Saficon's Borsook** ... *an innovative owner-manager*

P.T.O.

SERVGRO

FM 5/8/94

# Ready for pickup in spending

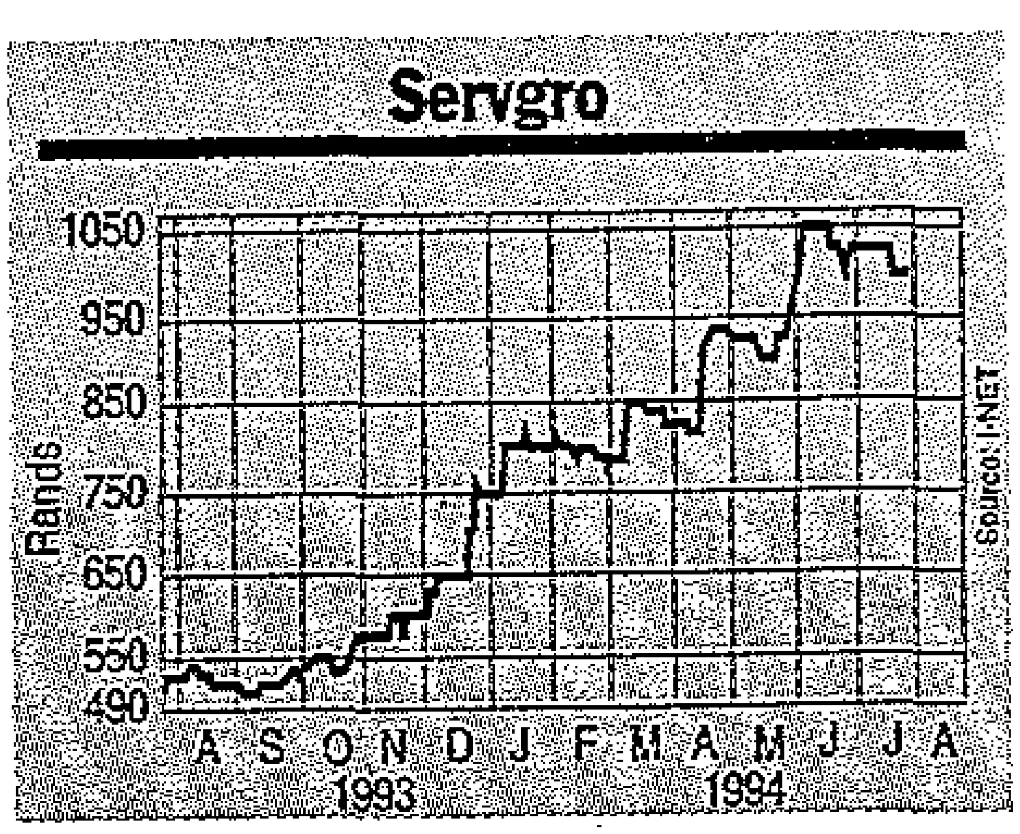
(180)

**Activities:** *Services group, with interests in: Avis 85%; Price Forbes 48%; Fedics 48%; Teljoy 48%; Interpark 43%; Interleisure 40%; Naspers 22%.*
**Control:** *Sankorp 70%.*
**Chairman:** *P J J van der Walt.*
**Capital structure:** *110,4m ords. Market capitalisation: R1,1bn.*
**Share market:** *Price: R10. Yields: 2,1% on dividend; 5,3% on earnings; p:e ratio, 18,8; cover, 2,5. 12-month high, R10,50; low, R5,10. Trading volume last quarter, 2,7m shares.*

| Year to March 31 | '91 | '92 | '93 | '94 |
|---|---|---|---|---|
| ST debt (Rm) | — | 39,5 | 39,9 | 37,1 |
| LT debt (Rm) | — | 39,9 | 41,8 | 49,0 |
| Debt:equity ratio | — | n/a | n/a | n/a |
| Shareholders' interest | — | n/a | 0,52 | 0,57 |
| Int & leasing cover | 8,0 | 7,5 | 8,0 | 7,0 |
| Return on equity (%) | n/a | 16,2 | 17,3 | 13,9 |
| Return on cap (%) | n/a | n/a | 13,7 | 11,8 |
| Turnover (Rm) | 725 | 811 | 921 | 966 |
| Pre-int profit (Rm) | 82,4 | 100,2 | 117,8 | 121,8 |
| Pre-int margin (%) | 11,4 | 12,4 | 12,8 | 12,6 |
| Earnings (c) | 34,6 | 41,3 | 47,2 | 53,3 |
| Dividends (c) | 16,0 | 16,7 | 19,0 | 21,0 |
| Tangible NAV (c) | n/a | 255 | 273 | 383 |

**The strong** rerating of Servgro's share — it trades at slightly more than double the price of a year ago, after a fairly flat performance since listing in August 1992 — is supported by the 1994 results.

But one suspects the share price also contains a strong element of discounting against future growth. There is potential for Sankorp's collection of quoted and unlisted services businesses, focused on leisure, communication and tourism through Servgro, to perform well this year. But that will depend partly on better results from 40%-held Interleisure and, to a lesser extent, Teljoy.




Interleisure accounts for about 22% of Servgro's attributable profit of R58,9m, the largest contributor except for risk management and insurance services group Price Forbes (30%).

Turnover showed satisfactory growth but earnings were held at the previous year's level due to substantial investments, mainly in Ster-Kinekor. The high investment meant additional operating and finance costs as well as depreciation.

**Servgro's van der Walt** . . . *second half looking better*

Interleisure MD Mike Egan says the core away-from-home entertainment business suffered from the continuing violence in SA; results would benefit if a reasonably peaceful and stable environment can be achieved.

Action has already been taken. Executive chairman Peet van der Walt says some interests have been sold, including the Mike's Kitchen chain of franchised operations, for an undisclosed amount, and the company's 50%-interest in Video Magic for just over R20m.

"We are refocusing the company, concentrating on cinema and film production operations. This will require high capital spending but growth prospects look considerably better," Van der Walt says.

New developments this year include a R20m entertainment centre at Sandton City and the opening of Ster-Kinekor's first complex in Soweto, at a cost of about R2,5m. Interleisure expects growth in operating profits for its current financial year (the year-end is in June), which will be helped by growth in the economy.

Generally, that's what Servgro needs. Van der Walt says consumer spending in the reporting period remained depressed. Once again, violence and political uncertainty around the election period had a negative effect on tourism and travel, which dampened demand for group interests in car rental, catering and hotels.

Van der Walt notes evidence of an improvement in the second half. "Teljoy has produced better results (see separate report), car rentals are picking up strongly, and all the other businesses have performed well," he says.

Though the coming listing of Nasionale Pers, in which Servgro has a 22% interest, will not have immediate, direct benefits for the group, a market valuation of the shares should see Servgro's investment appreciate substantially.

The last valuation of Nasionale shares — at R70 — made Servgro's holding worth R160m. Van der Walt says the value after listing is expected to be about R300m.

Servgro will continue to reflect the Nasionale investment through dividend income, which should improve after the listing. Nasionale's dividend is now covered more than 10 times.

Other new developments, much in line with parent Sankorp's recent thinking, is the development of joint ventures with black business groups. Van der Walt says Fedics has entered into two joint ventures with black partners — Teljoy also has a joint venture agreement.

Servgro is well positioned for expansion. It is ungeared and is holding R50m cash at the centre, which Van der Walt says is available for investments.

Another strong feature is Servgro's cash generating ability. Cash from operations increased 61% to R130,9m, which, after the dividend payment, saw R94,2m retained.

Growth in the share price might slow down after the surge since November. But prospects appear to be good. Servgro expects real growth in earnings this year, which will be enhanced by an improvement in consumer spending. On a p:e of 19,7, against a sector average of 32,2, the share seems to offer fair value.

*Shaun Harris*

# Amic on the road to higher earnings

BDay 11/8/94

MICK COLLINS

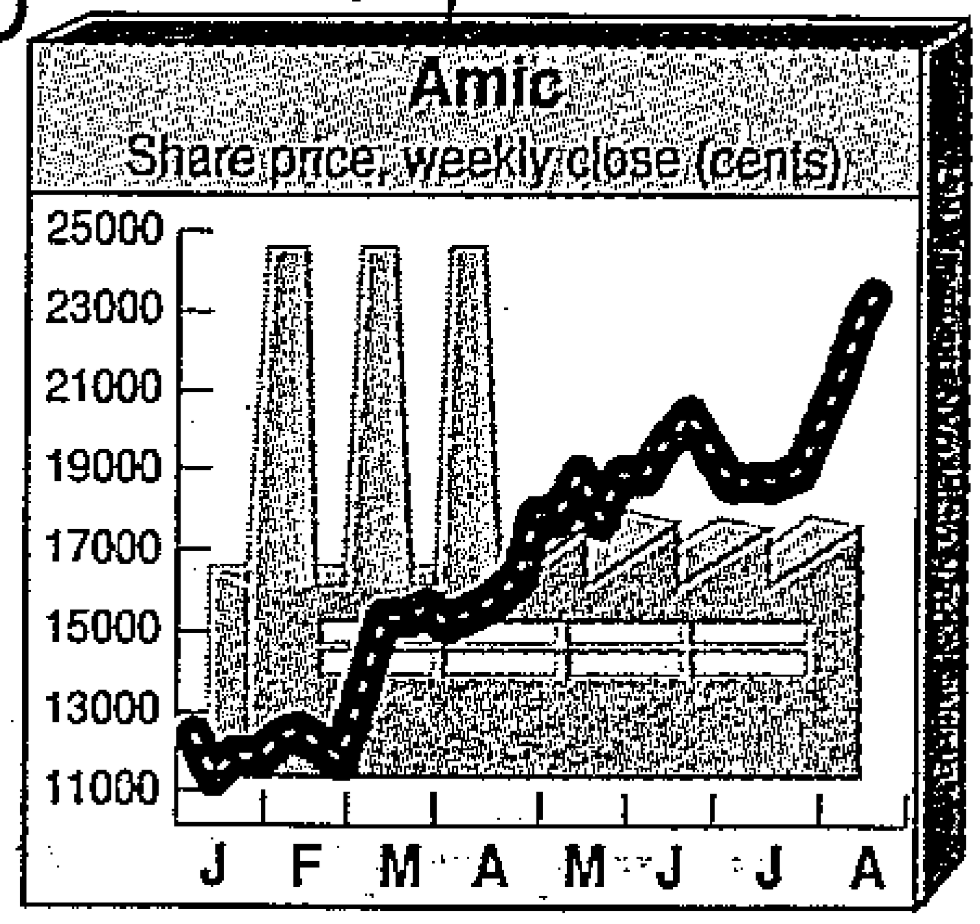
AN UPTURN in trading activities saw Anglo American Industrial Corporation (Amic) bolster attributable earnings 75% to R278m for the six months to June.

Turnover, which incorporated AECI's as a subsidiary from January 1, almost doubled to R7,6bn after a strong upswing in international mining and commodities markets. For the first time in four years the group raised its interim dividend, lifting returns 20% to 132c.

Amic, which derived its earnings from the paper, engineering, construction, petrochemical and stainless steel industries, said subject to labour stability, earnings for the year would increase significantly.

Earnings a share rose 60% to 434c. The company issued additional shares to buy Anglo's holding in Tongaat-Hulett and for the recent capitalisation issue in lieu of a final dividend. (180)

Chairman Leslie Boyd said the improving business climate lifted trading margins




42% to 5,7% and operating earnings (including AECI's) to R438m (R155m in 1993). Building group LTA's results were incorporated for the full six months and its earnings showed a 13% rise to R17m.

Substantial improvements from all group operations saw pre-tax profit jump 89% to R468m. Amic's tax charge rose to

☐ To Page 2

## Amic

BDay 11/8/94

☐ From Page 1

R74m from R31m. The group's debt-to-equity ratio increased from 17% to 30% after the consolidation of AECI and also because of continuing capital expenditure on the Columbus project. Cash and deposits were up 27% at R883m. (180)

Capex for the period amounted to R447m, of which R301m was spent on new projects and the balance on replacements.

Boyd said the second half of the year had started with a series of confrontations and strikes across a broad spectrum of commerce and industry. As Amic's operations were "heavily involved in exports to world markets" the group was "well aware of wage rates and productivity levels" in competitor countries. "In part this will require that increases in salaries and wages be held to inflation or slightly above, provided there is an increase in productivity."

Major contributor AECI lifted earnings 34% to R82m and said turnover growth in subsidiaries was good, with exports increasing significantly. Following the success of a joint venture with Sasol in Polifin, a decision was taken to invest R600m in new production facilities.

Tool manufacturer Boart increased earnings 182% to R33,6m. Strong growth was reported from the North American and Australasian operations.

Earnings at Highveld rose 78% to R49,2m and despite a mixed export performance, local steel sales improved. The R3,4bn Columbus expansion project was expected to be completed on time and within budget. The Transalloys division worked at 80% capacity for the period and Rand Carbide at full capacity.

Increased demand saw paper company Mondi's earnings rise 169% to R88m. Demand and prices were expected to remain firm in the second half. Profit for the year would show a significant improvement on 1993's. Scaw Metals reported a 21% improvement in earnings to R55m.

Abnormal income — the reduction in deferred tax provisions — offset by the one-off 5% transitional levy, amounted to R7m. This, with R90m in abnormal credits from 1993, was set aside to make provision for pensioners' and employees' unfunded post-retirement medical aid benefits.

# Industrial surge boosts Amic earnings

Star 11/8/94

**BY DEREK TOMMEY**

Industry is making good money again after four hard years of recession.

The Anglo American Industrial Corporation (Amic), which is highly representative of local industry, reports a 183 percent increase in its operating earnings from R155 million to R438 million in the six months to June.

If the earnings of AECI, which became a subsidiary in January, are excluded, the increase was 91 percent, says chairman Leslie Boyd.

Attributable earnings rose 75 percent from R159 million to R278 million, while earnings a share rose 60 percent from 272c to 434c.

The interim has been raised to 132c a share after remaining at 110c for four years.

Boyd says there are clear signs of improving growth in domestic markets and world markets appear to have moved into an upswing.

(180)

Most operations are close to or at capacity, and further earnings growth is expected.

However, because of a jump in earnings in the second half of last year, it is unlikely that earnings growth of the review period will be repeated for the full year.

The only dark cloud is possible industrial action. But Boyd is confident that current negotiations between Seifsa and Numsa will be ratified.

Japanese businessmen refer to annual wage negotiations in March as the spring offensive.

With most wage settlements in SA negotiated in June and July, Boyd says South Africans should label the time their winter offensive.

Because of the increased cost of medical care, Amic plans to provide about R90 million by the end of this year to cover its liabilities for pensioners.

# Acquisitions give boost to Bidvest

BiDay 15/8/94

BEATRIX PAYNE

INDUSTRIAL holding group Bidvest reported a 141% surge in attributable income to R89,9m for the year to June as acquisitions and organic growth boosted profit, group chairman Brian Joffe said at the weekend.

Joffe said the results were "highly satisfactory but not as good as they could be" given the continued pressure on margins from a loss of trading in the run-up to the elections and "tough" trading conditions.

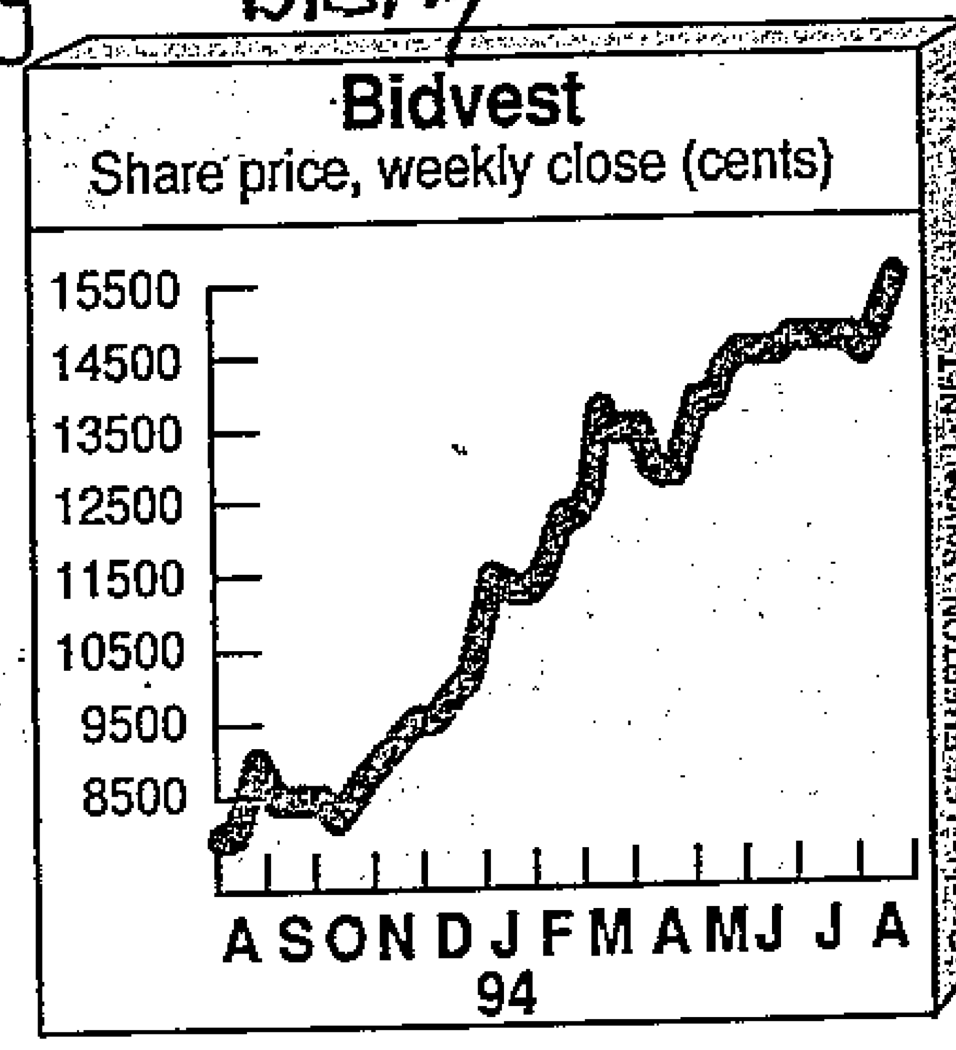
The services, packaging and freight group reported undiluted earnings 61% higher at 891c (552c) a share.

Turnover more than trebled to R2,5bn (R775m) after the group acquired freight clearing and forwarding company Safcor for R263m last July. The group also bought pest control and office cleaning company Prestige for R31m early in the year.

Operating income rose 67% to R118m and finance income rose to R20m (R10m).

Debenture interest payouts rose to R17,4m (R10,2m) which left pre-tax income 144% higher at R120m. (180)

The tax bill jumped to R26,3m (R10m) after an increase in the tax rate from 20,5% to 25,6%. A transition levy payout of R4,5m left net income more than double the previous year's at R89,9m (R39,3m).




The group reported extraordinary income of R1,6m which represented the disposal of cosmetic group Justine and an adjustment to deferred tax due to the change in the normal company tax rate.

To Page 2

## Bidvest

BiDay 15/8/94

From Page 1

A final dividend of 160c (112c) was declared bringing the total dividend for the year to 302c (210c).

Cash on hand rose to R296m (R190m). Joffe said the group was shopping around for suitable acquisitions but had no specific timetable. (180)

"We won't be rushed into an acquisition unless we feel it's right — R250m is a lot of money to make a mistake with," he said.

But executive director Georg Demetriades said "the sooner we find a good investment the better" as falling interest rates meant the cash holding was punitive and the money would be better invested in the group.

The group was considering the possibility of setting up "reciprocal" arrangements with offshore interests in the US but this was still at a very early stage, Joffe said.

He said future economic prospects and the expected rise in tourism should result in better growth in 1995.

Joffe said all divisions had performed satisfactorily under challenging circumstances.

Safcor had performed "according to expectations" but the low-margin nature of the business had reduced the group's overall operating margin. This had been compensated for by the high volume of business generated.

The newly formed cleaning services division Bidserv had performed "well" and Prestige Cleaning and Pest Control had made a significant contribution to the group's results.

Packaging and fastening division Bidpac had been bolstered by the R23m acquisition of GE Hudson during the second half but food and catering ware division Cater Plus had borne the brunt of "difficult trading conditions."

Bidcorp, which held 74% of Bidvest, saw attributable income rise to R66,4m (R28,3m) and earnings a share almost doubled to 426c (288c). A final dividend of 83,25c was declared.

# Amic says joint venture will create 10 000 jobs

BDay 16/8/94

MICK COLLINS

ANGLO American Industrial Corporation's (Amic's) planned R650m television tube venture with Korean group Daewoo would create more than 10 000 jobs indirectly and 590 directly, Amic said yesterday.

Amic's new business consultant Laurie Olivier said "convincing" benefits also included foreign exchange savings, lower consumer prices and the development of a substantial export industry.

He said without the proposed Amic/Daewoo programme the local TV industry faced almost certain closure due to the switch to full TV imports which would result in the loss of several thousand jobs.

Successful implementation of the new programme would not only conserve these jobs but would also create new jobs within the colour picture tube (CPT) plant itself and in spin-off industries.

Due mainly to electrification and a growing replacement market, TV demand had broken out of the 200 000 to 300 000 unit-a-year levels which had prevailed for the past 15 years.

Market levels exceeded 600 000 units last year.

Without a "serious" localisation programme, the industry could become a drain on foreign reserves in excess of R500m a year by the turn of the century. The proposed new programme would not only lead to a major reduction in forex outflows but would lead to the development of a strong export industry.

180

Olivier said that assuming government sought to retain its income from the industry, the proposed new programme would lead to lower average TV prices over a 10-year period.

This would be made possible due to the taxes associated with the higher local value added, and taxes arising from the economic activity generated by the CPT facility related to export production.

The proposed venture "would allow for the further localisation of TV components which could result in the local content of the SA-made TV reaching levels of the order of 70% to 80%, on par with that of many TV producing countries", he said.

The required economies of scale were now available to the local TV component manufacturing industry, allowing it to achieve international competitiveness in line with the General Agreement on Tariffs and Trades programme.

Major export markets would be Africa, South America and, to a lesser extent, western Europe.

Olivier said a start-up duty of 60% would be required initially to put the SA CPT plant on a level playing field with its international competitors.

The start-up protection would offer a local CPT plant the opportunity to compete against already depreciated plants, and once depreciated the plant should be competitive in its own right.

# Manuel tells of industrial restructuring plans

**Political Staff**

TRADE and Industry Minister Mr Trevor Manuel indicated yesterday that he would be taking a hard line on special interest groups, saying the GATT minimum requirements would be insufficient to place the SA economy on a competitive footing.

Addressing the Trade and Industry budget in parliament, Mr Manuel appealed to business, labour and politicians from all parties to support a programme of industrial restructuring.

Notwithstanding a major partnership towards industrial efficiency "there is no escaping the fact that in the process of leading the changes, we will run the risks of a significant reduction in popularity", he said.

He pointed out that SA's GATT submission had been negotiated by the National Economic Forum and that the Reconstruction and Development Programme document had noted that the agreement would be "painful".

Mr Manuel made the comments following announcements that it was intended to substantially cut benefits paid out in terms of the general export incentive scheme (GEIS).

Mr Manuel said GEIS had served a useful purpose but new circumstances demanded that the scheme be "redirected" once the initial five-year period ended on March 31 next year. CT 24/8/94

The scheme entailed certain "fundamental imbalances", for example that only 30 exporters received 53% of the GEIS benefits costing R1,06bn. Z (180)

The government would be leading a process with business and labour to create a more competitive environment, which would be at the very centre of the introduction of policy, he said.

# SA must move to manufacturing if it is to prosper

BIDay 25/8/94

**TREVOR MANUEL**

180

CONTRARY to perceptions that SA's economy has gradually industrialised, moving from a mining-based economy to greater diversification based on manufactured products, statistics show otherwise. In the 1993/94 financial year, 63,7% of SA's R79,5bn in exports were either primary or primary processed products.

With the mega stainless steel and aluminium projects coming fully on stream in the next few years, the contribution of primary and primary processed products to our exports will increase substantially.

With 6-million people unemployed, it is imperative that this trajectory be shifted. We need to move downstream and raise the export share of manufactured products to a far greater extent.

The siege economy we inherited was based upon import replacement policies which have been implemented behind high tariff walls. The relations between government and business have been characterised by the norm of protection on demand; conscious choices were made in favour of "strategic" capital-intensive projects at the expense of jobs, and the patterns of concentration of ownership has dulled the markets. With the exception of a few sectors, the SA manufacturing industry is not internationally competitive. Trade and industrial policy is incoherent.

Productivity considerations have largely been neglected in apartheid industrial policy decisions, or have been based on a narrow concept of factor productivity. Much of the policy thrust was on driving down real wages, and this has locked the economy into a low-skill, resource-based dependence.

The concept of productivity goes beyond the standard measure of factor productivity and includes the simultaneous consideration of wages, training, skills, grading and work organisation in policy formulation. Raising productivity will be an important objective of my department's industrial policy, and the development of human resources, with the transformation of work organisation, will be a key strategy in achieving this.

Human resource development objectives will be pursued along with processes that aim to democratise the workplace, allowing the full potential of skill enhancement to be realised. Support will be given to affirmative action programmes.

The education system has failed to produce sufficient numbers of appropriately skilled people to meet the needs of our industrialising economy. More emphasis will need to be placed on developing technical and vocational skills across formal and informal segments of the economy.

A second set of problems lies outside the formal education system. It is bound up in existing skills which are the product of industrial experience. This is exacerbated by the managerial and control structure of industry, particularly the distance between strategic levels of management and those responsible at the shop floor, where prevailing attitudes often (mis)treat labour as a cost rather than as a resource.

Coupled with this is the legacy of racism which continues, in some cases, to exclude competent black and female semiskilled, skilled and professional workers from meaningful participation in economic activities. Skill potentials have also been suppressed by the failure of industry to provide adequately for industrial training and education.

The success or failure of the shorter-term programmes that are proposed to address these problems will be difficult to measure unless an explicit link is made between human resource development, work organisation, managerial authoritarianism and productivity enhancement.

Two objectives will be pursued simultaneously in addressing these problems. First, the introduction and diffusion of contemporary, productivity enhancing workplace organisation will be encouraged. While much of this will be determined at the factory floor and in workplace and sectoral negotiations between trade unions and employers, the state has an important role in more effectively co-ordinating the various institutions that can support this process.

MANUEL

Secondly, a well-organised and coherent industrial relations system capable of integrating skills and training systems, remuneration and industrial restructuring will be actively encouraged. Support will be given to transforming the industrial training system into one which promotes the transfer of skills across industrial sectors.

Even if we had the option of retaining past norms, the situation would deteriorate as the economy became less able to absorb labour. Such luxury does not exist. On April 15 SA became a signatory to the Uruguay Round of the multilateral trade negotiations, the Marrakesh Agreement. The key elements of the agreement, a 400-page document, can be summarised as: liberalisation of international trade by way of a lowering of import tariffs and the elimination of non-tariff measures; strengthening of international trade rules, for example new agreements on subsidies and anti-dumping measures; and new agreements on subjects not previously covered by GATT, namely trade in services, trade-related aspects of intellectual investment measures.

These agreements will affect virtually all aspects of SA's foreign trade and they will have a direct bearing on the competitiveness of industries. SA has now been fully integrated into the international trading community and will have to adhere to all the rules and regulations in this regard.

SA's offer to the Uruguay Round was a product of interaction within the National Economic Forum. Labour, business and government are therefore equally bound by this agreement.

The objective of merely holding to the minimum requirements of GATT are insufficient to place our economy on a competitive footing. Addressing this demands that we eliminate distorting factors which affect our manufacturers negatively.

The removal of import surcharges on capital and intermediate goods as announced by Finance Minister Derek Keys in the Budget on June 22 is a healthy start, but clearly insufficient. We must deal with import controls, high import tariffs in certain sectors and direct cash export subsidies such as the general export incentive scheme if we want our industries on an even keel.

The next period must therefore see government leading a process with business and labour to create a more competitive environment. Such a drive towards competitiveness should be at the very centre of the introduction of policy, bringing together, at one level, trade and industrial instruments and, on another level, strengthening the linkages between the process and organisation of production, the development of the nation's human resources and the introduction of appropriate and leading edge technologies.

At the same time, our focus should shift downstream of mining and beneficiation towards the more labour-intensive forms of industrialisation. This is the only way to ensure that this country does not become an economic backwater.

**☐ This is an edited extract from Trade and Industry Minister Manuel's address to Parliament on Tuesday.**

# W&A shake-up helps trim losses

B/Day 26/8/94

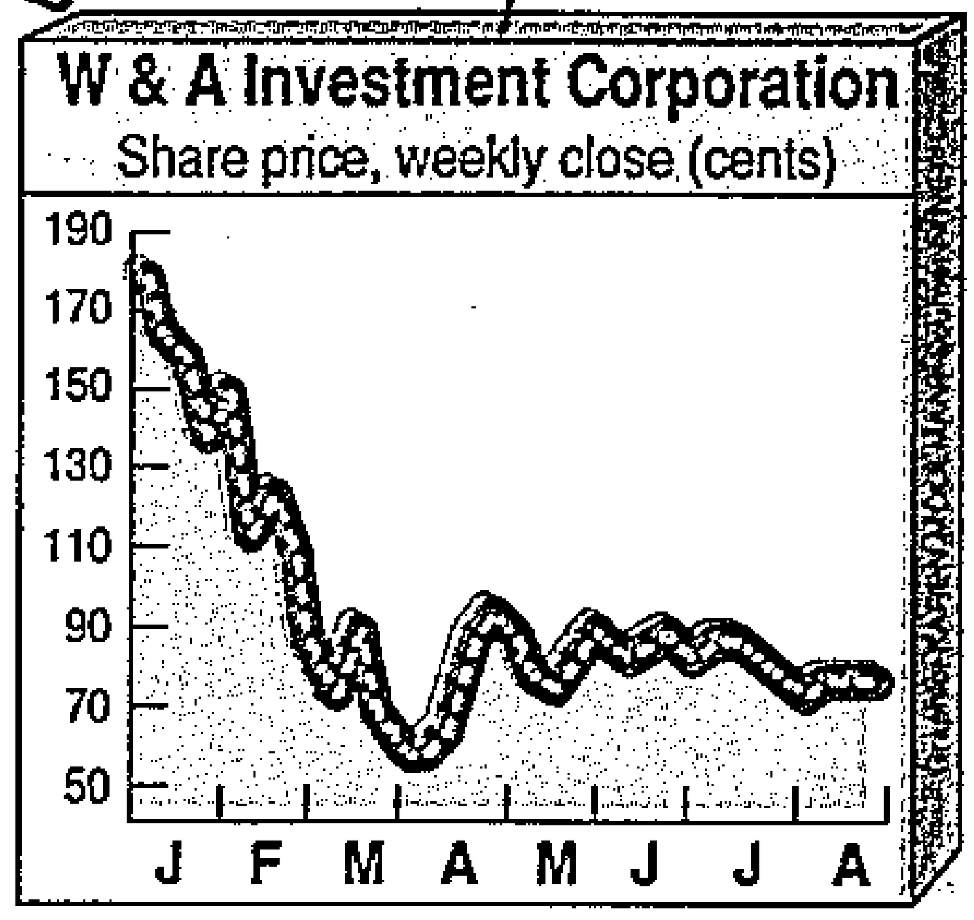
BEATRIX PAYNE

STRUGGLING investment holding group W&A Corporation has posted attributable losses of R39,6m for the six months to June, from a restated loss of R117,2m in the same period last year, signalling that its rehabilitation efforts are bearing fruit.

The group, which in February shook up senior management and began a hasty disposal programme, managed to slice R490m from its R1bn debt burden, executive chairman Raymond Hasson said yesterday. The company should approach operating break-even in the second half. It had "gone a long way toward the completion of the first phase of our recovery plan", but gearing, at 125,9%, was still too high. This would be attended to in the next phase, he said. (180)

Market sources said this pointed to an imminent rights issue.

The group, which Hasson said would focus on rebuilding core businesses, reported a fall in turnover to R1,5bn (R1,6bn restated), but despite lost trading days during the election period, operating profit of R54,9m (R53,5m) was "slightly ahead of budget and marginally better than last year's figures.




Interest paid fell 38% to R77,8m. This included a R19m payout for interest on the group's convertible debentures.

The group reported a pre-tax loss of R22,9m (R73m). The tax bill rose 61% to R6,9m, which translated into an after-tax loss of R29,9m (R77,3m).

Outside shareholders received R9,7m (R19,3m). An extraordinary profit of R12,1m (R19,5m loss), which included a R28,6m profit from the sale of Housewares

☐ To Page 2

## W & A

B/Day 26/8/94

☐ From Page 1

and a R10m loss on the sale of Waco shares, left the total loss at R27,5m (R136,7m). The attributable loss of R39,6m did not include the results of UK group AAF Industries.

No dividend was declared.

Performance from businesses in the group's portfolio was "generally satisfactory", Hassan said, adding that "there were significant adverse variances in the coal mining operation, the property division and Badger shoes".

Companies which were not wholly owned — excluding Varex — achieved R11m more than budgeted. (180)

An emphasis on "prudent cash and asset management" produced an operational cash flow of R67m, which was R31m better than budgeted. This was before interest, after capital expenditure and excluding the proceeds from disposals over the period. The group had disposed of its holdings in the JD Group and Housewares in June. This had reduced gearing to 107%.

"The only other notable asset which will remain on the disposal list is the coal mine," Hasson said.

The group was still examining issues surounding the resignation of former executive chairman Jeffrey Liebesman and Nevile Cohen. Shareholders would be informed of the outcome.

It was previously reported that the group was attempting to recover R12m from Liebesman.

# Impressive finish for T&N after tough ride

BDay 23/8/94

MUNGO SOGGOT

INDUSTRIAL holding group T&N Holdings fought off tough trading conditions to hoist attributable earnings for the six months to June 44% to R10,8m.

The Durban-based group — which mainly produces automotive components — lifted turnover 16% to R270,4m. Earnings a share were 46,8c (32,5c) and a dividend of 12c (11c) a share was declared.

CE Ted Waldburger said low selling prices, increased competition from exports and the number of public holidays had been among the challenges faced by the group.

180

The current labour disruptions were "not the end of the world" for T&N, which had a positive outlook, he said. But he warned that margins would remain under severe pressure.

T&N was concerned about the effect of the Board on Tariffs and Trade's rejection of the Motor Industry Task Group's tariff recommendations for the SA motor industry. The board has called for a gradual cut in vehicle import tariffs to 30% by 2003.

T&N would be able to shrug off disruptions and changes to the industry because of its buoyant export activities and its low reliance on the original equipment market.

Exports had increased 27% during 1993 and represented 17% of group turnover, Waldburger said.

Tax changes announced in the Budget had pushed the group's average tax rate to 30% (21%).

The new pilot plant at FHE Automotive Technologies would be running by the end of September. Full volume production would begin in 1995.

Asseng Automotive had reaped the benefits of greater volumes, particularly in exports, but T&N's chemical, industrial and mining operations had been trading in competitive markets.

The group would consider selling its food acidulants operation as it did not fit in with the rest of its operations.

The rationalisation of the fluid-sealing division's production had stabilised its operating performance. Lower costs and bigger volumes had boosted the industrial products division's profitability.

Star 6/9/94

# No fireworks expected

**BY CHARLOTTE MATHEWS**

The declaration of 15 percent higher interim dividends for the half-year to September by four Rembrandt companies last week is unlikely to bring a similar increase in earnings for the same period, analysts say.

Rembrandt Group declared a dividend of 19,60c (17,04c), Rembrandt Controlling Investments 14,51c (12,61c), Technical Investment Corp 12,73c (11,06c) and Technical and Industrial Investments 13,49c (11,73c). 180

However, analysts predict group earnings a share will be 10 percent or, at most, 14 percent better.

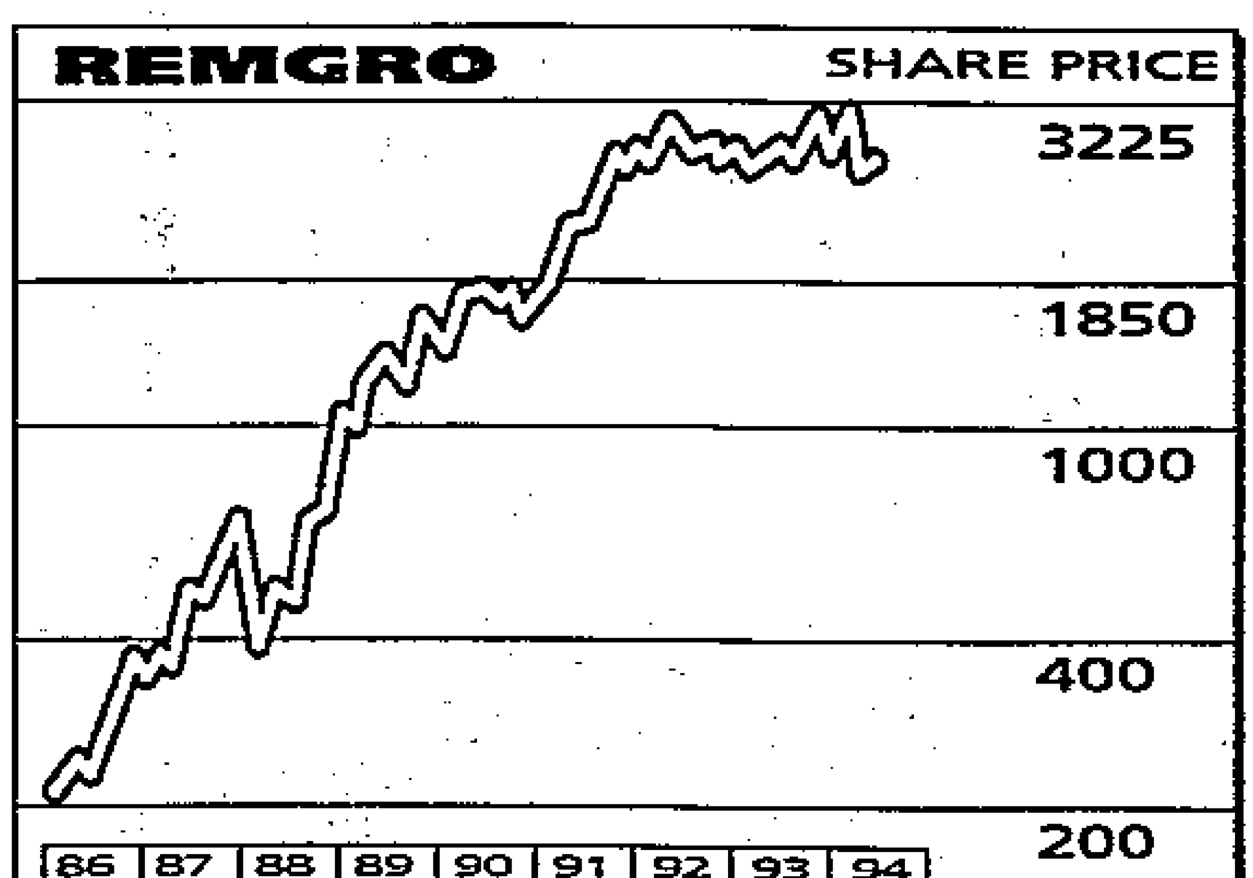
They say the group has historically maintained a fairly high level of dividend cover of 4½ to five times, giving it the reserves to grow dividends faster than earnings.

It also bases its dividend on taxed income, rather than including equity earnings.

Analysts say there is nothing to produce a total 15 percent climb in earnings. For several years the tobacco business has been in retreat and it is unlikely to grow significantly. The investment in Vodacom, although not a large proportion of assets, is absorbing cash.

However, the upturn in the commodities cycle is likely to benefit the investments in Gencor, Goldfields and Trans Hex.

Although the share price last week at R25,75 was only 25c, or 1 percent, better than last September's price, it saw a high of R35,75 in January 1994.

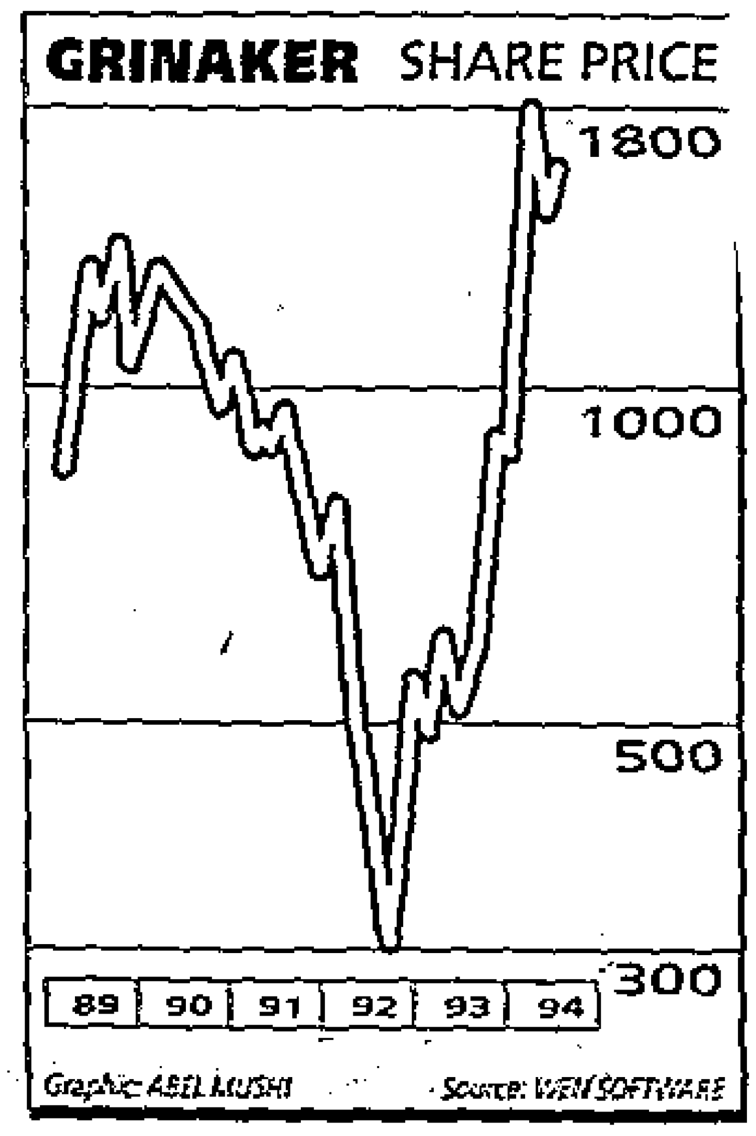


Graphic: ABEL MUSHI Source: WEN SOFTWARE

# Tight controls pay off for Grinaker holdings

Star 9/9/94

**BY CHARLOTTE MATHEWS**




Management initiatives at Grinaker Holdings paid off in figures for the year to June 1994 showing a 38 percent climb in profits.

Attributable earnings were R41,1 million (R29,7 million).

Turnover was 21 percent better at R2,8 billion and improved margins and a lower interest bill boosted the bottom line still further.

A dividend of 26c (18c) a share has been declared on earnings of 117,7c (85,1c).

MD Jack Saulez said yesterday trading conditions had been difficult for most of the year, but there were tentative indications in the fourth quarter that the economy was on the mend.

Grinaker Construction's performance improved markedly because the group was more efficient after its restructuring and reduction two years ago.

It had also benefited from its participation in the Alusaf and Columbus capital projects.

Pre-tax profit was 146 percent better at R24,8 million.

After a higher tax rate, earnings of R18,2 million were 111 percent above 1993 figures.

An outstanding performance was achieved by the civil engineering division, with creditable results from Duraset, piling and quarries and sound performances from most other divisions.

Difficult trading was reported by the housing and precast divisions.

Grinaker Electronics last week reported a 33 percent increase in earnings to R10,6 million, while Siltek improved earnings 23 percent to R57 million. (180)

At the end of June 1994, Grinaker held R128,1 million cash — R42 million above the 1993 figure.

Financial director Anthony Mitchell said the group would look at any opportunities for acquisitions, but the cash was intended to bolster working capital requirements in anticipation of an upturn.

Grinaker shares closed unchanged at R16 yesterday, 200c below their 12-month high of R18 in May, but still nearly triple last September's 535c.

Star 9/9/94

# Anglovaal Industries lifts earnings, dividend

BY CHARLOTTE MATHEWS

Industrial holding company Anglovaal Industries (AVI) lifted its dividend by 18 percent to 230c in the year to June 1994, despite difficult conditions and pressure on margins.

Attributable earnings grew to R407,1 million from R343,7 million, equivalent to R12,83 (R10,83) a share.

Consolidated turnover was 16 percent better at R9,7 billion, about one-third of which arose from acquisitions. Operating profit increased by 13 percent to R747,9 million.

Although income from investments dipped and the interest bill was higher, the tax rate dropped to 28 percent from 1993's 34 percent and associate companies' contribution was 31 percent higher, reflecting an additional R10,3 million from Anglo-Alpha.

Capital expenditure was R415 million.

Over the next three years the group will spend another R1,4 billion to address the expected increase in international competition.

AVI Diversified Holdings made a greater contribution to group profits, including a substantial recovery at Avtex.

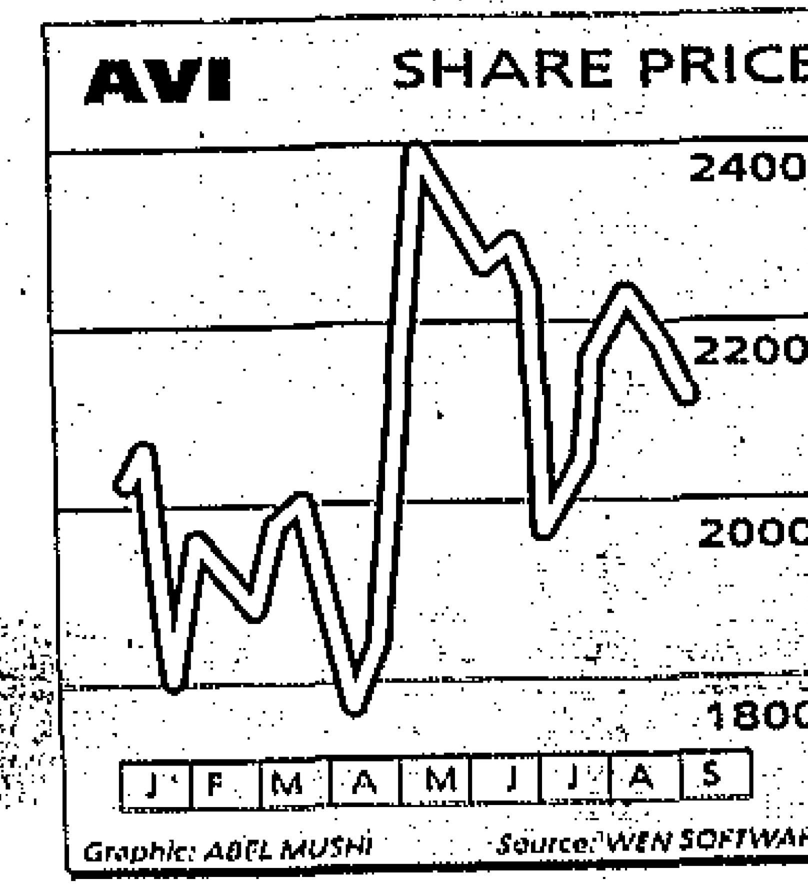
A pleasing improvement was recorded by Consol, which reported higher demand in the closing months of the financial year.

Grinaker's earnings rose, while Irvin & Johnson reported an 11 percent growth in profits.

(180)

National Brands reported earnings 14 percent higher, despite reduced consumer expenditure and disrupted production.

AVI chairman Jan Robbertze says the group is likely to increase earnings in the current year, but the extent will depend on the economic recovery and the resolution of labour conflicts.



PREMIER GROUP

FM 16|9|94

# Working on the food division

(180) (288)

**Activities:** *Food, pharmaceuticals, wholesaling, retailing and entertainment, and other activities.*
**Control:** *JCI 30%; Liberty 30%.*
**Chairman:** *P G A Wrighton; MD: G M Utian.*
**Capital structure:** *826,5m ords. Market capitalisation: R5 042m.*
**Share market:** *Price: 610c. Yields: 1,7% on dividend; 5,1% on earnings; p:e ratio, 19,4; cover, 3,0. 12-month high, 775c; low, 555c. Trading volume last quarter, 21,8m shares.*

| Year to April 30 | '91 | *'92 | '93 | '94 |
|---|---|---|---|---|
| ST debt (Rm) | 123,4 | — | 118,8 | 192,1 |
| LT debt (Rm) | 215,7 | 160,5 | 124,9 | 256,6 |
| Debt:equity ratio | 0,27 | 0,05 | 0,14 | 0,25 |
| Shareholders' interest | 0,50 | 0,43 | 0,47 | 0,36 |
| Int & leasing cover | 3,8 | 5,90 | 12,4 | 6,8 |
| Return on cap (%) | 14,8 | 11,8 | 11,7 | 12,7 |
| Turnover (Rbn) | 5,09 | 9,82 | 10,15 | 14,43 |
| Pre-int profit (Rm) | 375 | 420 | 439 | 635 |
| Pre-int margin (%) | 7,4 | 4,3 | 4,3 | 4,4 |
| Earnings (c) | 21,0 | 24,4 | 28,3 | 31,4 |
| Dividends (c) | 7,0 | 8,1 | 9,4 | 10,5 |
| Tangible NAV (c) | 131 | 140 | 159 | 110 |

* 13 months' trading.

**A key question** for investors must be why they should buy Premier rather than choose from its listed subsidiaries. Looking at the way the share price now stands close to its 12-month low, it is a question which is being asked widely in the market.

With group turnover at R14,4bn, Premier is one of SA's biggest trading operations. Unfortunately, it has become a consumer-based conglomerate in which some of its divisions produce considerable flows of cash, only to watch these being consumed by others (principally the unlisted, capital-hungry food companies). A re-structuring programme now aims to make the milling and baking operations the lowest cost producers in their respective industries.

It sounds good, but it needs to be read in a wider context: Premier Group's principal competitors in this area — Tiger Oats and Foodcorp — are aggressively pursuing similar goals; competition is stiff. However, Premier may have the edge with its sophisticated information systems.

It is obviously an area of deep concern; outgoing chairman Peter Wrighton confirms the decision to transform 80-year-old Premier Foods into a customer-focused, market-orientated and lowest-cost supplier (presumably it was none of these before) will prove costly and painful but should provide cost savings of as much as R40m in the long term.

Premier MD Gordon Utian
*... cutting costs*

Wrighton makes two other comments of interest in this context: the first is that the food division's problems "were exacerbated by the effects of deregulation and a sharp drop in inflation." This is an admission of the extent to which SA's food industry has been protected by government fiat and of the comfort given by a long period of inflation — though other groups (Pepkor, for example) have lamented the problems specific to the transition to lower inflation.

Second, Wrighton says the intention is to build Foods's product range and to attract new business partners. The assumption is that Premier is pursuing the same process seen recently with Tongaat-Hullet (joint venture with US-based Corn Products); this internationalisation, presumably ahead of anticipated stiffening of competition as overseas companies move in, is one which will be followed with interest.

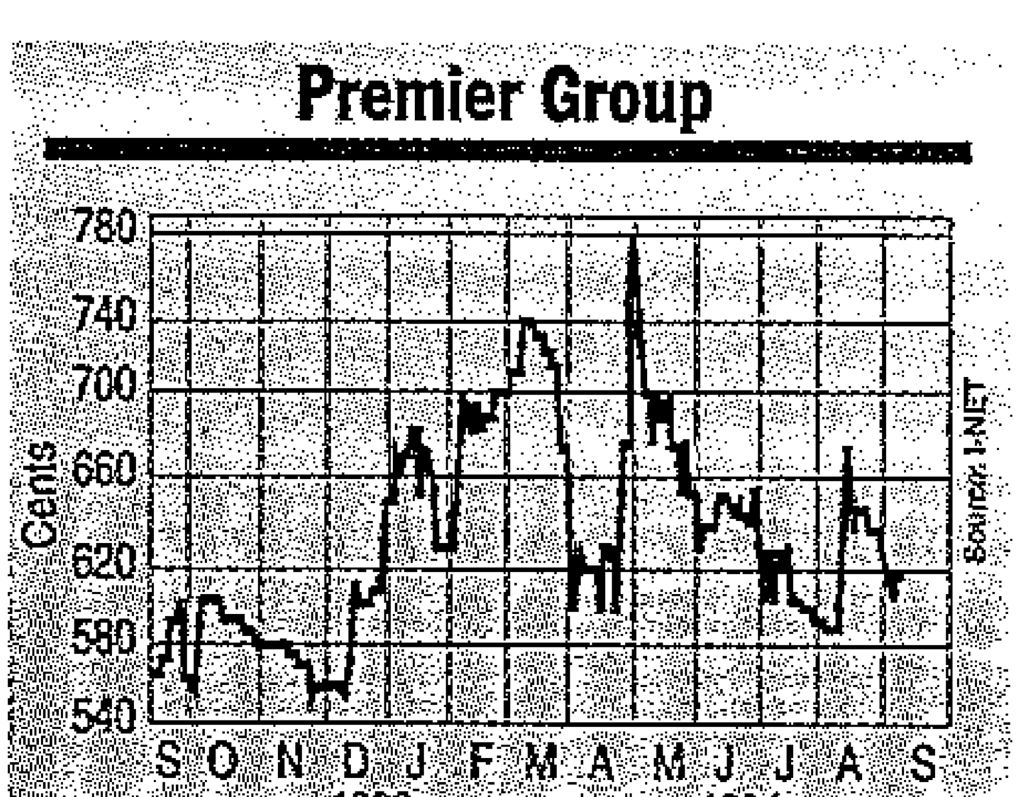
Premier's business is centred on food (30% of sales, 44% of group attributable earnings), pharmaceuticals (14% of sales, 24% of attributable earnings), wholesaling (39% of sales, 18% of attributable) and entertainment and leisure (17% of sales, 14% of earnings). What is interesting about this breakdown is the group's reliance on the lower value-added businesses. In these circumstances, the concentration of management's effort in those segments likely to add greater profits on a disproportionate basis is not surprising.

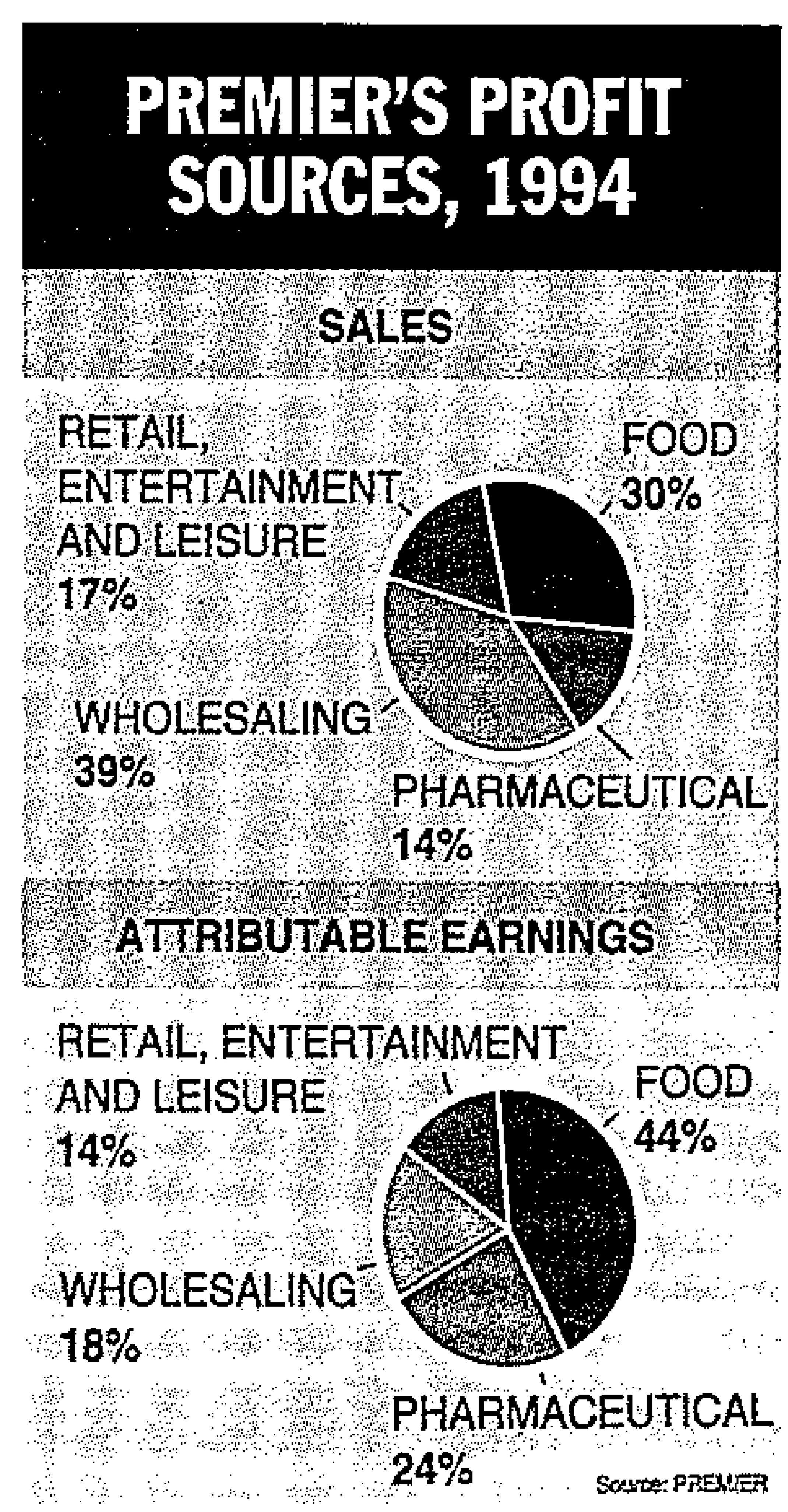
Premier's attributable earnings of R259,1m were 11% better than in 1993 (EPS fully diluted of 31,4c compared with 28,3c). Turnover jumped 42% to R14,4bn: unfortunately the trading margin at 4,4% was only 0,1% better than last year. And the bottom line was squeezed by significantly higher finance charges of R79m (1993: R24m) and R170m went in taxes. However, figures are distorted by the consolidation of previously equity accounted earnings.

Borrowings rose appreciably: drawings against medium and long-term facilities went to R257m, up R132m or a little more than double 1993's position; short-term borrowings at R192m compare with 1993's R119m. Gearing has increased to 25%, still not unduly high.

Notably, the value of trade in Premier's shares has climbed from R35m in 1990 to R530m in the 1994 year and liquidity should be boosted further by the 10-for-1 share split last April.

Wrighton's tenure at Premier — he has been with the group for 37 years — has been marked by his growing involvement in social responsibility programmes and in his support for affirmative action. He is remembered for his participation in a protest march by union members which left the organisers somewhat nonplussed ("I'm also a worker"). It is a role which has sat uneasily with some of his fellow executives and it must be unlikely his successor Doug Band will adopt the same profile. Nevertheless, over the past five years, characterised by recession and political unrest, shareholders'



FM 16/9/94

wealth, has increased a compound 53%, something not matched by Premier's competitors. (180) (3~~52~~)

Wrighton is obviously reluctant to commit Band in his comments on the company's prospects; about all he is prepared to offer is that he expects real growth. Assuming that means an increase in EPS of, say, 15% nominal (allowing for some growth in Foods and taking account of labour dissatisfaction at its biggest customers), then the prospective EPS of about 36c gives a p:e of 17, probably fairly priced in the circumstances.

*Marylou Greig*

# Decision to restructure bears fruit for Fralex

B/Day

MICHAEL URQUHART

ENVIRONMENTAL services management company Fraser Alexander increased attributable earnings 38% to R19,7m for the year to June as the company took advantage of the improvement in business conditions. 2/9/94

Turnover on continued operations rose 16% to R375m, with net income from continuing operations ahead 23% at R31m. Attributable income prior to extraordinary items was pegged 36% higher after last year's figure had been pulled down by losses from discontinued operations.

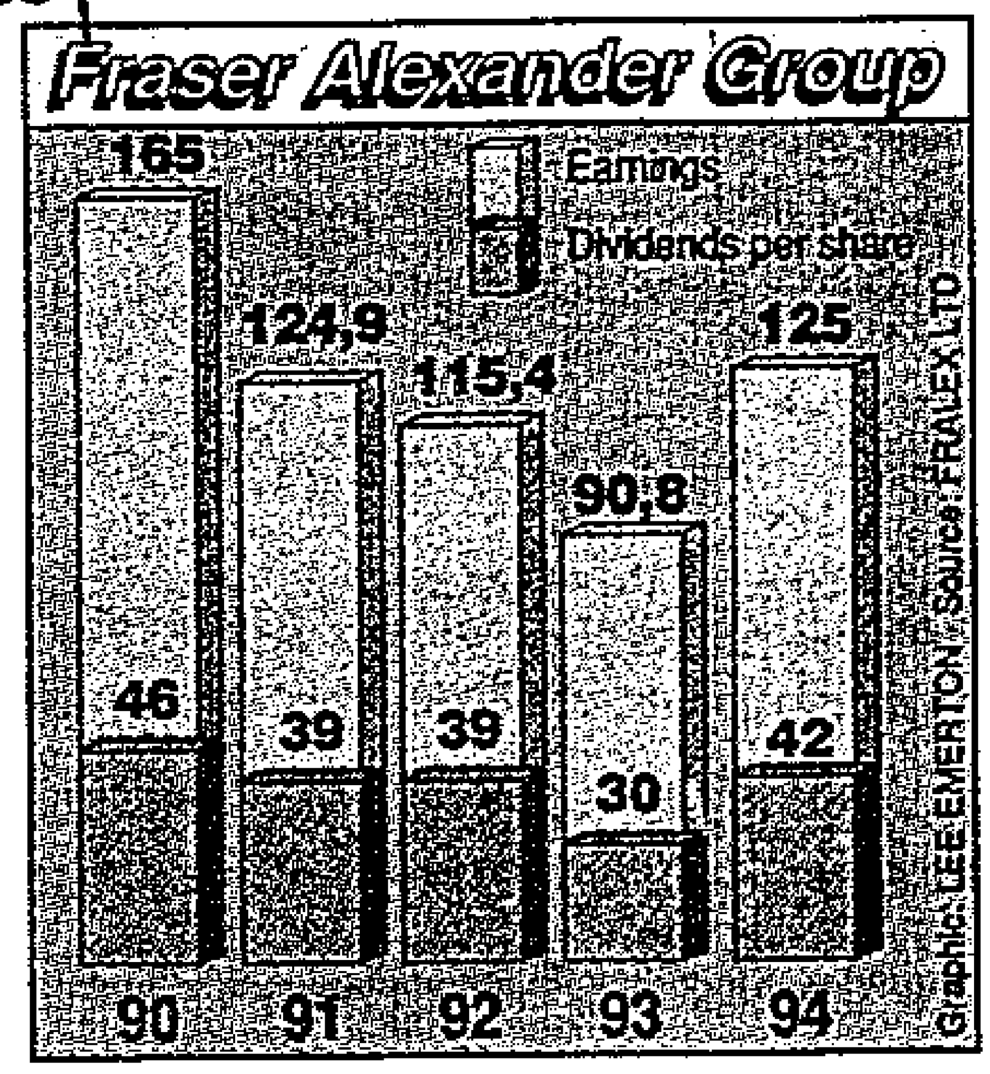
Extraordinary items of R4,2m were due to losses related to goodwill in the purchase price of an acquisition, the lower recoverable value of loans to the Group Share Trust and provision for the possible discontinuation of an offshore operation.

Fraser Alexander paid a dividend of 42c on earnings a share of 125c.

Chairman Peter Flack said all the divisions had shown an improvement in earnings, with the construction, bulk materials handling and waste divisions putting in better than expected performances.

He said the higher earnings were the fruits of restructuring in the 1993 financial year, the marginal turn in the fortunes of the economy and a good performance from employees and management.

The concrete division was the only one which did not increase its business activity, but Flack said product innovation and cost control enabled the division to improve its earnings.




The improvement in commodity prices had benefited the mining division, which had increased the volumes of tailings it had handled. The division was developing a new colliery at Witbank, based on high-grade deposits and closer to major markets than its existing mine. 180

Flack said the coming year was likely to bring strong growth. The company was well placed to benefit from the construction and electrification schemes associated with the RDP.

He said there were also a number of possible acquisitions in the pipeline.

Fralex, whose sole asset is a 57,8% stake in Fraser Alexander, increased attributable earnings 33% to R11m. Dividends were 22,5c on earnings of 68,9c a share.

# All-round improvement at Alexander

Star 2/9/94

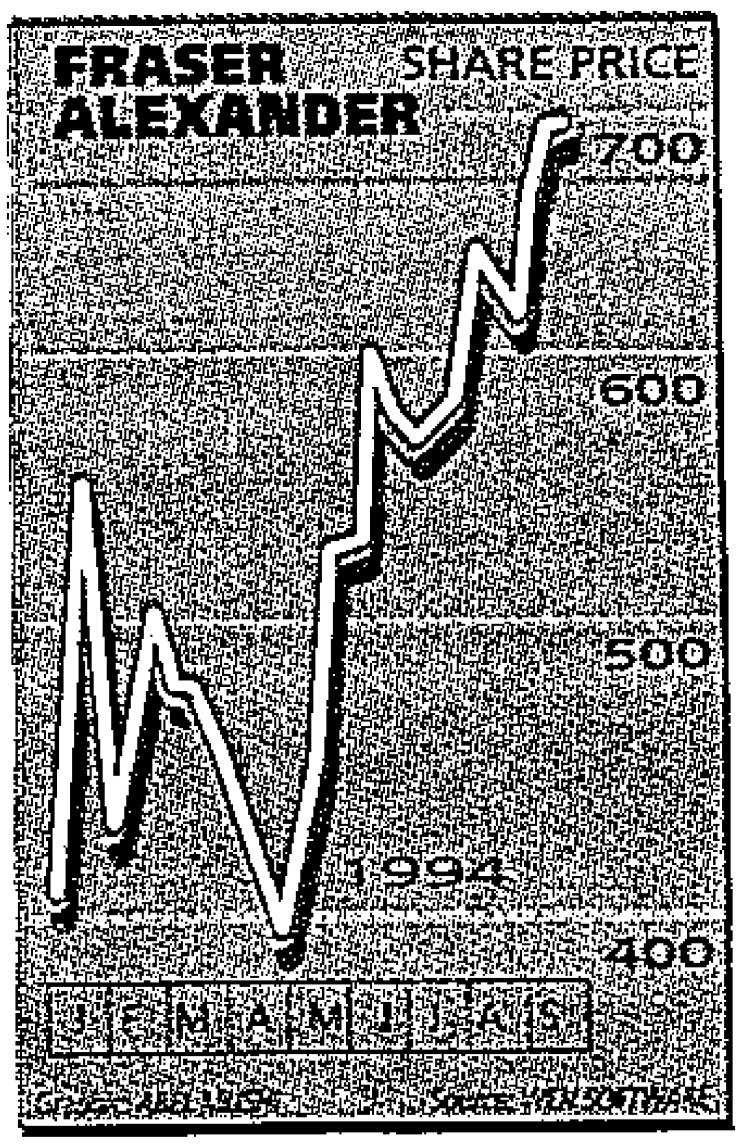
**BY CHARLOTTE MATHEWS**

An improvement in all businesses in mining, waste handling and engineering group Fraser Alexander contributed to a 38 percent gain in net income before extraordinary items to R19,7 million in the year to June 1994, according to figures that it released yesterday.

Turnover grew by 21 percent to R375,4 million.

Fraser Alexander chairman Peter Flack said yesterday that the construction side, Waste-Tech and the bulk materials handling division in particular had increased their turnover, which was also boosted by the acquisition of a concrete products business in Swaziland.

A dividend of 42c a share, up from 30c in 1993, has been declared on earnings of 125c (90,8c) a share.




The company showed an extraordinary charge of R4,2 million from 1993's R7,9 million on representing write-offs on goodwill, loans and an offshore operation. (180)

Since year-end the group had acquired about a 7 percent interest in Randgold in exchange for its investment in First Wesgold.

Randgold is trading at a substantial discount to its net asset value and if this were eliminated the investment would be worth something like R45 million.

Flack said the investment had two positive aspects.

For one thing it allowed the group to turn its investment in a private entity into a more realisable investment and, for another, it would expose Fraser Alexander management to mine rehabilitation and mine closure to a greater extent.

Part of the group's strategy was to develop mine closure as part of its line of business.

The Merriespruit dam disaster, in which the group's tailings division was involved, was still the subject of a judicial inquiry and there was no indication how long this would take.

Fraser Alexander could not exclude the possibility of a claim arising from the event, Flack said, but nobody had yet come up with an estimate of the likely cost of the damage that was done.

In a worst-case scenario, the company carried a R25 million insurance policy intended for such events.

If this were not sufficient, the next call would be on the assets of the group's subsidiary, Fraser F Alexander & Co.

Any further liability would depend on whether the group's shareholders were prepared to make a philanthropic gesture.

Fralex, which holds 57,8 percent of Fraser Alexander, has declared a total dividend of 22,5c for the year from 17c in 1993 on earnings of 68,9c (51,3c).

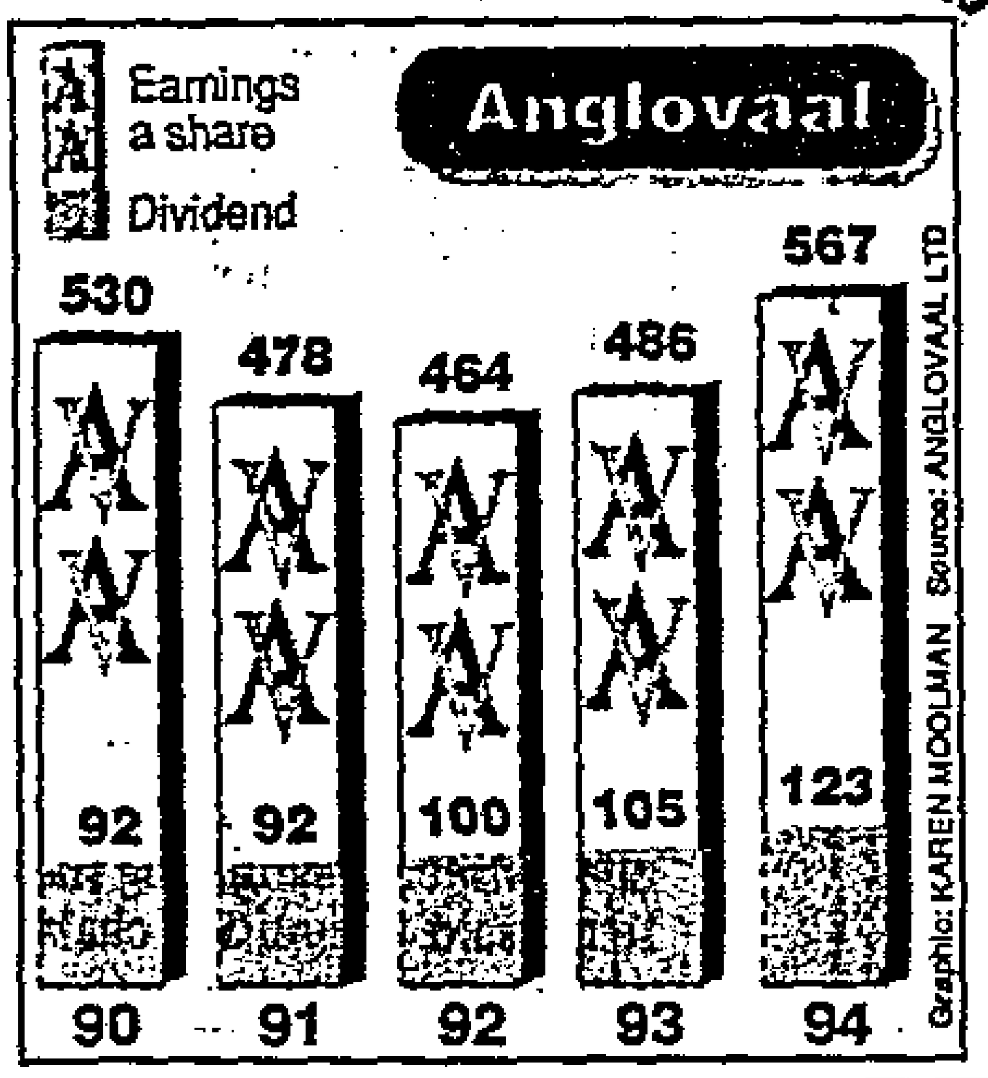
Fraser Alexander shares closed unchanged at R11,50 yesterday.

At that price they offer a P/E of 9,2 on the latest figures, against the sector average of 18,5.

# Anglovaal lifts earnings 17%

BDay 23/9/94

MICHAEL URQUHART




MINING and industrial holding company Anglovaal increased attributable earnings 17% to R342m for the year to June, lifted by mainstay Anglovaal Industries.

The higher earnings were achieved on the back of a rise in turnover to R9,9bn, largely as a result of the industrial division's rise in turnover and an increased contribution from mining.

Anglovaal chairman Basil Hersov said better dividends had been paid by the group's gold mines, thanks to a higher gold price, while volumes rose at Associated Manganese Mines of SA (Assmang).

☐ To Page 2

## Anglovaal

BDay 23/9/94

☐ From Page 1

Dividend cover was maintained at the same level as last year, with a final dividend for the year of 88c, bringing the total to 123c, on earnings of 567c a share.

Hersov said the group was sometimes criticised for its conservative dividend policies, but he felt it had been important in building the company's finances.

The percentage rise in operating profit lagged turnover as pressure had been put on margins by Anglovaal Industries' surplus capacity. Operating profit moved up 13% to R813m. But a slight fall in the tax bill to R252m meant after-tax profit rose 21% to R622m. Hersov said improvements across the board should lead to a further improvement in earnings this year.

The rise in the industrial division's importance to Anglovaal's earnings was not a deliberate policy, but a result of the long lead time of mining projects. There would be decisions on a number of mining projects in 1996, and the income would restore the balance between mining and industrials to 50/50. The Slaaihoek nickel prospect and Target gold prospect were under way.

Anglovaal has a 12,5% royalty stake in De Beers' Venetia diamond mine, through subsidiary Saturn Mining, and this would increase to 50% of Venetia's attributable profit once De Beers had recouped its capital expenditure.

Hersov said earnings from Venetia would be flat until then, after which there should be a substantial growth. This would probably coincide with the coming on stream of Slaaihoek and Target.

Target is being explored via development from the adjacent Loraine gold mine. Hersov expected that there would be enough gold coming out of the development to repay development costs.

The Sun project, north of Target, was too high-cost to develop as a separate mine, and would be developed only in conjunction with Target. This would mean development from Target, or a separate shaft which served Sun and northern Target.

Hersov said it would be too costly for Anglovaal to develop the projects by itself. Partners would be sought and the risk split. But a cash pile had been built up, putting the group in a position of strength when the projects were developed.

Meanwhile, the third generation of the Hersovs and Menells have moved into Anglovaal with the appointment of James Hersov and Rick Menell as directors.

FM 23/9/94 (180)

TEMPORA/ETTINGTON

# Bubbling up

**Tempora**

**Activities:** *Investment holding company. Major investments include Dalys, Cadswep.*
**Control:** *Suncrush 44,4%.*
**Chairman & CE:** *R D Hamilton.*
**Capital structure:** *10,8m ords. Market capitalisation: R210,6m.*
**Share market:** *Price: 1 950c. Yields: 1,8% on dividend; 3,4% on earnings; p:e ratio, 29,6; cover, 1,9. 12-month high, 2 125c; low, 1 625c. Trading volume last quarter, 492 000 shares.*

| Year to June 30 | '91 | '92 | '93 | '94 |
|---|---|---|---|---|
| Investment inc (Rm) .. | 3,8 | 8,3 | 19,8 | 35,7 |
| Net income (Rm) .... | 3,4 | 7,3 | 15,1 | 27,0 |
| Earnings (c) ........ | 31,2 | 36,4 | 50,6 | 65,8 |
| Dividends (c) ....... | 32 | 32 | 41 | 35 |
| Tangible NAV (c)..... | 1 861 | 1 878 | 2 262 | 2 427 |

**Financial 1994** was characterised by good fortune for the investment interests of Natal-based beverage group Suncrush.

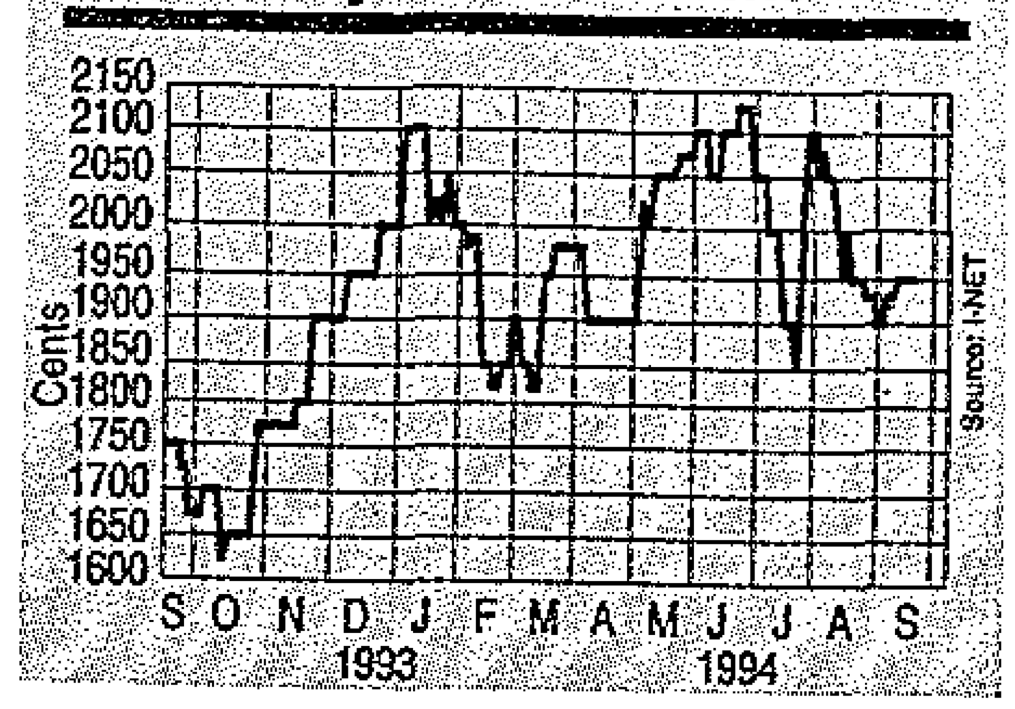
Tempora Investments, housing the beverage shares, continued to perform well in the year to June, with EPS up a pleasing 30% to 65,8c. The share, at R19,50, has made little headway since November. It stands at a 20% discount to the June 30 NAV; if investments are valued at current market prices the discount is 13%.

The newly acquired Ettington Investments (formerly DAB Investments) saw EPS decline 80% to 6,8c. However, figures are not comparable, distorted by its cash shell status before the acquisition by Suncrush. The share has climbed steadily over the past 12 months, almost doubling to 425c, and for those Tempora shareholders who followed their rights at 215c, the appreciation is particularly pleasing.

In July last year, Suncrush acquired a 49,9% stake in Dab Investments for R5m. A month later the trust acquired Tempora's nonbeverage investment portfolio — comprising shares in Saficon, Sakers and Seardel — for R13,5m. This translated into a loss of R6,5m for Tempora.

However, the market value of Tempora's listed investments increased by year-end to

**Tempora Investment**




R793m, up 16%. Investment income jumped 80% to R35,7m. The biggest increase in value was the 84% growth by SA Brews. Tempora's largest investment is in Cadbury Schweppes, with 7,6m shares (equivalent to 46% of year-end NAV), followed by 3,3m Dalys, 1,9m SA Brews and 1,3m ABI shares.

A rise in operating expenses and a marginally higher tax rate of 24% reduced the increase in Tempora's earnings to 78,5% at R26,97m. Because of STC, the board increased cover from 1,2 to 1,9 times, and the dividend was cut.

Last week Ettington announced a rights offer to raise about R43m for further investment. Apart from the nonbeverage interests acquired from Tempora, Ettington holds 191m Lonrho Sugar shares. At year-end the value of its portfolio stood at R51,5m; this week it had increased to R55,3m, giving a NAV of 506c. The share's discount to current NAV is now 16%. Neither share is expensive, given the quality of the underlying assets. The new management of Ettington decided not to apply for the reinstatement of its listing on the London Stock Exchange. *Marylou Greig*

**Ettington**

**Activities:** *Investment holding company. Major investments include Saficon, Sakers and Seardel.*
**Control:** *Suncrush 89%.*
**Chairman & CE:** *R D Hamilton.*
**Capital structure:** *10,8m ords. Market capitalisation: R45,9m.*
**Share market:** *Price: 425c. Yields: 1,5% on dividend; 1,6% on earnings; p:e ratio, 62,5; cover, 1,1. 12-month high, 475c; low, 195c. Trading volume last quarter, 64 000 shares.*

| Year to June 30 | '91 | '92 | '93 | '94 |
|---|---|---|---|---|
| Investment inc (Rm) .. | 3,6 | 3,0 | 2,0 | 1,2 |
| Net income (Rm) .... | 3,5 | 3,2 | 1,6 | 0,7 |
| Earnings (c) ........ | 76,1 | 69,7 | 34,7 | 6,8 |
| Dividends (c) ....... | 94,0 | 40,0 | 1067,0 | 6,2 |
| Tangible NAV (c)..... | 225 | 255 | 215 | 471 |

GRINAKER HOLDINGS

FM 30/9/94

## Construction improves

**Sometimes it's** nice to be proved right. But even so, the *FM*'s comment last October that Grinaker's share price (then 560c) appeared to have more upward than downward potential should have rated at least a merit award in the Understatement of the Year stakes. (180)

By May this year, the price had rocketed 221% to 1 800c, a level recently achieved again after a somewhat sticky patch that may have had something to do with the sale of a portion of the group's holdings in the electronics sector — the mainstay of earnings in recent years.

**Grinaker chairman Jan Robbertze** ... *construction division out of the dog box*

What is interesting about the share's performance, however, is that it was backed largely by renewed interest in Grinaker's construction activities, which had been pretty much in the dog box since the losses incurred in 1992. True, background factors were favourable, with a year-on-year 143% gain in the JSE's Building & Construction index. But this pales into insignificance relative to the rerating that has taken place at Grinaker, where the implicit market capitalisation of its non-electronic interests has risen from R11m in October 1993 to R307,5m now.

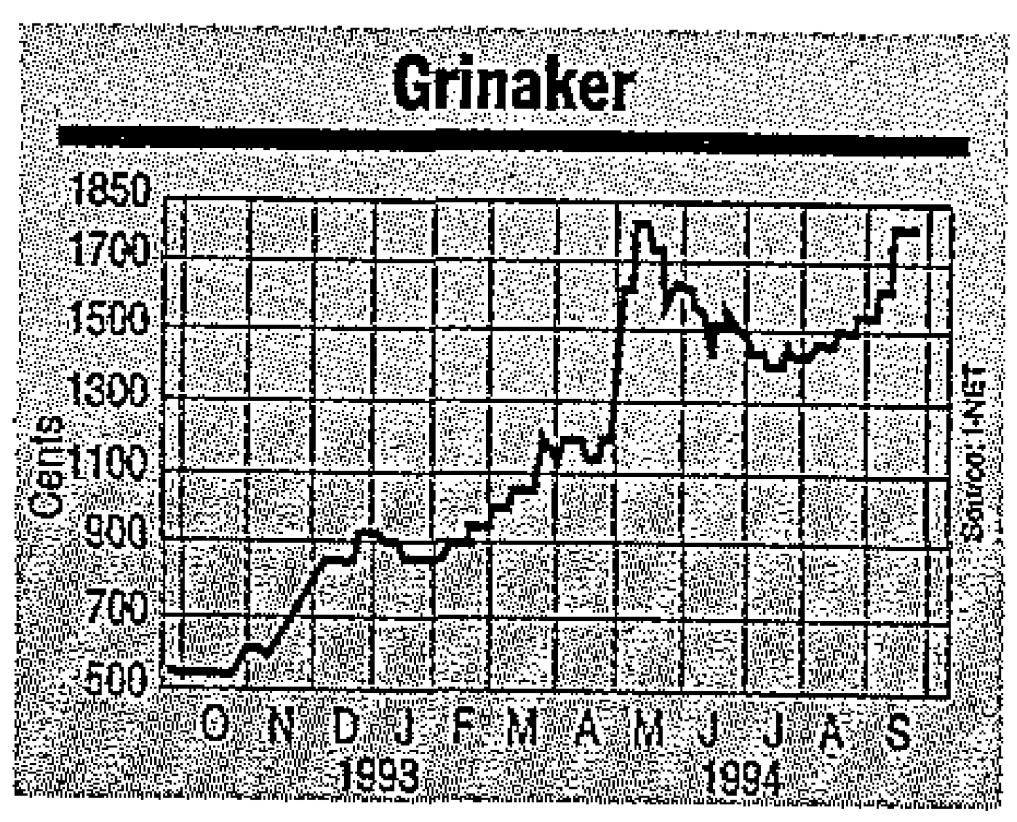
And, whereas previously the electronics interests had accounted for R184m (94%) of Grinaker's R195m total market capitalisation, based on current share prices for Grinaker and Grintek (the holding company of the electronics subsidiaries), this ratio has dropped to 51% — R320,5m out of the group's total market value of R628m.

Part of the reason lies in that a year ago the non-electronics side of the business was grossly undervalued. The construction division had taken its bath, corrective action had been applied and it was clear profitability was being restored. Yet, if one deconsolidated Grintek, the p:e ratio applicable to the rest of the group (its construction division, a loss-making silica mining operation and head office) was a miserable 3,1 — suggesting, as we pointed out at the time, that progress in rehabilitating the construction division was not receiving due recognition from investors.

The question now, though, is whether the pendulum has not swung too far the other way. Deconsolidating Grintek from the 1994 income statement left the rest of the group with attributable earnings of R11,3m. This was a material improvement on the R3,7m earned in 1993 (due entirely to construction, since losses attributable to silica mining increased further) but the p:e applicable to these interests is now 27,2 — rich by any standards. (180)

At least, that could be the conclusion if there were no grey horses in the race. In Grinaker's case, this takes the form of a R39m cash pile now sitting at the top of the group awaiting deployment. Most of the cash came from the sale in April of Grinaker's direct holdings in Grintek and Siltek, with a portion of its indirect (through wholly owned Grinaker Financial Services) stake in Grintek for R49,6m. This has added a degree of flexibility not seen in the group for years as, until the sale, the two top companies were net borrowers.

The official line at the time of this deal was that the cash would be held to finance additional working capital requirements, especially in construction if there was increased activity in mass housing. Whether such a need exists is debatable. The construction division was able to reduce net borrowings by almost R4m to R20,6m last year, bringing its net debt:equity ratio down to a fairly conservative 23% (1993: 34%). Profitability seems to have been restored to respectable levels, judging by 1994's 22% net return on equity (1993: 12%), suggesting further gearing capacity is available here if needed.




The electronics subsidiaries don't need extra cash. Grinaker Electronics and Siltek showed healthy net cash balances at year-end, which, consolidated into Grintek, amounted to R70m for this division.

So, on the face of it, Grinaker could, just as easily, use its R30m spare cash for an acquisition or expansion of activities, thereby justifying the market's renewed enthusiasm for the share.

Both divisions have budgeted for higher earnings this year, though it is noted in the operational review that the improvement from construction (where the major benefits from recovery have already been seen) is likely to be "moderate" until the longer term effects of government's policies become evident. The contribution from electronics will be affected by the dilution of Grinaker's holding in Grintek from 67,4% to 58,6%, which will be effective for the full year instead of just three months in 1994, pointing to a bland outlook for the group unless it has something else up its sleeve.

*Brian Thompson*

# Another inflation shock

(~~153~~) (~~254~~) (180)

ALIDE DASNOIS
Business Staff

CTRCT 12/10/94

PRODUCER price inflation jumped in August to its highest level in nearly three years, suggesting that more price shocks are on the way for hard-pressed consumers.

Figures released today by the Central Statistical Service show that producer price inflation rose in August for the fourth month in a row, with prices now running 9,9 percent above August 1993 levels.

This is the highest rate of producer price inflation since October 1991.

The producer price index (PPI) measures changes in prices paid to producers of both local and foreign goods. Higher producer prices usually result in higher prices for consumers, though the time lag may vary.

The figures show producer prices of agricultural food products rose 4,4 percent in a single month.

# Producer prices surge on high food costs, lower rand

By AUDREY D'ANGELO
Business Editor

A CONTINUED rise in food prices, and the depreciating rand, helped push the producer price index (PPI) for August to 9,9% year on year — the highest level since October 1991.

It was 9% year on year in August.

The rise between July and August was 1,4%. This was the fourth consecutive month in which the PPI had risen.

Economists said they had revised their forecasts for the year upwards. Sandra Gordon of Southern Life and Johan Els of the Old Mutual now expect the PPI to be 12% by year end. Sanlam chief economist Johan Louw said it would be in double digits.

The PPI for locally produced goods was 10,4% year on year. The rise between July and August was 1,5%.

The PPI for imported goods was 7,4% year on year — 0,6% above the July figure. The rise between July and August was 1%.

The Central Statistical Services report that local agricultural food products rose by 4,4%, mining and quarrying products by 1,5%, base metals by 1,5% and electrical machinery by 2,4%. CT 13/10/94

Sandra Gordon pointed out that the rise in food prices in August was more widespread than in previous months, when it was confined mainly to meat, fruit and vegetables.

In August coffee, tea, cocoa and sugar prices had also risen.

The higher prices for mining and quarrying products included coal and oil. (244)(180)

Johan Els said the PPI had been driven higher mostly by food prices.

The rise in the index for imported goods showed the impact of the weakening rand. But it had risen less than that of domestic goods because SA's main trading partners had lower inflation than here.

Pointing out that domestic manufacturing inflation was 9,7% compared with imported manufacturing inflation of 6,8%, he said one reason could be that imports were being sourced as cheaply as possible.

Johan Louw said that, if food were excluded, the PPI would have risen by 7,9% year on year. "By year end it will definitely be double figures.

"The imported component is rising in line with the weaker rand and higher oil prices."

# Economists warn PPI heading for 11,5%

(186) ARG 13/10/94

Business Staff

PRODUCER price inflation is heading for an annual rate of 11,5 percent by the year end, economists say.

Central Statistical Services figures released yesterday showed the producer price index (PPI) in August up 9,9 percent from August, 1993.

This is the highest rate in three years.

About half of the monthly increase is attributable to fresh food price hikes.

Meat prices have rocketed over the past few months as farmers held back stock to replenish herds severely depleted by the drought.

Fruit and vegetable crops have been hit by frost.

The figures show prices of agricultural products rose 4,2 percent over the month, mining and quarrying and basic metals were up 1,5 percent and electrical machinery 2,4 percent.

The index for locally produced commodities for South African consumption showed an annual rate of increase of 10,4 percent for August — one percent up on July.

In spite of the weaker rand, prices of imported commodities rose slower at 7,5 percent for the year.

Lower international oil prices helped to keep imported inflation down.

The PPI bottomed at 5,4 percent during the fourth quarter of 1993.

Mathison & Hollidge economist, Tracey Ledger, said the figures for imported commodities showed inflation had bottomed among our major trading partners.

But she forecast that as the domestic economic recovery continued, there would be further upward pressure on prices.

"The PPI could reach 11 percent by December."

Ed Hern Rudolph economist Nick Barnardt predicted 12 percent.

"But much depends on government's import policies and whether it will allow cheaper imports of red meat.

"Rainfall is also a factor."

Mr Barnardt said figures would come off a very low base in the next three months given that there were very small increases in prices in September, October and November last year.

# Boltons posts earnings rise on turnover jump

MUNGO SOGGOT

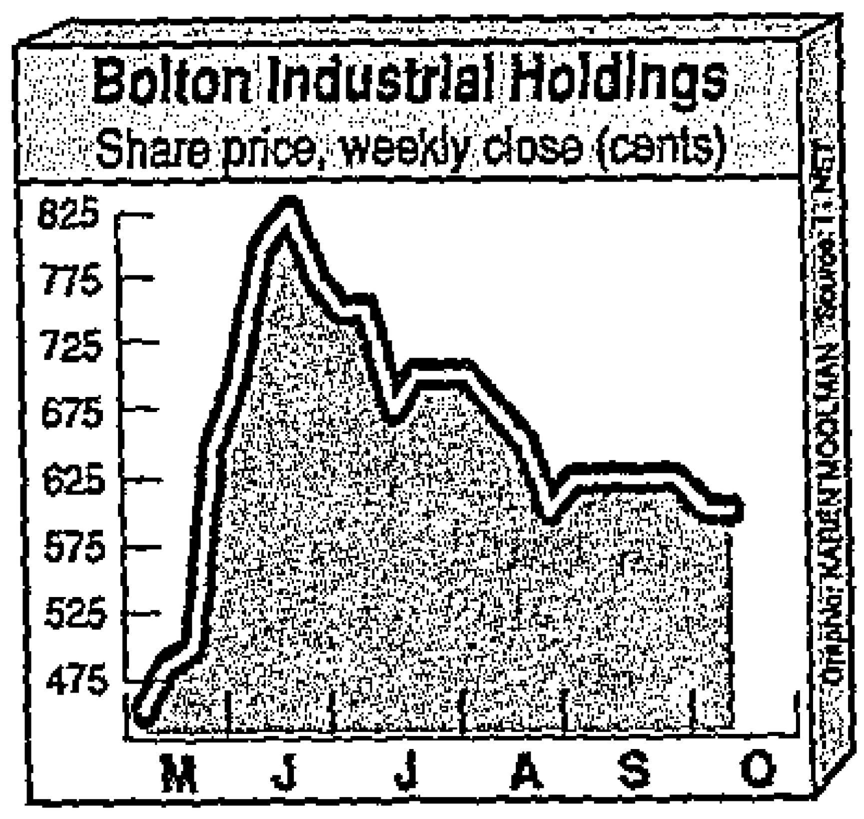
BOLTON Industrial Holdings (Boltons) and its subsidiary companies have posted an increase in earnings for the six months to August after a significant jump in turnover.

Boltons derives its income from a 36,4% stake in road transport group Cargo Carriers (Cargo) and a 74,1% stake in footwear manufacturer Bolton Footwear (Bolwear).

Earnings a share rose to 47,6c (39c) on turnover of R235m (R199m). Attributable profit rose to R2,5m (R2m). An interim dividend of 9,5c was declared, compared with last year's interim dividend of 5c a share.

Bolwear saw earnings a share climb to 8,6c (6,5c). The company's turnover was up at R135m (R109m), with attributable profit improving to R1,7m (R1,3m).

Operating profit increased 42% to




R6,42m (R4,51m), and an interim dividend of 2,5c (2c) was declared.

The group said its manufacturing division had achieved a satisfactory increase in profits, while the retail division had boasted a significant increase in profits.

Losses from Searles Homes — which had been sold — had been eliminated.

The group would finance its approved R4,4m capex bill for the next six months from its own resources. Finance costs would increase over the next year but would be offset by the benefits of additional capacity.

Cargo posted a slight increase in earnings to 17,8c a share (16c) and declared an interim dividend of 2,2c.

Attributable profit was up at R3,55m (R3,20m), while the company's turnover rose to R100m (R90,78m) and a dividend of 2,2c a share was declared. 180

The company said the whole industry was reaping the benefits of higher transport volumes.

But the increase in volumes would demand further capital expenditure, which would be financed from internal resources. The equipment would be commissioned in the latter part of the current financial year.

Boltons, Bolwear and Cargo were yesterday all untraded at their previous respective prices of 600c, 150c and 100c.

# Kick chiefs off gravy train — DP

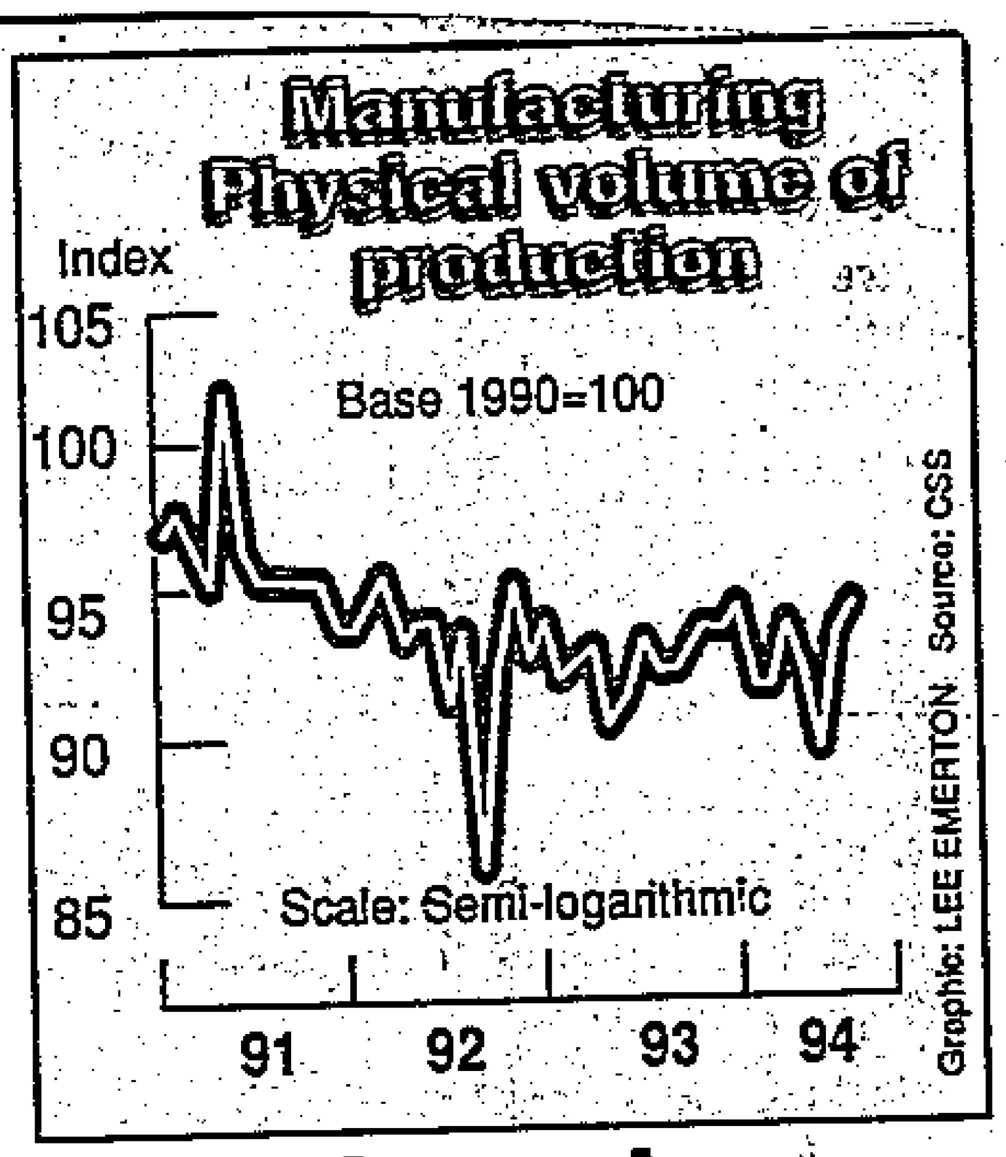
(224)

Political Staff

HUNDREDS of traditional leaders who owe their positions to the previous government should be dropped from the state's salary bill, the Democratic Party demanded yesterday.

The joint caucus of the DP's federal and provincial councils which met in Cape Town at the weekend said that the continued extention of the gravy train to large numbers of "chiefs" created by the Nationalist government was "a gross abuse of taxpayers' money". (180) CT 17/10/94

According to the Deparment of Constitutional Development, there are about 800 traditional leaders who continue to receive stipends (of up to R296 000 per year) from the government.




# Manufacturing shrugs off strikes

B/Day

MUNGO SOGGOT 17/10/94

MANUFACTURING activity in the period after the election was buoyant despite a spate of strikes and industrial action, according to figures released by the Central Statistical Service at the weekend.

The CSS figures showed manufacturing sales in July up 5% on the previous year and up 1,5% from June, while production volumes in July increased 2,[illegible]% year on year and 0,8% from June.

Economists said the figures showed production levels in July were the highest this year. The figures suggested there would be an increase in manufacturing employment in the second half of 1994.

"The overall picture of the post-election economy is of surprising strength. An upswing was expected after the elections, but not that strong," said Ed Hern Rudolph economist Nick Barnardt.

The CSS said production of vehicles and parts was up 18% despite the motor strike from late July. There was also a 35% month-on-month jump in unfilled orders for motor vehicles. (180)

Barnardt said this increase came on top of a surge in actual sales, which boded well for vehicle sales towards the end of 1994 and the start of 1995.

However, the figures did show a slump in the production of tobacco products, which economists attributed to stockpiling triggered by fears of excise duty hikes.

The Reserve Bank's composite business cycle indicator for May, released with September money supply figures, was at a

☐ To Page 2

## Manufacturing

BDay 17/10/94

☐ From Page 1

two-year high. But CSS manufacturing production figures suggested that the Bank's indicator for June and July would be even higher. (180)

But Barnardt said that because the motor industry had a more than 5% weighting in the production index, production statistics in the coming months would be distorted by the motor industry's attempts to make up for production losses during the five-week strike.

He said production statistics for June and July suggested the mid-year strike activity had not seriously hit the overall level of industrial production.

. — A
dollar
ve Bank
the com-
gain more
its on the
rday, deal-

at R3,5435/50
30/705 on the
r which trad-
ell to a three-
w on the Ger-
rk as investors
to the mark on an
ated victory for
ellor Helmut Kohl's
n in national elec-

rand could ex-
ns but it depends
happens to the
ark," a dealer
aid the Reserve
supported the
1,5520.
kesmen were
le for com-

r touched a
11,4970 and
om Friday's
11,5270 and

the rand
ding major
its softer
inst the

hird cur-
slumped
4242/45

# Manufacturing heads for renewed growth

CT 18/10/94 (180)

By MAGGIE ROWLEY
Deputy Business Editor

THE recovery in the manufacturing sector gained momentum in the third quarter and this growth was expected to persist over the next year, according to the latest national survey by the Bureau of Economic Research.

While third quarter conditions were behind expectations, the trend in manufacturing business conditions was clearly upward as business confidence continues to improve, said BER.

Manufacturing business confidence improved further during the quarter with 58% of respondents expressing satisfactory business conditions. Expectations for the fourth quarter are still optimistic, but the figure pertaining to better business conditions a year down the line has been revised significantly downwards from 76% to 59%.

Third quarter sales and order volumes and fourth quarter expectations point towards a significant acceleration of demand from relatively sluggish conditions in the first half of the year.

While the political climate deteriorated somewhat between the second and third quarters, sales and order volumes, both domestic and foreign, improved significantly stimulating production and the use of production capacity.

The increased demand has resulted in stocks of finished goods having been depleted to a level where they should encourage manufacturers to step up production.

However, the "disheartening" apsect of the third quarter survey is that the stimulus to produce is not yet strong enough to motivate manufacturers to increase factory employment on a net basis. Retrenchments were continuing but at a slower pace and production increases were being achieved by more efficient use of production capacity.

BER says it was particularly worrying that intentions regarding the fourth quarter reflected a further deterioration in employment levels, but says some improvement could be visible from 1995 onwards.

An unplanned build-up of raw matrial stocks reported in the second quarter was largely depleted in the third quarter and raw material input costs have increased sharply. Apart from rising import costs related to the wearker rand exchange rate, it was difficult to explain the relatively early and sharp increases reported in raw material shortages and prices, says BER.

Labour unit cost increases were also tending upward but the more efficient use of labour and productive capacity was moderating these rises.

Domestic selling prices were nevertheless rising more rapidly than unit cost increases indicating improved profitability in manufacturing.

Combined with the improving demand conditions and the more favourable post-election political climate, fixed investment was also increasing.

BER says that during the third quarter there was a significant downward revision of previously buoyant export expectations, which probably indicated that certain manufacturers intended switching to the domestic market during 1995 as the domestic recovery deepens.

However, BER warns that certain macroeconomic imperatives point to a downside risk to a sustained recovery. Among factors which are likely to have a serious constraining impact on short-term improvements in demand — particularly private consumption expenditure — are higher tax, continued retrenchments or only limited increases in employment, higher consumer prices and interest rates.

"The recovery may continue to reflect a hesitant pattern and should be relatively constrained over the short term," concludes BER.

SAFREN Fm 21/10/94

# Active year

**Activities:** *Ship owning and operating, hotel and casino resorts, cinemas, film and TV services, restaurants, liquor wholesaling and production, travel, transport, freight, cargo and marine services.*
**Control:** *Old Mutual 38%.* 180 ~~232~~
**Chairman and CE:** *D A Hawton.*
**Capital structure:** *55,4m ords. Market capitalisation: R540m.*
**Share market:** *Price: 975c. Yields: 2,8% on dividend; 6,3% on earnings; p:e ratio, 15,8; cover, 22,4. 12-month high, 1 350c; low, 670c. Trading volume last quarter, 3,2m shares .*

| Year to June 30 | '91 | '92 | '93 | '94[1] |
|---|---|---|---|---|
| ST debt (Rm) | 8 | 59 | 75 | 170 |
| LT debt (Rm) | 822 | 1 167 | 1 613 | 1 450 |
| Debt:equity ratio | 0,08 | 0,15 | 0,34 | 0,13 |
| Shareholders' interest | 0,45 | 0,47 | 0,47 | 0,52 |
| Int & leasing cover | n/a | 8,2 | 7,4 | 11,8 |
| Return on cap (%) | 14,4 | 3,0 | 9,8 | 11,5 |
| Turnover (Rm) | 4 369 | 4 284 | 4 478 | 5 076 |
| Pre-int profit (Rm) | 683 | 698 | 576 | 845 |
| Pre-int margin (%) | 15,6 | 17,3 | 14,9 | 16,6 |
| Earnings (c)[2] | 56,6 | 61,7 | 54,1 | 61,6 |
| Dividends (c)[2] | 23,7 | 25,5 | 25,5 | 27,5 |
| Tangible NAV (c) | 21,3 | 25,0 | 31,7 | 36,8 |

1. Royal Resorts consolidated into Kersaf. The figures for 1991-1993 in table have not been restated and are not comparable. The change has no effect on attributable earnings. 2. A 10:1 share split became effective on July 25. The figures reflect the split.

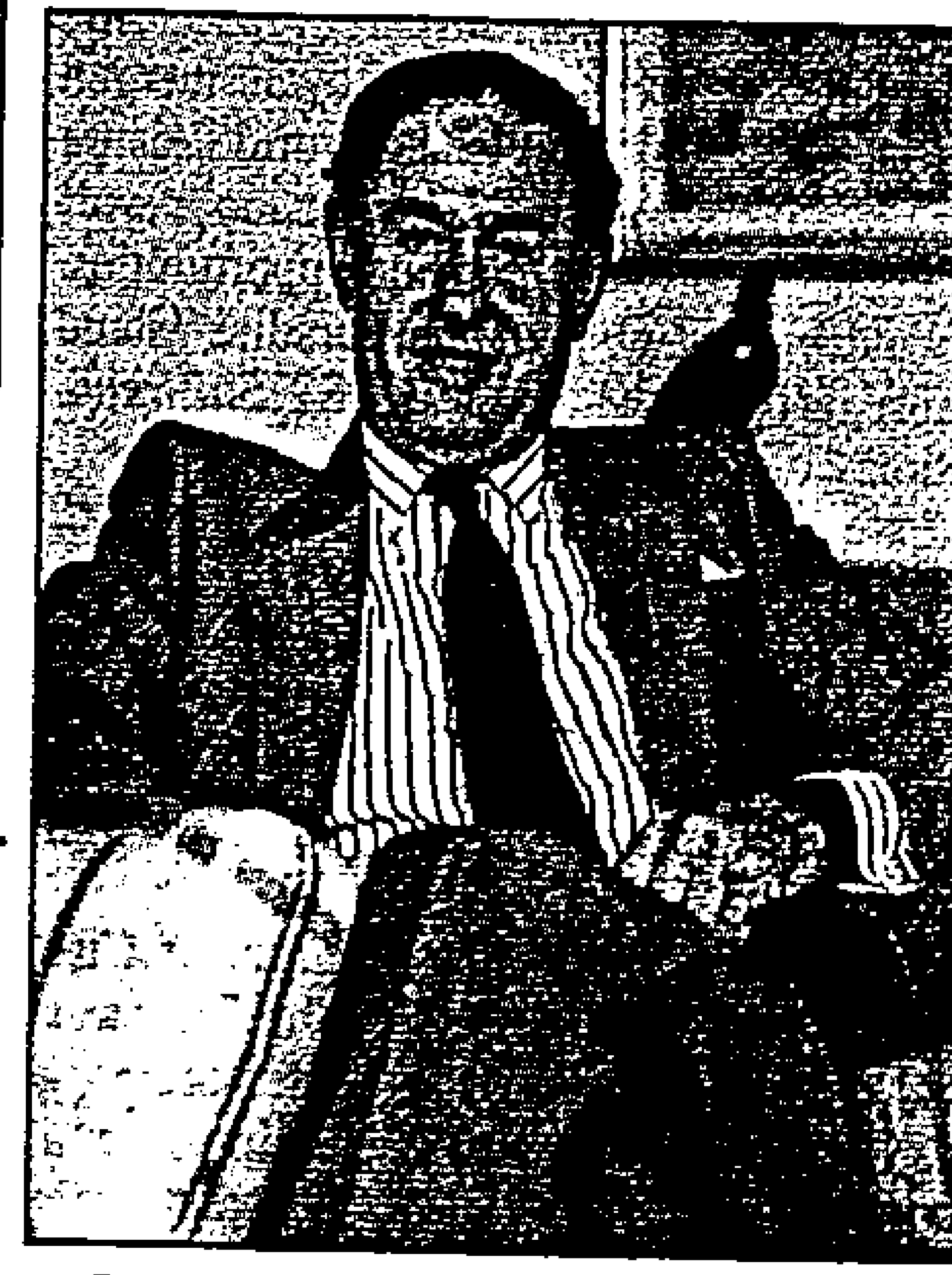
**An EPS** increase of 14% for this widespread group is good, considering the slow growth of the economy and the extent of unrest in the country for most of Safren's financial year.

The substantial improvement in Safmarine's performance underpinned the result. Serious political upheavals in the North West Province (formally Bophuthatswana) in the third quarter dented Kersaf's contribution after a good first half. Earnings from Rennies continued to grow

Fm 21/10/94

strongly after the reconstruction of that group in financial 1993.

Safmarine increased its market share in the liner trades operating to Europe and the US. It recorded satisfactory results from its bulk trading, even though the international reefer market remained depressed. SA's positive economic growth meant more imports, though volume increases were marginal and the volume of exports to



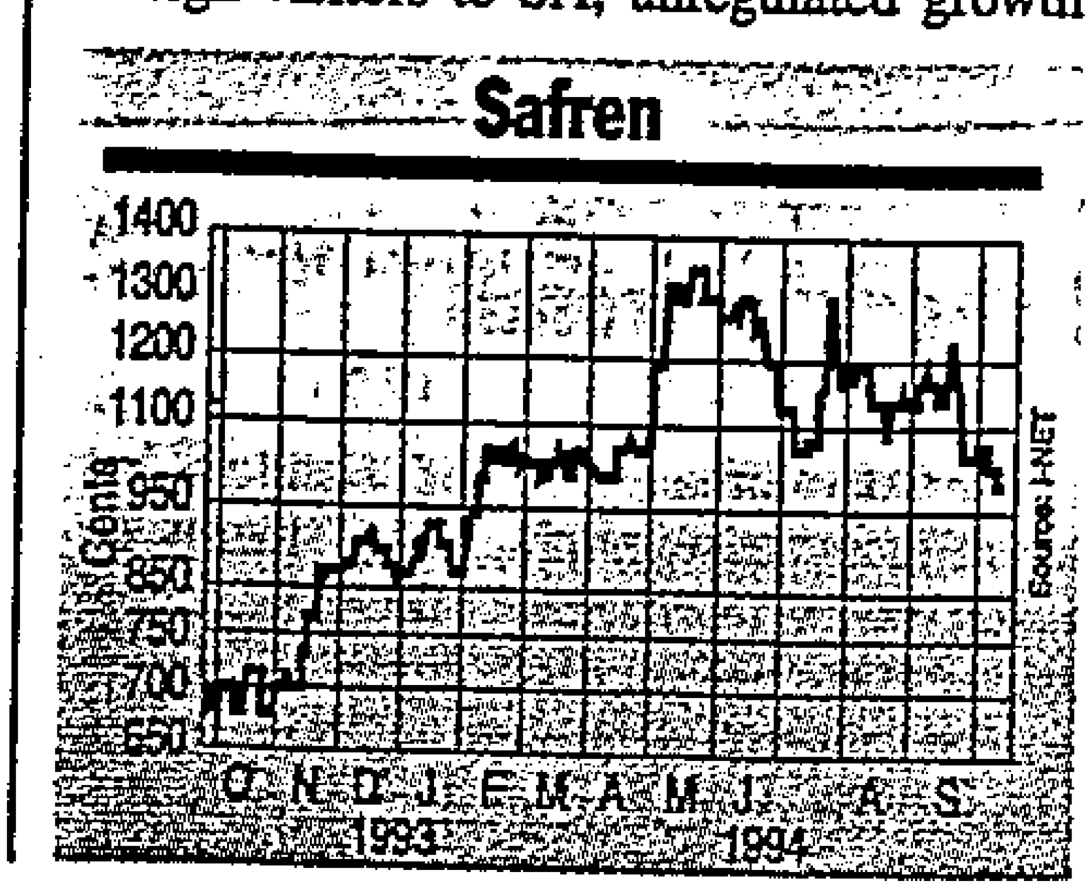
**Safren's Hawton ...** *expects more earnings growth*

Europe remained disappointing. However, the restructure of Safmarine into three focused business units improved efficiencies and margins. 180 ~~232~~

Flitestar and Luxavia — part of Trek Airways in which Safmarine has a 37,5% stake — stopped trading in April. The Safair domestic airfreight operation that traded with Flitestar also closed. Substantial one-off closure costs resulted. These events had no direct impact on Safmarine's 1994 results because the carrying value of its shareholding was written off in the previous financial year.

During the 1994 year, Safair included its ground handling business in a new joint venture company, Swift Ground Handling Services, formed with a Lufthansa subsidiary. Its main activity remains the provision of aviation services in Africa.

Kersaf's Sun International hotel and casino chain, its largest contributor, suffered the consequences of low volumes of foreign visitors to SA, unregulated growth




Fm 21/10/94

of competitive casinos, and politically inspired unrest.

In the first half its attributable earnings were satisfactory because The Lost City was included for the first time and there were benefits from cost rationalisation. Despite the turmoil in Bophuthatswana, Kersaf's full-year earnings grew 7,45% from operating earnings up 6,9% on a turnover advance of 8,1%. 180 ~~232~~

With effect from July 1, 1993, the offshore operations held by Royale merged with UK's Caledonia Plc and World Leisure Group, to pursue offshore casino resort investment and management opportunities. Royale bought 60% of the Paradise Island resort in the Bahamas in a US$75m transaction concluded in May.

Extensive remodelling and renovation, costing about $125m has started. This is to be funded largely by borrowings. Sun International Investments, in which Royale Resorts holds 33,3%, is investigating further investment opportunities in the US and the Pacific Rim.

Kersaf also bought joint control of City Lodge Hotels (CLH) for R164m. This was paid by issue of 4,4m new Kersaf ordinary shares. CLH revenues and earnings, on a comparable basis, rose by 26% and 36% respectively.

Rennies performed strongly. It benefited from an upturn in trading toward year-end. Turnover rose by 16%, operating profit by 11% and attributable earnings by 17%. Rennies Travel gained market share, especially in its foreign exchange business.

Safren's balance sheet is powerful, with gearing low and cash on hand of R1,1bn. Capital expenditure of R372m (R262m) has been authorised for spending in the 1995 year, mainly to buy ships and containers and to refurbish resort operations.

Executive chairman Buddy Hawton says Safren will benefit substantially from further recovery in the SA economy and from increased international trade as prospects for the global market improve. He forecasts "the group should continue to show earnings growth."

Most analysts are attracted to the share not only because of its rand hedge properties, but also because of its prospects if economic growth picks up. The only doubt relates to potential competition to Kersaf's casino revenues. In the main, however, analysts say the share offers sound value at the current price. *Gerald Hirshon*

SEARDEL FM 21/10/94

## Change all round

**Activities:** *Manufacturer of apparel, toys, consumer electronics, non-woven textiles.*

**Control:** *Seardel Consolidated Holdings 50,1%.*

**Chairman:** *A Searll. Joint MDs: G C de Bruin, B G Richards.*

**Capital structure:** *23,4m ords. Market capitalisation: R176m.*

**Share market:** *Price: 750c. Yields: 3,2% on dividend; 16% on earnings; p:e ratio, 6,3; cover, 5. 12-month high, 825c; low, 195c. Trading volume last quarter, 450 000 shares.*

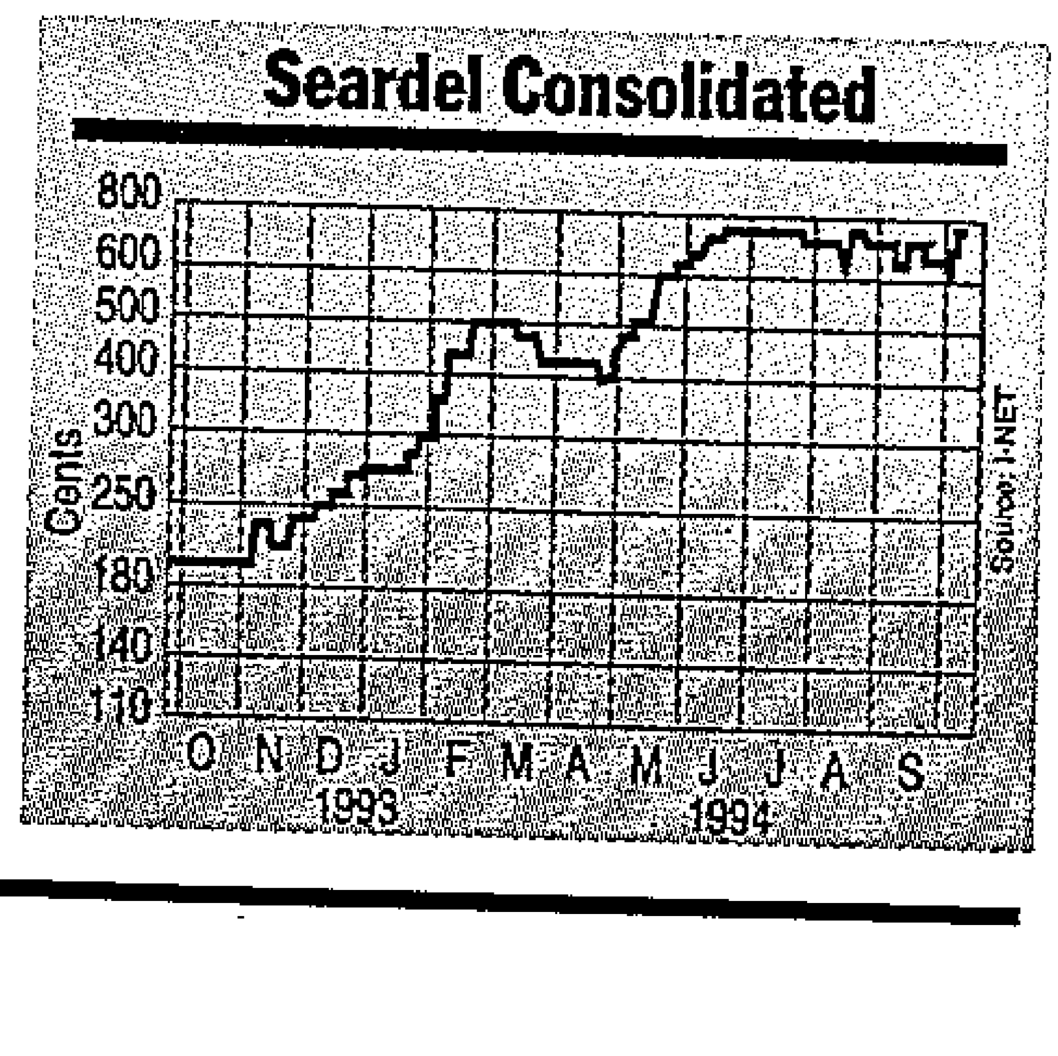
| Year to June 30 | '91 | '92 | '93 | '94 |
|---|---|---|---|---|
| ST debt (Rm) | 29,8 | 20,4 | 36,6 | 29,3 |
| LT debt (Rm) | 80,8 | 115,1 | 82,3 | 84,0 |
| Debt:equity ratio | 0,61 | 0,74 | 0,62 | 0,49 |
| Shareholders' interest | 0,34 | 0,32 | 0,34 | 0,36 |
| Int & leasing cover | 2,6 | 1,5 | 1,7 | 2,5 |
| Return on cap (%) | 16,4 | 10,8 | 11,7 | 12,8 |
| Turnover (Rm) | 992 | 1 058 | 1 069 | 1 151 |
| Pre-int profit (Rm) | 76,1 | 55,2 | 57,8 | 72,4 |
| Pre-int margin (%) | 7,7 | 5,2 | 5,4 | 6,3 |
| Earnings (c) | 108 | 43 | 65 | 120 |
| Dividends (c) | 23,0 | 9,5 | 13,0 | 24 |
| Tangible NAV (c) | 630 | 655 | 678 | 827 |

180

**The strong profit** growth in fiscal 1994, meritorious as it was, should be seen in the perspective that a powerful recovery was essential for Seardel to regain credibility.

Four years ago, operating profit (R73,2m) was higher than in 1994 though turnover was then considerably lower (R900m). But the local market and the international situation has changed.

Locally, traditional (white) consumers have become more tightfisted as their discretionary income has shrunk. They have cut spending on clothing and traded down to cheaper merchandise. Entrepreneurs found ways to import cheap clothing from the Far East, much of which has been sold to the developing informal sector. Local clothing manufacturers lost market share as they were forced by high duties and tariffs to use locally manufactured fabrics which




FM 21/10/94

were inferior but more expensive.

That is part of the story. It's changing mainly because government tariff structures have changed and are continuing to do so and the industry is preparing to comply with the Gatt. But, more important, Seardel has changed too.

**PROFIT PATTERN**

| 1994 | Turnover Rm | Turnover % | Operating Income Rm | Operating Income % | Return on Assets % |
|---|---|---|---|---|---|
| Apparel | 891,7 | 77 | 52,7 | 72 | 15 |
| Business and consumer electronics | 168,2 | 15 | 10,3 | 14 | 13 |
| Toys | 46,9 | 4 | 1,9 | 3 | 6 |
| Non-woven textiles | 44,5 | 4 | 2,2 | 3 | 9 |
| Property & Invest | — | — | 6,0 | 8 | 10 |
| Total | 1 151,3 | 100 | 73,1 | 100 | |

The change has not only been structural, it's been attitudinal. Whereas four years ago, the group had a bloated, fat-cat feel about it, it now looks hungrier and leaner. The profit recovery in fiscal 1994 is testimony to the success of the reconstruction policies of chairman Aaron Searll and his team, and is to the credit of the divisional executives who implemented stringent cost cutting exercises.

Helped by a more buoyant retail clothing market in the second half (apparel comprises 77% of Seardel's turnover), the clothing division's contribution to operating income increased by not less than 45% and was largely responsible for the leap in group operational cash flow from R62m to R84m.

This cut net finance charges and enabled pre-tax income to jump 86% — in line with the 85% improvement in attributable earnings on a higher effective tax rate of 32,4% (1993: 24,4%).

Keen competition in the business and consumer electronics market confined operating profit growth to a bare 1,3%, on 8% higher turnover. The rand/yen price differential became less favourable, though Sharp products were not discounted. Market share has been forfeited, but the brand should benefit from economic growth.

Neither the toy nor the non-woven textile divisions increased turnover; both tabled significantly lower operating income. Until the economy improves, prospects for both divisions (together they contribute 6% of group operating profit) remain suspect; they produce semi-luxury items.

Notably, Frame/Confram contributed attributable earnings of R2,4m (1993: R1,55m loss).

The balance sheet has strengthened. Gearing has fallen below 50% and liquidity is better than it has been in years. The trading and investment ratios, while improved, still offer scope for improvement if targets are to be achieved.

Searll is projecting a maximum increase in group turnover of 16,6% and a corresponding growth in pre-tax income, EPS and dividends of over 12%. He is usually conservative in his projections. An analyst is forecasting a 30% earnings rise.

The share price rose from a low of 130c in June/July last year to a peak of 825c in June. It has fallen to 775c now. However, if the analyst is correct, EPS will reach about 155c in fiscal 1995, implying a forward p:e of 5 — low for a company showing substantial recovery.

My feeling is that the market wants evidence the turnaround can be sustained before the rerating continues. If so, now is the time for those who believe this will happen to invest in Seardel. It could prove to be a winner. *Gerald Hirshon*

180

# Malbak investors get 134,6c a share

B/Day 24/10/94

**BEATRIX PAYNE**

CONSUMER group Malbak exceeded market expectations and posted an 11% increase in shareholders' earnings to R414m or 134,6c a share for the year to August.

Group executive chairman Grant Thomas said consumer demand showed a marked improvement over the past three months but he said it still remained fragile.

He said the group had expected a rise in earnings of around 6%. Sales rose 15% to R12,6bn and operating income increased to R871m (R820m).

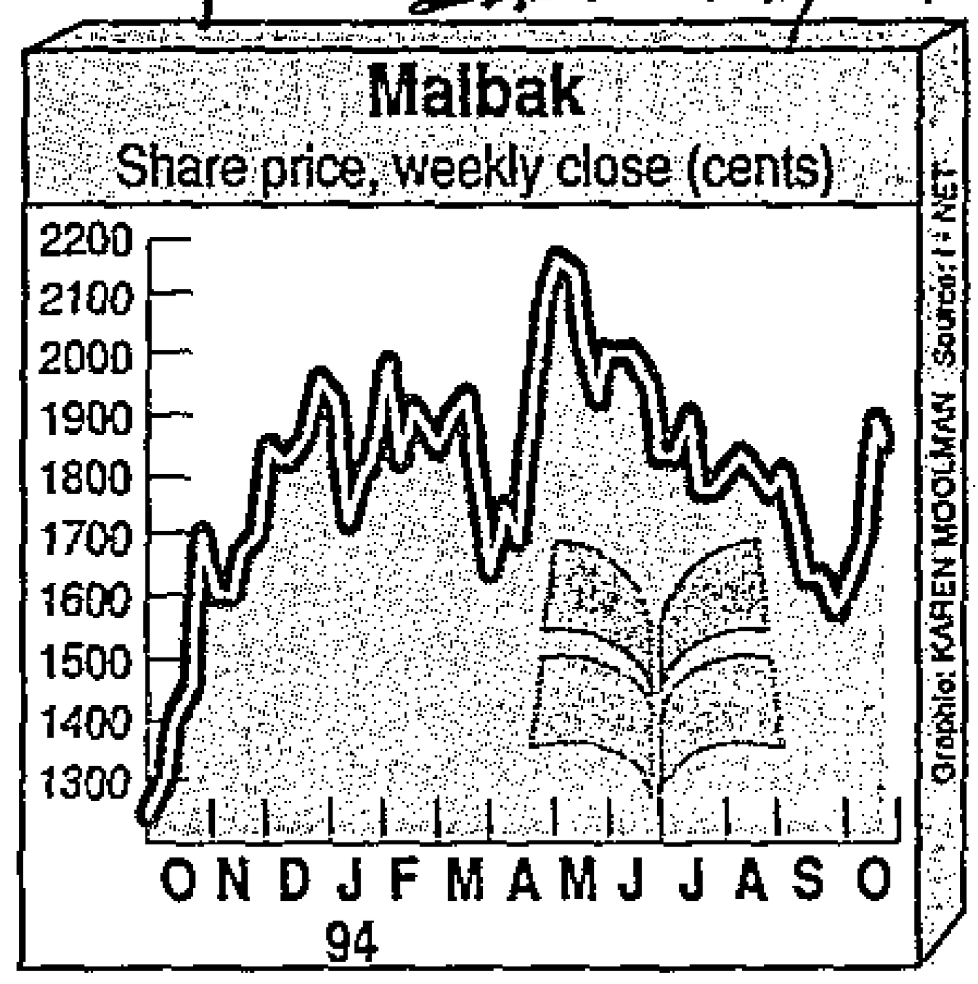
The operating margin fell to 6,9% (7,5%) on the back of the expansion of the branded consumer division where margins tended to be lower. The division was now the largest in the group, he said.

Interest paid fell 23% to R101m on lower interest rates, while a decrease in borrowings left pre-tax income 12% higher at R770m.

The tax bill increased 8% to R225m after the introduction of the 5% transitional levy and an increase in the secondary tax on companies (STC). This was despite a marginal fall in the group's effective tax rate to 29,2% (30,4%). 180

After-tax income rose 14% to R545m. Attributable earnings of associates fell 45% to R18m and outside shareholders received R149m (R138m).

The group declared a final dividend of




24,5c (22,5c), lifting the total dividend to 38,5c (35c). Despite the rise in STC from 15% to 25% the group had sufficient credits to pay shareholders a cash dividend.

The group's unlisted branded consumer products division made the biggest contribution to earnings. Its contribution rose 49% to R88m, which represented 21% of the group's total R414m earnings.

The group announced at the weekend that it would acquire the Defy appliance division from the TEK corporation for R130m which would strengthen its position in the consumer market.

Food division Foodcorp reported a 5% rise in earnings and Thomas said the

To Page 2

## Malbak

B/Day 24/10/94

From Page 1

launch of the Pillsbury joint venture and the rationalisation of the chilled prepared meat operations would improve future earnings.

Healthcare division SA Druggists increased earnings 30% on the back of improved market share and greater productivity. Its contribution to total earnings rose to R72m (R53m). 180

Paper and packaging company Holdains reported a slide in earnings to R94,2m (R97,7m). Thomas said turnover and profitability had improved during the second half and the division was "positioned for real growth".

International division MY Holdings increased its contribution to R33m (R30m).

But the corporate and investments division saw its contribution to the group fall to R78m (R94m) after the sale of Standard Engineering. Computer company ICL "performed well" but Haggie's results had been disappointing.

## COMPANIES

# Seardel's prospects 'positive'

EDWARD WEST

CAPE TOWN — Clothing manufacturer and toy and electronics distribution group Seardel was on target to achieve its forecast of increasing earnings 12,5% to 135c a share in the year toJune, chairman Aaron Searll said at the AGM on Friday.

But forecasting in the current socioeconomic climate was difficult and projections for the year could be revised in February when results for the six months to December would be released.

The Frame Textile Group, in which Seardel and Gregory Knitting Mills had a controlling interest, had achieved a substantial improvement in its current trading position and balance sheet. In the past financial year the contribution to Seardel of Frame's attributable income amounted to R2,4m compared with a loss of R1,55m the previous year. B/Day

The listing of Seartec in December, announced last week, which would constitute Seardel's Sharp electronics division, would unlock fair value to the benefit of shareholders, he said. 24/10/94

Seartec's forecast taxed profit as at June 30 this year was R9,8m. Seardel would retain 75% of Seartec and the rights offer to shareholders would be 25% in a ratio of 65 Seartec shares for every 100 held in Seardel.

At the meeting, Shareholders' Association chairman Issy Goldberg suggested that the group's toy operations also be hived off. "This group's share has plenty of steam ahead," he said. (180)

*Earnings 11% above expectations*

# Malbak ahead

Star 24/10/94

**BY CHARLOTTE MATHEWS**

A marked improvement in trading in the last three months lifted Malbak's profits beyond expectations by 11 percent to R414 million in the year to August 1994, against the same period in 1993.

"In recent months there have been indications that the economy is heading for positive growth, but I must caution that consumer spending still remains fragile," Malbak executive chairman Grant Thomas said at the weekend.

Operations also benefited from greater market share, the benefits of corrective action taken in previous years, new capacity being filled and acquisitions. 180

Group sales grew by 15 percent to R12,6 billion. Operating income was 6 percent higher at R871 million, showing margins still under pressure at 6,9 percent from 7,5 percent in 1993.

This was mainly owing to the expansion of the branded consumer division, now the group's largest, where margins are lower than elsewhere in the group.

After a lower interest bill and tax rate, earnings a share rose to 134,6c (122,4c) on which a full-year dividend of 38,5c (35c) has been declared.

Group gearing is 18,5 percent, against 16,2 percent in 1993, but cash held amounts to R528 million, representing some of the proceeds of the 1992 rights issue, together with interest earned. The purchase of the Defy appliance division from Tek Corporation, announced yesterday, will absorb R130 million.

The group's unlisted branded consumer products division made the greatest contribution to group earnings of R88 million, or 21 percent.

Ellerines improved profits by 23 percent, while Malbak Motor Holdings reported profits up 29 percent.

Tedelex made a positive contribution.

Among the other major listed groups which published results recently, Foodcorp grew earnings a share by 5 percent.

SA Druggists reported a 30 percent increase in earnings a share and made a 17 percent contribution to group earnings, while paper and packaging company Holdains made a 16 percent contribution.

The international division, which includes packaging, freight and trading interests, grew by 10 percent to account for R33 million of group earnings.

Corporate investments, where Malbak has holdings in ICL and Haggie, dropped its contribution to 19 percent, or R78 million, from 25 percent in 1993, mainly because of the sale of the rest of Standard Engineering.

Thomas said an improving environment and good real growth were expected in the year ahead as order books were building up and the businesses would benefit from RDP expenditure, greater confidence, productivity improvements and capital expenditure projects.

# Malbak investors get 134,6c a share

B/Day 24/10/94

BEATRIX PAYNE

CONSUMER group Malbak exceeded market expectations and posted an 11% increase in shareholders' earnings to R414m or 134,6c a share for the year to August.

Group executive chairman Grant Thomas said consumer demand showed a marked improvement over the past three months but he said it still remained fragile.

He said the group had expected a rise in earnings of around 6%. Sales rose 15% to R12,6bn and operating income increased to R871m (R820m).

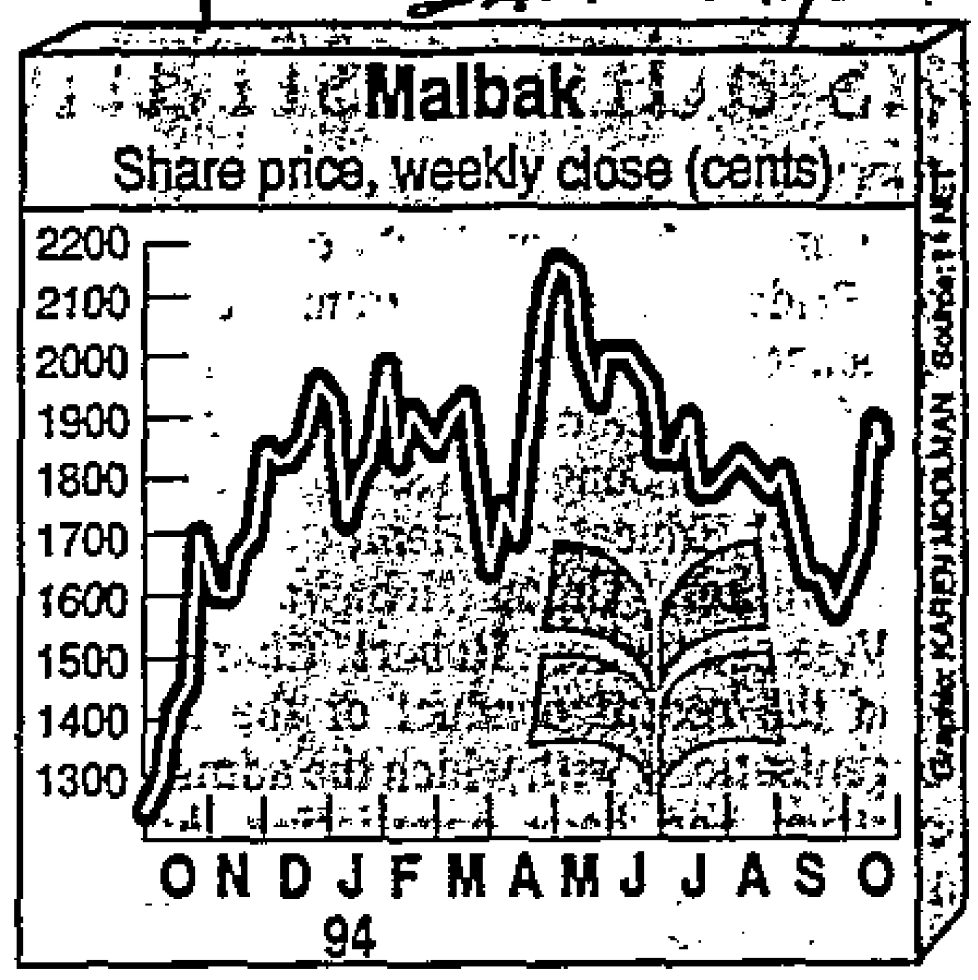
The operating margin fell to 6,9% (7,5%) on the back of the expansion of the branded consumer division where margins tended to be lower. The division was now the largest in the group, he said.

Interest paid fell 23% to R101m on lower interest rates, while a decrease in borrowings left pre-tax income 12% higher at R770m.

The tax bill increased 8% to R225m after the introduction of the 5% transitional levy and an increase in the secondary tax on companies (STC). This was despite a marginal fall in the group's effective tax rate to 29,2% (30,4%). 180

After-tax income rose 14% to R545m. Attributable earnings of associates fell 45% to R18m and outside shareholders received R149m (R138m).

The group declared a final dividend of




24,5c (22,5c), lifting the total dividend to 38,5c (35c). Despite the rise in STC from 15% to 25% the group had sufficient credits to pay shareholders a cash dividend.

The group's unlisted branded consumer products division made the biggest contribution to earnings. Its contribution rose 49% to R88m, which represented 21% of the group's total R414m earnings.

The group announced at the weekend that it would acquire the Defy appliance division from the TEK corporation for R130m which would strengthen its position in the consumer market.

Food division Foodcorp reported a 5% rise in earnings and Thomas said the

☐ To Page 2

## Malbak

B/Day 24/10/94 ☐ From Page 1

launch of the Pillsbury joint venture and the rationalisation of the chilled prepared meat operations would improve future earnings.

Healthcare division SA Druggists increased earnings 30% on the back of improved market share and greater productivity. Its contribution to total earnings rose to R72m (R53m).

Paper and packaging company Holdains reported a slide in earnings to R94,2m (R97,7m). Thomas said turnover and profitability had improved during the second half and the division was "positioned for real growth".

International division MY Holdings increased its contribution to R33m (R30m).

But the corporate and investments division saw its contribution to the group fall to R78m (R94m) after the sale of Standard Engineering. Computer company ICL "performed well" but Haggie's results had been disappointing.

# Lenco confident of marked second half improvement

BDay 25/10/94

EDWARD WEST

CAPE TOWN — Footwear, clothing and packaging group Lenco's earnings fell 10,6% to 26,85c (30,03c) a share in the six months to August because of unsettled conditions over the election period and a larger number of shares in issue.

Executive chairman Douglas de Jager said in a statement second quarter results improved substantially over those for March, April and May, and the seasonal improvement in the second half was expected to be even more marked this year.

Lenco's turnover rose 7,3% to R366m (R341m), but operating profit fell 13,5% to R30,7m from R35,5m. The interest bill fell to R5,4m from R7m after the injection of the proceeds from the R49m issue of shares to Sanlam.

Attributable profit was only slightly lower at R19,9m (R20,5m) before extraordinary items. An interim dividend was not declared in terms of company policy.

The cost of the closure of the Durban footwear plant in May was estimated at R7m and was treated as a R4,87m extraordinary item and excluded from attributable profit.

On June 1, a Cape-based manufacturer of branded ladies footwear, Olympic Flair, was acquired and the company contributed R700 000 to group profits in the interim period. The group also acquired Australian-based rigid plastics manufacturer Peteron Plastics from August 24.

The investments were financed by way of additional shares issued to Sanlam, the remaining proceeds from which were used to reduce debt.

180

De Jager said the decrease in operating profit stemmed from retailers' resistance to holding normal stock levels before the election and lost production days over the election and post-election periods.

"After the unsettled start of the year, trading conditions have normalised. Barring unforeseen circumstances, indications are the operating profit in the second half could improve by at least 25% on last year," he said.

Lenco Investment Holdings, which has a 49,9% stake in Lenco Holdings, reported attributable earnings of 17,89c (20,02c) a share for the six-month period.

# New Investec spin on Sechold

Star 25/10/94

**BY CHARLOTTE MATHEWS**

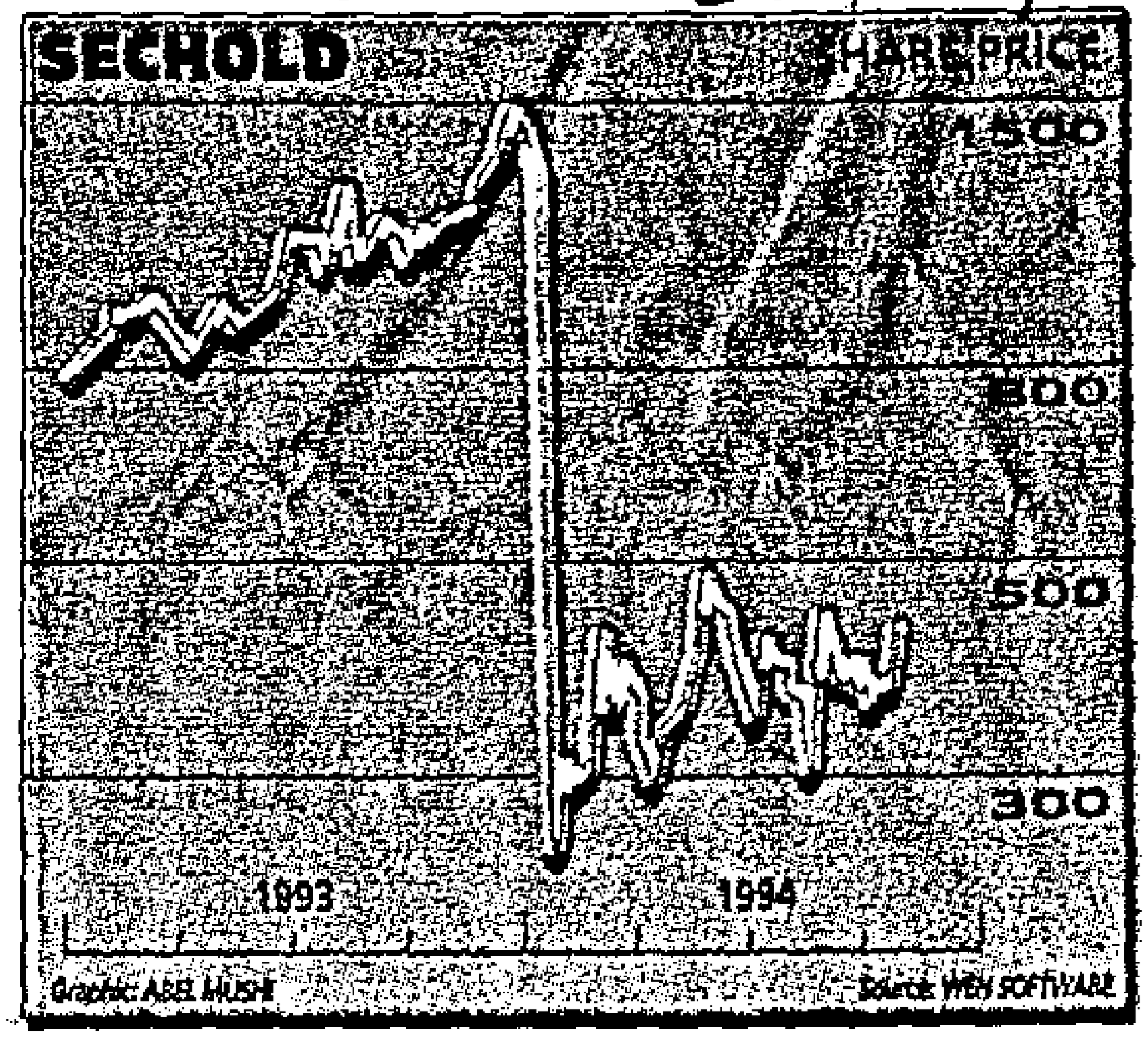
Banking, securities trading and related financial services group Sechold, which was recently acquired by Investec, has undertaken a close scrutiny of its risk management process, which has now been integrated with Investec's.

Sechold MD Bernard Kantor says in the group's 1994 annual report the R197,7 million loss Sechold incurred on futures trading in late 1993 indicated a flaw in its risk management process.

This process was essentially sound at subsidiary level, but was not co-ordinated at group level.

In March, Investec injected R125 million of new capital into Sechold and became the controlling shareholder with 78 percent.

Sechold now reports directly to Investec's group risk manager on its risk management activities and these are examined at group and subsidiary level.




The risk management process focuses specifically on counterparty, interest rate, liquidity and price risks.

Although the group's results for the year to June were hit, not only by the trading loss, but by a R20 million provision, the four main subsidiaries — NDH Bank, District Securities Bank, Securities Investment Bank and Secfin Bank — traded well for most of the year.

The group's capital has been increased substantially and it is now considered adequately capitalised to conduct its traditional business and grow as opportunities arise. (180)

In the coming year, Sechold will continue to focus on its core activities in the securities market, Kantor says.

Its priorities will be to improve information technology and further strengthen risk management.

In response to the potential threat of increased competition from the international banking community, Sechold is establishing a research team to provide information for international investors and local clients.

Sechold shares were trading around 430c yesterday, but they have been to 500c since January, when the news of the trading loss filtered through to the market and the shares plummeted from R15 to 250c.

With the shares now 78 percent-held by Investec, reducing their tradeability, the restructuring of the company and loss of investor confidence, a recovery to last year's levels is unlikely in the foreseeable future and the share appreciation may be uninteresting in the short term.

In the long run, the core operations are sound and the group should benefit from its association with Investec.

# The IDC is facing a black future

~~247~~ ~~26~~ (180) cwm 30/9-6/10/94

From PAGE B1

assists businesses with assets of R5-million to R100-million, which we regard as small business.

The IDC handed over its small business development arm to the SBDC, of which it owns 50 percent, when it was formed.

"We're a small outfit of 500 people, handling assets of more than R10-billion. The SBDC handles R1-billion with double that staff. We serve companies that don't need much after-care."

Despite a perception that the IDC toed the apartheid government line, and was an instrument of decentralisation policy aimed at putting industry next to the labour pools of the homelands, as well as being a home for Afrikaner males, Van der Merwe says the IDC is non-political.

"We're a non-political organisation, and have been non-political since our formation in 1940. There are no politicians on the board."

However, the government appoints the directors of the IDC.

The government has the rights of a shareholder: it is not allowed to interfere in the day-to-day running of the company but can intervene by changing the board and firing the management.

The threat of intervention may be enough, hence the high-profile black empowerment projects.

The IDC's present board is white, Van der Merwe admits, but it has an active affirmative action programme. Rather than go in for tokenism in a rush to appoint a black board member, he says, the IDC has waited until after the election, and the present board will be expanded in January with the appointment of four or five new members.

Senior management has no black representation yet. There are four or five black managers.

Of the 250 professional staff, 45 are black. On the administrative side the figure is 20 percent black, and this does not include blue collar workers such as cleaners and drivers.

He admits the IDC is under a lot of pressure to step up the number of black staff.

Care must be taken with affirmative action not to damage the IDC's "core of competence", he says. "We employ top guys here. The government relies on us for expertise. For example, we were asked to do a study for the government on the financial implications of the Olympic Games."

Better paid than the public sector, IDC staff are not paid top-dollar.

Research shows IDC pay to be in the third quartile — in other words, second from the bottom of private sector companies surveyed, if pay is divided into four groups.

"For a parastatal we probably should be paid less then the private sector."

It is also a misperception that the IDC is sitting on assets which could be sold off to fund the RDP.

The large projects the IDC is involved in mean the IDC has to find R10-billion to create projects of R30-billion over five years. That has to come from the sale of IDC assets.

The IDC has sold around R4-billion-worth of assets already to meet the commitments of, among others, the Alusaf project, and most of the assets it has acquired over the years will have to be sold to finance large projects.

Many of the shares it holds are unquoted, and this makes them more difficult to sell because in many cases they have pre-emptive rights attached.

For the future the IDC sees three streams of investment.

One will go into social upliftment in meeting basic needs, much of it stimulated by the government.

Another will be capital intensive investment to create badly needed foreign exchange, in large projects where the stress is on beneficiation, that is turning raw materials into something more valuable, like iron ore into steel coil.

The third is investment in labour-intensive large-scale agricultural programmes. The IDC is involved in tea plantations, coffee growing, edible nuts of various types, table grapes for export and orchard schemes.

Van der Merwe notes that the citrus industry can be expanded by about five percent to create another 20 000 jobs.

"If I was in government I would not interfere with something that is working well. I would, however, like to accommodate whatever makes sense, if they come up with ideas which make us more efficient in terms of job creation."

The government has received over R2-billion in tax and dividends from the IDC over its existence against the R900-million it has put in.

Van der Merwe stresses the IDC doesn't do social upliftment or infrastructure.

Working within the framework of policy set by the Department of Trade and Industry, the IDC has to get its money back plus profit.

Echoing comments frequently made by SBDC managing director Ben Vosloo, Van der Merwe says the development corporations to the north of South Africa are bankrupt.

"Where they went wrong was by taking over existing businesses. Surely this is not envisaged for the IDC.

"I see the IDC hopefully carrying on under the new government the same way as it did in the past."

## CURRENT PROJECT DEVELOPMENTS

### Natural resource beneficiation

| | Rm |
|---|---|
| **MINING BASED** *(capital intensive)* | |
| Aluminium smelter | 7 200 |
| Mini steel mill | 4 400 |
| Stainless steel | 4 100 |
| Phlogopite | 3 770 |
| Heavy minerals | 1 100 |
| **AGRICULTURE BASED** *(labour intensive)* | |
| *Dissolving pulp | 1 000 |
| Polysols | 4 000 |
| *Lysine | 300 |
| Pistachio nuts | 117 |
| Tea replanting | 100 |
| *Dates | 13 |
| Cashew nuts | 10 |
| Coconuts | 10 |
| **OTHER** | |
| Petrochemical complex | 6 000 |
| Electronic detonators | 100 |

*Approved by IDC board, being implemented

## BLACK ADVANCEMENT

| | |
|---|---|
| Medical clinics | R40-m |
| Sorghum Breweries | R44-m |
| Eastern Cape bottling plant | R15-m |
| Metropolitan Life | R140-m |
| Community Bank | R40-m |
| Merchant Bank | R8-m |
| Cellular phone development | R97m |
| SA Express | R8-m |
| Total | R392-m |

# Seardel to maintain prudent dividend cover to cut gearing

BDay 3/10/94

EDWARD WEST

CAPE TOWN — Clothing, electronics and toy group Seardel budgeted a 12,5% increase in earnings to 135c a share in the year to June 1995 and planned to maintain prudent dividend cover to reduce gearing further, chairman Aaron Searll said in the annual report.

The earnings growth forecast was substantially lower than that reported in the year to June 1994, when earnings rocketed 85,4% to 120c a share. The past financial year's results far surpassed Searll's earlier predictions. The current cost income statement — which adjusts earnings to take inflation into account — reported earnings at 70c a share at year-end.

Searll forecast turnover to rise 16,6% to R1,4bn in 1995, pre-tax income to R46m from R41m and the dividend to 27c (24c).

The group's financial gearing ratio was reduced to 49% (62%), with interest bearing debt of R100m compared with total assets of R553m. The total debt to equity ratio fell to 164% (177%), with a further improvement dependent on the economic upturn continuing.

Searll said certain textiles were in short supply. Because of high duties it was not possible to substitute these with imported fabrics and government should allow these fabrics to be imported under rebate of duty until the local industry was able to supply at normal levels.

He said the clothing industry was also concerned at the recent request by Zimbabwe for preferential access for clothing and textiles into the SA market. This was perceived as opening a conduit through which textiles imported into Zimbabwe could be processed and exported to SA to the detriment of local manufacturers.

The industry was also "gravely" concerned about the apparent inability of customs and excise to police import duty regulations. And in spite of numerous requests, government had not responded to calls for clarity on export incentives from April next year.

(180)

GEIS allowances were made taxable and the duty credit certificate scheme was in place only until March 1995. Searll said exporters needed incentives to be extended on an ad hoc basis for a minimum of one year until a long-term programme was in place, as manufacturers needed to sell nine months forward.

On the group's prospects he said the economy's favourable response to political transition should allow real earnings growth this year. Business and consumer confidence was on an upward trend, boding well for SA in the medium term.

# Manufacturers 'forced to look abroad'

(180)

CT 2/11/94

By MAGGIE ROWLEY
Deputy Business Editor

DUE to subdued increases in consumer spending, manufacturers will find the going tough unless they increasingly turn to foreign markets.

So warns the Bureau for Economic Reaserch in its latest forecast on economic prospects for 1994 and 1995.

The increase in private consumption, it says, is expected to drop off in the fourth quarter to 1,7% from the 2% growth recorded in the previous two quarters bringing the overall increase in consumer spending to 1,9% for 1994.

## Rise in exports

Increased private consumption was not expected to exceed a quarterly growth of 2% before the second half of 1995 giving an average increase for next year of 2,3%, says BER.

BER forecasts that manufactures will indeed look to offset low domestic demand through exports, which it estimates will increase sharply in the new year, showing growth of 9,4% in the first quarter from an estimated 3,4% increase in the current quarter. This growth is expected to level off during the remained of 1995, giving an overall growth of 5,7% for 1995 against the projected 2,2% this year.

The forcasted growth in exports is however unlikely to be sufficient to offset the impact of growing imports and to prevent the current account moving into a deficit by mid-1995. Fortunately capital flows were expected to show significant improvement during the forecast period but if tis failed to materialise, the overall balance of payments could once again dampen economic growth in SA, says BER.

Rapid growth is forecast for fixed investment which would need to be financed by higher exports volumes.

After rising 5,2% in the third quarter, fixed investment is forecast to grow by 6,9% in the current quarter rising to 8,6% in the first quarter of next year and reaching 13,9% by the fourth quarter of 1995 to give an overall growth of 11,8% for 1995 against the estimated 4,6% for this year.

South Africa's political climate is expected to remain relatively stable and should not curb economic growth during the next 12 months, but a perceived non-delivery of pre-election promises has started to create unhappiness.

BER says the climate for foreign investment appeared to be improving despite the dual exchange rate system.

A higher level of foreign reserves — linked to an expected narrowing of the discount between the commercial rand and the financial rand — should improve conditions for abolishing the financial rand but this appeared unlikely during the forecast period.

"It should, however, be kept in mind that capital could be attracted to the country more rapidly than is generally expected and the enormous pressure which is being exerted on the monetary authorities for the abolition of the financial rand should also not be underestimated," says BER.

Government's consumption expenditure was expected to increase further during the forecast period which will put upward pressure on taxes in general, while inflation would also rise more rapidly. This should encourage monetary authorities to tighten their policy.

It seemed the overall policy would discourage vigorous economic growth, but exports were expected to play a crucial role in the country's economic fortunes.

## Rise in exports

The survey forecasts the inflation rate will increase to more than 12% in the first half of 1995 before declining to 10% by year end to give an average inflation rate of 11,5% for next year.

A further increase in the bank rate is expected at the beginning of the second quarter.

# Manufacturing surge shows strong demand

8/Dcu 9/11/94

MICK COLLINS

A SURGE in manufacturing output for the three months to August pointed to strong underlying demand which could move into the consumer sector, economists said yesterday.

Figures released by the Central Statistical Service (CSS) showed a 2,2% rise in seasonally adjusted manufacturing production for the period compared with the previous three months, despite the motor strike.

The seasonally adjusted value of sales of total manufacturing increased 6,2% compared with the previous three months.

The largest increases were recorded by petroleum and coal (R584m), basic iron and steel (R375m), food (R325m) and metal products (R262m).

But economists pointed to the fact that most of the improvement occurred in August.

Ed Hern, Rudolph economist Nick Barnardt said the underlying production figures in August gave a picture of very strong demand with a good month-on-month increase.

"The motor industry strike started late in July and continued for the duration of August. I had fears that the August figure would be sharply down as the motor industry comprises 6% of the manufacturing index."

(180)

This indicated that the rest of manufacturing production was strong.

Some of the largest gains for August came from the rubber products sector, where the index rose from 99,9 to 111,7, and metal products which rose from 98,4 to 105,3. Furniture rose to 103,5 from 97,5 while chemical products rose to 99,6.

# New-look Barlows finishes ahead of earnings forecast

Star 15/11/94

**BY CHARLOTTE MATHEWS**

**Warren Clewlow** pleased with results.

The new-look Barlows, which unbundled its interests in CG Smith, Reunert, Rand Mines and Rand Mines Properties in January, improved earnings above forecast to 170,5c a share in the year to September.

This is 35,3 percent better than the pro forma 126c a share in the same period in 1993 and slightly above the forecast of 168c a share made in October, when the group announced a $75 million convertible bond issue.

Turnover grew by 9,4 percent to R12,9 billion and operating profit lifted 25,3 percent to R583,5 million as margins improved on a combination of higher operating efficiency, increased market shares and a focus on cost control.

(2332)180

The interest bill dropped to R178,3 million from R230,8 million, showing gearing at only 13,4 percent.

The group also holds R707 million in cash, which operations director Russell Chambers said yesterday would be used to fund higher working capital requirements in the current year.

The tax rate eased to 36,9 percent from 45,6 percent, thanks to STC credits on various investments.

Attributable profit surged by 37 percent to R338,6 million. A total dividend of 56c has been declared.

An extraordinary credit of R33,7 million arose on profits on disposals, including the Randgold stake, less goodwill written off.

Chairman Warren Clewlow said he was pleased with the results.

The largest contributor to earnings was PPC.

Barlows Equipment lifted earnings significantly as demand for earthmoving equipment, parts and service and for materials handling equipment strengthened.

Federated-Blaikie achieved an operating profit on higher volumes, reflecting the home building industry's emergence from recession in the later part of the year.

All divisions of Plascon contributed to a better performance and Robor Industrial Holdings increased its earnings through market focus and good asset management.

Barlows Consumer Electric Products made a small loss because the market for consumer appliances remained depressed, but higher demand for motor vehicles helped Barlow Motor Investments improve earnings.

The overseas operations, housed in J Bibby & Sons, reported a pre-tax profit of £19,6 million, mainly because of a reduction in the loss made by the capital equipment division in Spain and Portugal, as well as lower borrowings and a stronger pound.

Clewlow said Barlows' experienced management, strong brands, market share and ample production and financial resources placed it in a good position to make a worthwhile improvement in earnings in the coming year.

Barlows shares firmed 50c to R33,25 on the JSE yesterday, putting them on a P/E of 19,5 on the latest figures, where they are ahead of the building sector average of 15,8, but slightly behind the diversified industrial holdings sector average of 20.

# Restructuring at Barlows pays off

BDay 15/11/94

BEATRIX PAYNE

BARLOWS reaped the benefits of its unbundling and a boom in fixed investments during the second half to show a 37% surge in earnings to 170,5c a share for the year to September, it said yesterday.

The results were slightly ahead of expectations as the group — which was now focused on construction and building interests — had announced in October that earnings would rise 33,3% to 168c a share.

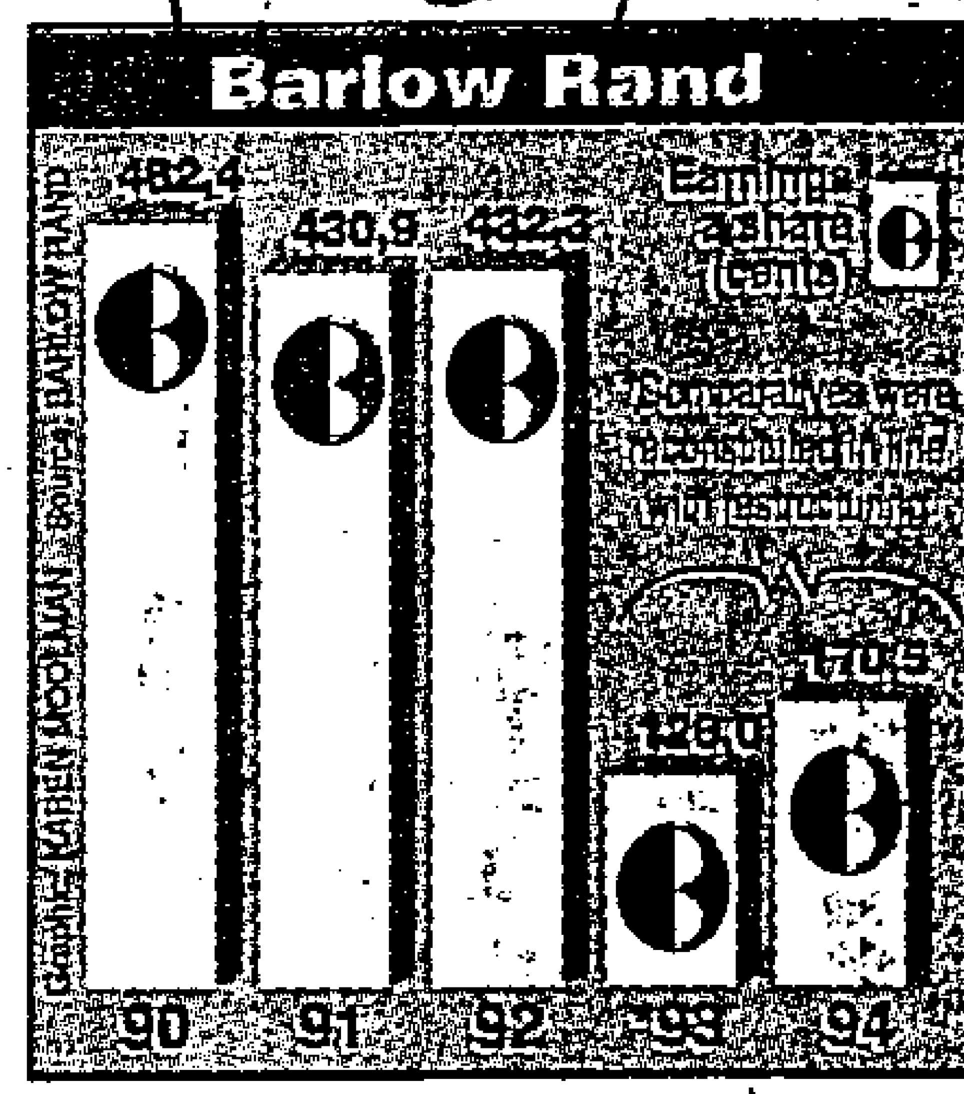
"This shows that restructuring to our current position was correct and once the uncertainty over the election period was over, all the sectors improved," financial director Des Arnold said.

The comparative figures for financial 1993 were reconstituted in line with the restructured group.

Turnover rose 9,4% to R12,9bn despite the disposal of certain non-core businesses largely related to the group's offshore operation J Bibby. (180)

Operating margins improved on the back of improved operating efficiencies, increased market shares and a focus on cost control. As a result, operating profit before interest rose 25,3% to R583,5m.

With reduced borrowing, interest paid fell to R178,3m (R230,8m). Income from investments rose to R231,1m (R214,2m), which left pre-tax income 41,7% higher at R636,3m. The tax bill increased 31,7% to




☐ To Page 2

# Barlows

BDay 15/11/96 From Page 1

R223,9m despite a fall in the effective tax rate to 36,9% (45,6%). The higher tax payment reflected an increase in profit, but had been reduced by the group's secondary tax on campanies' credits. This left after-tax profit 47,8% higher at R412,4m (R279m). Profit after tax including associate companies rose 38,4% to R413,6m.

Profit attributable to ordinary shareholders increased to R338,6m (R247,3m) and a final dividend of 38c a share was declared, lifting distribution to 56c a share.

The group declared an extraordinary profit of R33,7m (R62m loss) after write-offs and the sale of certain assets including Randgold. Gearing was down to 13,4% and the group had R707m cash on hand, chairman Warren Clewlow said.

Increased demand for cement and lime and higher income from investments saw a strong performance from Pretoria Portland Cement (PPC). 180 (222)

Demand for earthmoving and materials handling equipment "strengthened considerably". Federated-Blaikie reported an operating profit as the home building industry emerged from a recession and volumes improved during the last four months of the period, he said.

Plascon continued to show growth and Robor Industrial Holdings saw earnings increase on the back of "focused marketing and good asset management".

But Barlows Consumer Electric Products reported a loss as the market for small consumer appliances remained depressed. Barlow Motor Investments produced higher earnings as demand for new vehicles rose, despite the effects of the motor industry strike.

J Bibby was restructured and produced better results as the Capital Equipment division in Spain and Portugal reduced its operating loss before interest to near breakeven point.

After raising $75m on the international bond market, funds were in place to expand the group's recently acquired Caterpillar operations in Angola, Malawi, Zambia and Mozambique.

The group was well placed to "play a positive role in the national interest" and a "worthwhile increase" in earnings was expected for the year ahead, Clewlow said.

THE WEEKLY MAIL & GUARDIAN
November 18 to 24 1994

# Clash over role of traditional leaders

WM 18-24/11/94 (180)

Hostage-taking and deaths are the result of a clash between the civics and traditional leaders, reports **Farouk Chothia**

DISAGREEMENTS over the role of traditional leaders has led to violence between members of the South African National Civic Organisation (Sanco) and the Congress of Traditional Leaders of South Africa (Contralesa) in rural parts of the Eastern Cape.

Contralesa this week blamed the violence — which has resulted in hostage-taking and at least two deaths — on Sanco members bent on "wiping out" traditional structures. Sanco hit back by accusing armed headmen who derived their power from the apartheid regime of being behind the conflict.

To add to the tensions, Contralesa and the provincial government are locked in dispute over the creation of a House of Traditional Leaders.

Contralesa Eastern Cape chairman, chief Mwelo Nonkonyana, said that with the provincial MEC for Local Government and Housing Max Mamase being a former Sanco member, the regional government has been unable to "put Sanco in order".

"If the provincial government does not take a firm stand, it will have a negative impact on the 1995 election," Nonkonyana warned.

He claimed that attacks on Contralesa members since the April elections included:

● A Mr Vananda, who is a headman in the former Transkei's Nqamakwe area, was "dragged out" of his vehicle and taken hostage in July. He was "interrogated" until midnight. Sanco members also "forced" the headman's wife and children out of the area.

● Chief Zamodla Ndamase, the head of a traditional authority in Ngqeleni, was "physically attacked" in September while performing his duties. He has laid assault charges and a court case is pending.

● Sanco members "occupied" the offices of traditional authorities and magistrates in the Herschel district in July, resulting in a "fierce battle" taking place.

Nonkonyana also claimed Sanco members were preventing people from attending community gatherings called by chiefs, were bypassing chiefs in the allocation of kraal sites and had brought a newly-introduced government feeding scheme in Libode to a "standstill" after attempting to "hijack" it.

Sanco deputy president in the Border region Joe Jordan vehemently denied Sanco was opposed to chiefs as this would be "tantamount to saying that Sanco is against the interim constitution". But Sanco had problems with the headmen, who act as advisors to chiefs and to whom chiefs delegate authority.

"The headmen system is not traditional. It was created by the previous South African government. (The headmen) have dented the image of chiefs. They were used by the Ciskei regime to crush our people," Jordan added.

Jordan said headmen were armed even "at the present moment" and a headman has been implicated in the murder of two Sanco members who will be buried in the King William's Town district this weekend. "The point of dispute is that (Contralesa) does not want to compromise anything with regard to the headmen system. We are prepared to work with chiefs but not headmen," Jordan added.

Nonkonyana also accused the provincial government of negotiating in "bad faith" over the creation of a House of Traditional Leaders.

"We have been negotiating since June but they are adopting delaying tactics," claimed Nonkonyana.

He added that Contralesa has proposed an 82-member House with chiefs receiving the same salary as provincial MPs. This is reportedly R184 800 a year.

Nonkonyana said while members of the provincial government have "raised eyebrows" about the cost of running the House, they have still failed to table a counter-proposal. "We are amenable to negotiations. We do not have any firm demand," Nonkonyana added.

Repeated attempts to contact Mamase, the provincial MEC, were unsuccessful.

According to Nonkonyana, the draft bill for the House has been "published but still not formally introduced to the provincial legislature". He said the bill was with the select committee dealing with traditional affairs.

In kwaZulu/Natal, the bill for the creation of the House was recently passed amid fierce opposition from the minority African National Congress (ANC) and Zulu king Goodwill Zwelethini who claims the bill will turn him into a "mere chief" in the House.

At a national level, a bill for the creation of the House was passed in parliament this week, though some Inkatha Freedom Party (IFP) members are believed to have expressed reservations as they fear they would not control the House.

ECONOMIC OUTLOOK

FM 18/11/94

# The factory factor is positive

**GDP figures** for the third quarter are below expectations. But an analysis of figures provided by Central Statistical Service shows they are not as discouraging as they appear.

Total GDP grew 2,6% in the third quarter, after a 1,6% rise in the second and shrinkage of 3,6% in the first. These are quarterly changes, seasonally adjusted and annualised, as are all other quarterly changes referred to below.

Measured at factor incomes — with subsidies and without taxes — third-quarter growth was 2,1%.

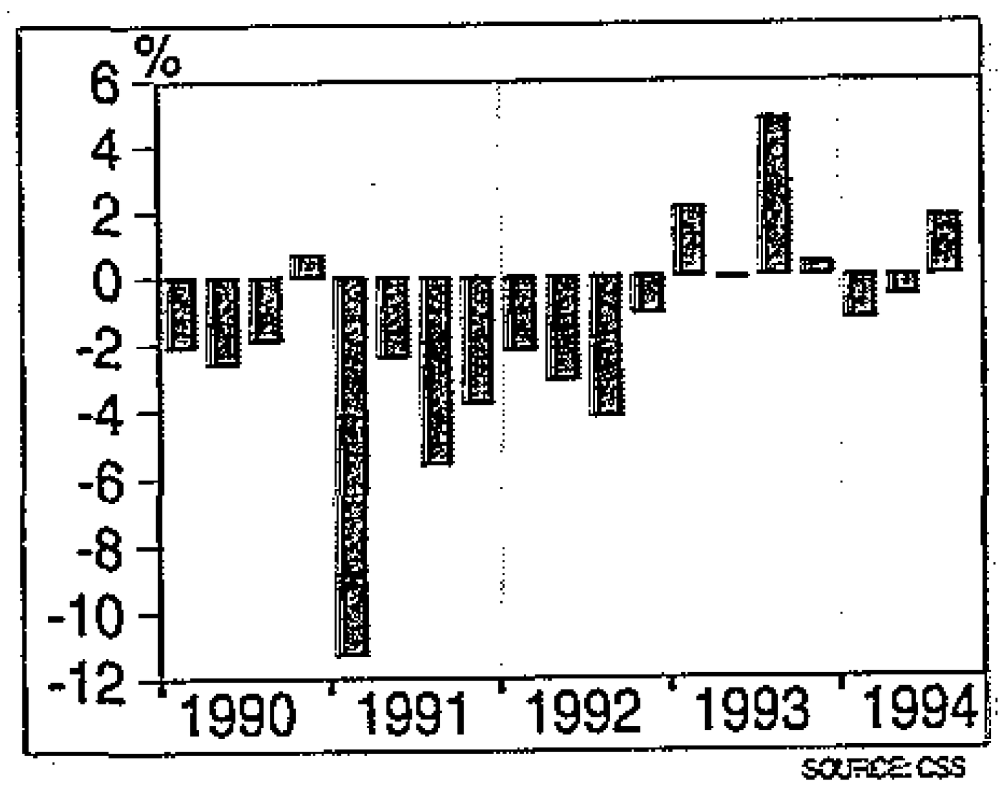
Implications for growth in the year are not encouraging. To achieve annual growth of 2%, based on market prices, fourth-quarter growth would have to be around 4,5%. Sacob's Keith Lockwood says that, if calculations are based on factor incomes, it would take more than 9% growth in the fourth quarter.

The good news is that growth could be substantially higher in the fourth quarter whichever way it is measured.

There is considerable potential in the manufacturing sector which provides 40% of nonagricultural private sector jobs. In mid-1993, the sector made a recovery (see graph). Sadly it was aborted by the political turmoil that preceded April's general election. And economic activity in the sector contracted in the first half: by 1,3% in the first quarter and 0,6% in the second.

The third quarter, however, showed a 1,8% rise in value added in manufacturing. It has barely recovered ground lost in the first half but is an indication of returning confidence in future consumption.

**MANUFACTURING GDP GROWS AGAIN**




SOURCE: CSS

It was achieved despite the costly 27-day strike in the motor industry which lost 540 000 man-days, according to Andrew Levy & Associates. The strike ended in the second week of September.

This dent in output was clearly not as disruptive as the combined effect of proliferating public holidays in the second quarter and the production lost as political violence eroded output before the election and damaged both consumer and producer confidence. (180)

There is also the possibility of making up for lost production. Costa Pierides, of Naamsa, which represents the motor manufacturers, says the industry is adding about 60 hours — an extra third — to its traditional month. "This will continue until the 45 000 lost units are made up."

Some factories will delay year-end holidays until quotas have been met.

Similar arrangements are being made following other less publicised strikes. Workers who lost income in industrial action are eager to recoup their losses.

The additional production will clearly boost fourth quarter GDP. Pierides points out though that the situation does not allow for additional demand, so the motor manufacturers will not be able to respond to rising demand until early February. This bottleneck could give a boost to the first quarter of 1995.

Unfortunately, this is delaying the crucial growth cycle and it is still dependent on how successfully labour disputes are resolved in future.

Industry analysts estimate that recent wage settlements have been no higher — around 10% — than they were in the first quarter. No additional inflationary impetus was created by unrealistic settlements and union leaders have been exposed to the reality of the market place.

A breakdown shows agriculture has once again provided a welcome boost to growth. It rose 8,5% after a 7,1% rise in the second quarter and a 60% fall in the first.

Nonagricultural growth was 1,8%:

- Mining was static — it shrunk 8,1% and 6,3% in the preceding quarters;
- Electricity, gas & water up 1,9% after rises of 1,7% and 2%;
- Construction 1,1% after 1,9% and 3,7%;
- Trade & catering up 2% after 4% and 1,8%; and
- Transport & communications 2,7% after 3,1% and 2,6%.

A sector that did well, for the third consecutive quarter, was finance & real estate — it grew 4,7% (4,7% and 4%).

Much now hinges on the productivity of the manufacturing sector which contributes about 25% of total GDP. And this depends on trade unions not expecting increases which are completely out of line with growth in the economy and inflation. The success of the RDP is hostage to workers with unrealistic wage demands. ■

# Manuel rules out leeway on subsidies

SI Times [illegible]

20/11/94

By CIARAN RYAN

TRADE and industry minister Trevor Manuel has said again that government has no money to support the fuels, textiles and electronics industries with subsidies running to billions of rands a year.

The textiles industry is asking for a R4,5-billion restructuring package over the next 10 years, Mossgas — which falls under minerals and energy affairs minister Pik Botha — wants R600-million to extend the life of its gas reserves, and the electronics industry has asked for R220-million for restructuring, and for excise duties of R114-million to be scrapped.

Fuel industry protection costs the motorist an estimated R3-billion a year, according to oil industry sources, while the chemicals industry is asking for import tariff relief.

Mr Manuel says the age "of motherhood and apple pie" is over for inefficient industries. He says restructuring assistance must be weighed against other priorities.

"The Government's top priority is job creation," says Mr Manuel. "We are concerned about potential job losses in textiles and other industries and believe the government has a role to play in helping them restructure so they can become competitive.

"But we want to de-emphasise the issue of cash payments and get industry players to look at what they can do for themselves to improve productivity."

Mr Manuel says the general export incentive scheme (Geis), which cost taxpayers R2-billion a year for the benefit of a few dozen companies already engaged in exporting, is to be replaced next year by a pre-export financing scheme which will assist exporters' cash flows.

Geis was only moderately successful in promoting manufactured exports, widely open to abuse, and in contravention of the General Agreement on Tariffs and Trade to which South Africa is committed.

The SA Poultry Association wants "loopholes" in import tariffs closed to prevent mechanically deboned and spiced chicken coming in at a tariff of only 8c/kg compared with R3,13/kg for normal chicken.

Brian Brink, executive director of the Textiles Federation, says the recent fallout between clothing and textiles manufacturers weakens the federation's hand in its request for R4,5-billion to restructure the industry.

The R12-billion a year electronics industry exports just 2% of its output but imports R4,3-billion a year in components.

Botswana has objected to elements of the new motor industry restructuring programme, while some South African motor manufacturers claim Botswana-based assemblers are contravening Phase VI local content rules by raising the selling prices of cars to meet local content requirements.

The motor industry's GATT offer to reduce tariffs to 50% over eight years is opposed by some assemblers and component manufacturers who fear foreign competition. [BUSS]

Robin Bosomworth, head of the Independent Wire Converters Association, says lobby groups have started to lose heart following the change in government.

"If the government starts handing out money to one sector, it has to decide which industries are most deserving, and that opens the door for every other lobbyist to appeal for money too. (180)

"The only solution is to allow free trade. This will sharpen domestic competitiveness as never before and the customer will once again be king instead of a cow to be milked."

Mr Manuel says the Department of Trade and Industry faces a budget cut next year, and funds released by the phasing out of Geis will go towards more deserving causes.

"There is a danger that if we hand out money to one industry, others will follow," says Mr Manuel. "We are loathe to create a precedent and new obligations."

(180)

CT 23/11/94

# Manufacturing hits the high road

From MUNGO SOGGOT

JOHANNESBURG. — Manufacturing production in the third quarter of 1994 rose a seasonally adjusted 4,3% from the second quarter, reaching the highest level since the third quarter of 1991, Central Statistical Service figures released yesterday showed.

The rapid pace of expansion occurred virtually across the board, with most manufacturing groups reporting increases after seasonal adjustment.

The CSS said third-quarter production volumes were 3,5% higher than in the same period last year.

SA Chamber of Business (Sacob) economist Keith Lockwood said the figure matched expectations and was in line with Sacob's survey of confidence levels in the sector. Apart from the strike-hit motor industry, most manufacturing groups had enjoyed an increase in new orders.

## Sector set to lead recovery

Econometrix economist Tony Twine said it was heartening that the rate of increase in manufacturing production was outstripping overall GDP growth, pegged at 2,6% annualised in the third quarter.

The sector was now gearing up to lead the recovery, whereas it had previously lagged behind and it was a promising sign that growth was widespread. "The uptick is likely to have a positive effect on employment in due course," he said.

Increases were reported in 22 of the 28 major manufacturing groups. The main contributors were manufacturers of coal and petroleum products, metal products, basic iron and steel industries and the food and electrical machinery industries.

The value of manufacturing sales in the third quarter was 3,5% up on the same period last year at R62,3bn. The food sector turned in the highest increase in sales value of R591m, followed by the chemical sector with a R240m increase.

Sales in the petroleum and coal sector were up R368m, the basic iron and steel sector was up R370m and the metal products industries' sales rose R341m.

The motor vehicle industry sustained a R628m decline in sales, but economists believed when this industry gets back on track, SA could be set for an impressive performance on the manufacturing front.

# Manufacturers in gear for recovery

B/Day 23/11/94

MUNGO SOGGOT

MANUFACTURING production in the third quarter of 1994 rose a seasonally adjusted 4,3% from the second quarter, reaching the highest level since the third quarter of 1991, Central Statistical Service figures released yesterday showed.

The rapid pace of expansion occurred virtually across the board, with most manufacturing groups reporting increases after seasonal adjustment. (180)

The CSS said third-quarter production volumes were 3,5% higher than in the same period last year.

SA Chamber of Business (Sacob) economist Keith Lockwood said the figure matched expectations and was in line with Sacob's survey of confidence levels in the sector. Apart from the strike-hit motor industry, most manufacturing groups had enjoyed an increase in new orders.

Econometrix economist Tony Twine said it was heartening that the rate of increase in manufacturing production was outstripping overall GDP growth, pegged at 2,6% annualised in the third quarter.

The sector was now gearing up to lead the recovery, whereas it had previously lagged behind, and it was a promising sign that growth was widespread. "The uptick is likely to have a positive effect on employment in due course," he said.

Increases were reported in 22 of the 28 major manufacturing groups. The main contributors were manufacturers of coal and petroleum products, metal products, basic iron and steel industries and the food and electrical machinery industries.

The value of manufacturing sales in the third quarter was 3,5% up on the same period last year at R62,3bn. The food sector turned in the highest increase in sales value of R591m, followed by the chemical sector with a R240m increase.

Sales in the petroleum and coal sector were up R368m, the basic iron and steel sector was up R370m and the metal products industries' sales rose R341m.

The motor vehicle industry sustained a R628m decline in sales, but economists believed when this industry gets back on track, SA could be set for an impressive performance on the manufacturing front.

# Organic growth boost for Servgro

Star 23/11/94

**BY CHARLOTTE MATHEWS**

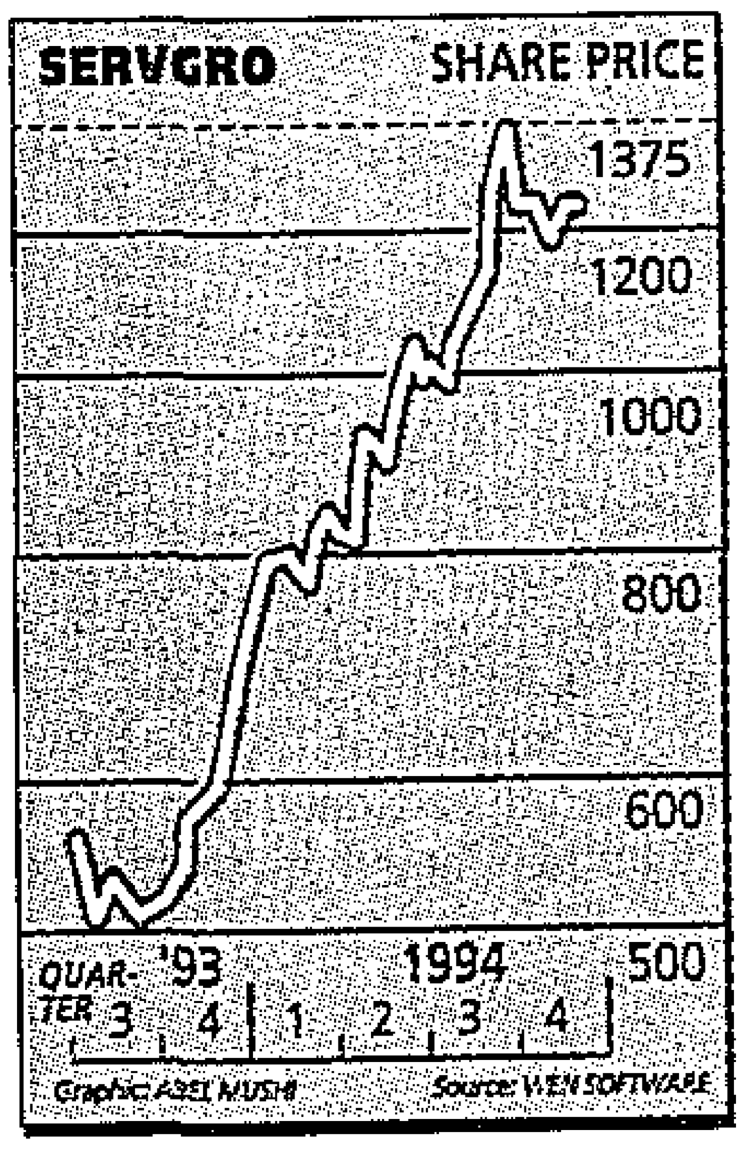
Organic growth in the six months to September lifted profits for Servgro, whose holdings include Avis, Teljoy, Naspers and Interleisure, by 18 percent to R32,2 million against the same period in 1993.

Turnover was 8 percent higher at R535,6 million, on which operating income of R65,3 million (R64,2 million) was made, showing margins easing to 12,2 from 13 percent.

Chairman Peet van der Walt said yesterday the group aimed to keep margins at 12 to 13 percent.

The interest bill was lower, with gearing at 13 percent from 17 percent. The tax rate was unchanged.

Income from associated companies — Teljoy, Protea Hotels within the Fedics subsidiary, Fleet Services within subsidiary Avis, and Medscheme within Price Forbes — rose to R6,2 million (R3,8 million).




Outside shareholders' interest dropped to R15,4 million (R16,2 million).

Earnings a share were 29,2c (24,7c). An interim dividend of 9c (8c) has been declared.

Directors cautioned that rationalisations within Interleisure and a restructure of Price Forbes' interests in Medicaid meant turnover, operating income, associated companies and outside shareholders' figures for the preceding year were not directly comparable.

An additional 7 percent interest in Price Forbes, bringing Servgro's holding to 55 percent, is being bought as a 14 percent share in the group has became available.

The other 7 percent has been placed in a trust until an appropriate investor is found. The deal is still subject to formalities.

Servgro has for the first time published the profit contributions of divisional interests. Van der Walt said the greatest improvements were in travel, catering and entertainment.

Contributions from Price Forbes and Teljoy were stable.

Servgro still holds R50 million for investment, having spent R20 million in the past six months on redeeming some preference shares and topping up its holding in various companies. (180)

Some interesting acquisition opportunities in the local market were being investigated.

The 18 percent improvement in earnings was likely to be improved on for the full year because the travel-related businesses were doing well, better results were expected from Interleisure and the second half for the whole group was generally stronger.

The shares were trading at R12,50 yesterday and at a P/E of 23,5. Although they are listed in the hotels sector because of the interest in Interleisure, the P/E might be more fairly compared to the diversified industrial holdings sector, where the average is around 17.

Van der Walt said market perceptions of the value of Servgro's R484 million interest in Naspers had inflated the P/E ratio of Servgro shares. If Naspers were excluded from Servgro's market capitalisation and earnings, the market was actually undervaluing the rest of the businesses, particularly in view of growth prospects.

# Servgro claims its rewards

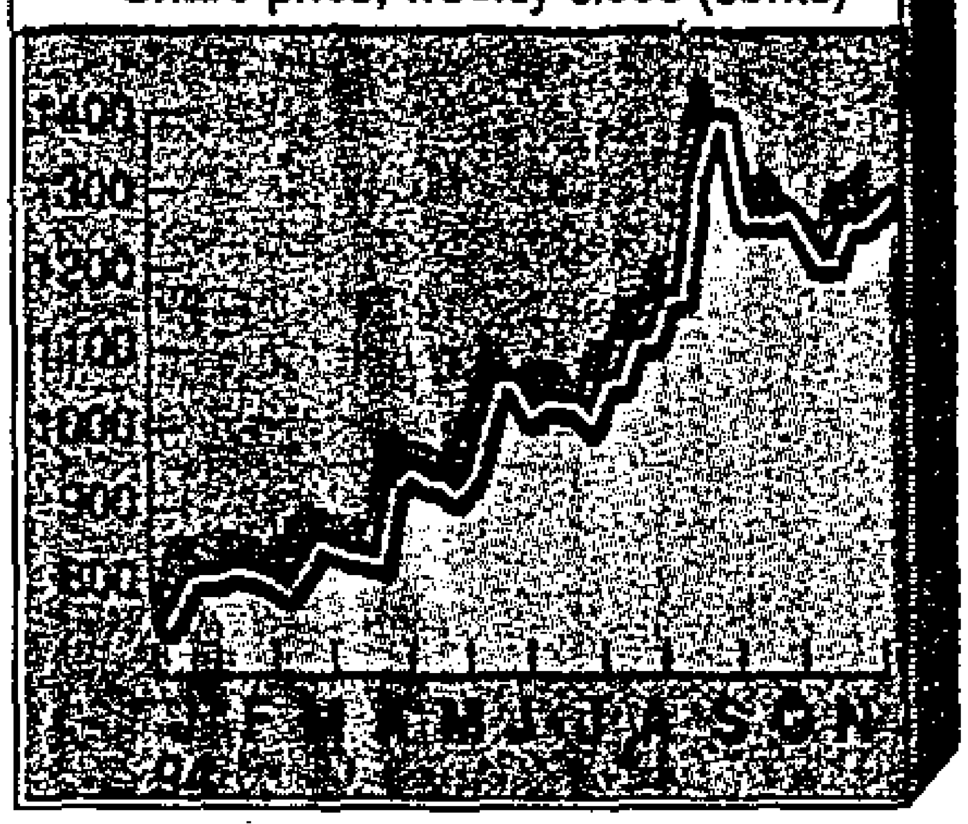
BDay 23/11/94

AMANDA VERMEULEN

SERVICES group Servgro, which has interests mainly in the leisure industry, lifted attributable income 18% to R32,2m in the six months to September, reaping the benefits of its more focused operations.

Earnings a share increased 18% to 29,2c and the group declared an interim dividend of 9c (8c). (180) (222)

Servgro
Share price, weekly close (cents)



Servgro also announced that it would increase its stake in brokerage Price Forbes to 55% for R60m, which would be financed through a share issue. Details would be published next week.

Chairman Peet van der Walt said although trading conditions had been sluggish in the first quarter, they had improved in the second, contributing to the 8% increase in turnover to R535,6m.

Operating income grew only 2% to R65,3m and pre-tax income 3% to R59,2m. Income after tax rose 4% to R41,4m.

Disposals and rationalisations within Interleisure included the sale of Squires, RJ's and Video Magic. The rationalisation of the Medicaid interest of Price Forbes resulted in Medicaid becoming an associate company. This, said Van der Walt, caused a change in the composition of turn-

☐ To Page 2

# Servgro

BDay 23/11/94

☐ From Page 1

over, operating income, income from associated companies and outside shareholders' interests, which meant operating figures were not comparable with the previous six-month period. Overall the group achieved a 12,2% (13%) operating margin.

Avis, Fedics and Interleisure all showed meaningful growth. Interleisure's performance had been boosted by a narrower focus on its core business of entertainment, and a 10% increase in attendances at Ster-Kinekor cinemas. The joint venture by Ster-Kinekor and Thebe Investments to take cinema to the townships promised further growth for Interleisure.

Van der Walt said Avis and the Fedics interests had increased their contribution to group performance. Teljoy's cellular interests had exceeded the group's expectations, and the market that service provider Teljoy Cellular had captured was four times larger than expected. Consequently, it would probably require further investment to build infrastructure.

Naspers was successfully listed in September, unlocking substantial value for shareholders. The Servgro interest in Naspers was valued at R484m.

The group was well positioned to take advantage of privatisation, and contracting out by government. (180) (222)

It was looking at possible acquisitions within its core profile, which could be financed with a combination of a share issue and the R49m in surplus funds. One area of interest was multimedia.

The remainder of the financial year was traditionally the better period for the group, and Van der Walt expected earnings to grow more than 20%.

# 'Expand state role in mining'

CT. 1/12/94.

(232)

Own Correspondent

JOHANNESBURG. — The ANC has called for a more active and radically expanded role for the state in promoting minerals development and black empowerment in mining. (180)

In its latest document on mineral and energy policy, the ANC also calls for radical commercialisation of state-supported bodies — mainly the Atomic Energy Corporation but also Soekor, Alexcor and Sasol — to free resources to fund new promotional agencies, including a small mines bureau.

Extensive use should be made of tax policy in a "carrot-and-stick" approach to promote mineral beneficiation.

The draft document, released yesterday for public debate, said the state should play a constructive, interventionist role in promoting black ownership.

MALBAK

FM 2/12/94

# Ready to perform

(180)

**Activities:** *Consumer-based conglomerate.*
**Control:** *Gencor and Sankorp (46%).*
**Executive Chairman:** *G S Thomas.*
**Capital structure:** *307,7m ords. Market capitalisation: R6,39bn.*
**Share market:** *Price: 2 075c. Yields: 1,9% on dividend; 6,5% on earnings; p:e ratio, 15,4; cover, 3,5. 12-month high, 2 200c; low, 1 225c. Trading volume last quarter, 10m shares.*

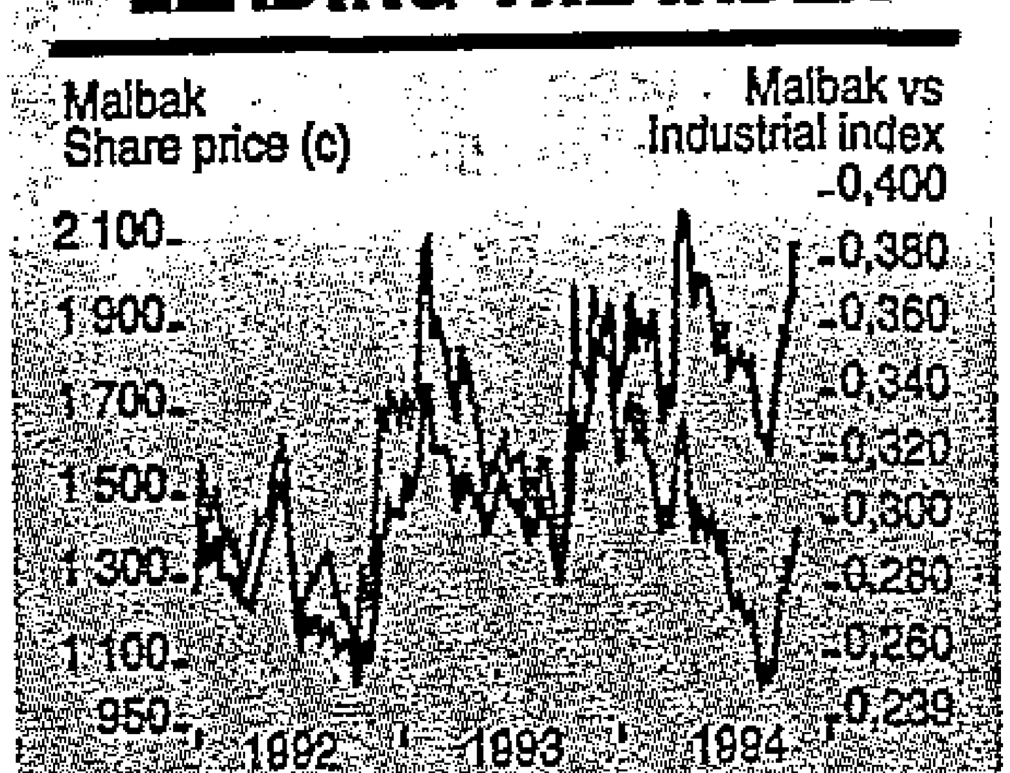
| Year to August 31 | '91 | '92 | '93 | '94 |
|---|---|---|---|---|
| ST debt (Rm) | 550 | 713 | 428 | 446 |
| LT debt (Rm) | 189 | 161 | 154 | 251 |
| Debt:equity ratio | 0,27 | 0,04 | (0,12) | (0,06) |
| Shareholders' interest | 0,49 | 0,52 | 0,55 | 0,53 |
| Int & leasing cover | 4,2 | 9,3 | 29,7 | n/a |
| Return on cap (%) | 12,6 | 11,4 | 10,8 | 10,4 |
| Turnover (Rbn) | 8,44 | 10,03 | 11,00 | 12,61 |
| Pre-int profit (Rm) | 537 | 654 | 712 | 765 |
| Pre-int margin (%) | 6,4 | 6,5 | 6,5 | 6,1 |
| Earnings (c) | 124 | 114 | 122 | 135 |
| Dividends (c) | 32,5 | 33,5 | 35 | 38,5 |
| Tangible NAV (c) | 684 | 766 | 904 | 948 |

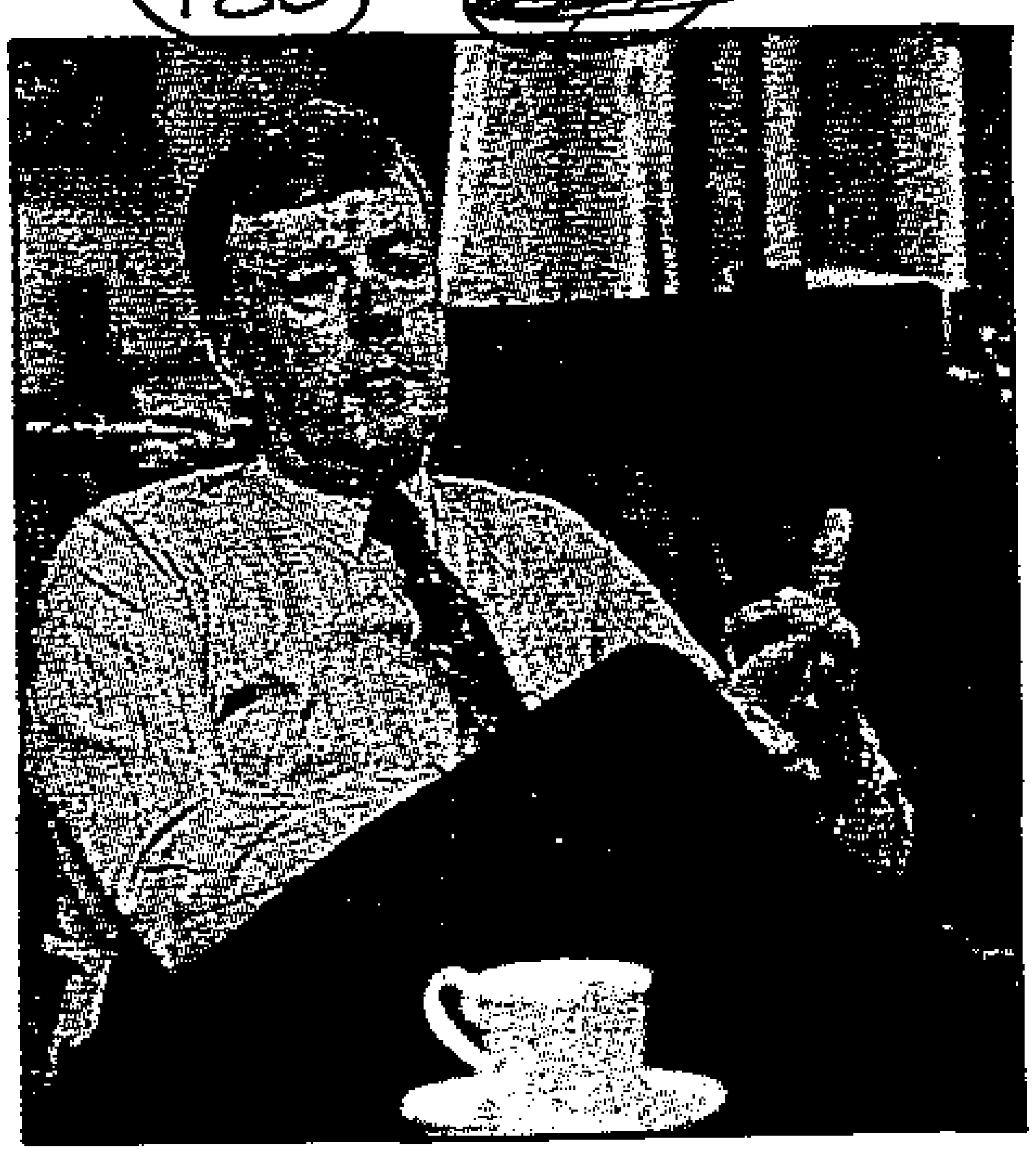
**Press comment** on Malbak's 1994 results was almost universally favourable, with consensus that the 11% earnings growth recorded by this consumer-based conglomerate for the year to end-August had been ahead of expectations, especially after the modest 5% gain at the interim stage.

The broader investing public, however, seems to have been more difficult to convince. Though the share price has gained strongly in recent weeks, the picture over the past year reflects a somewhat disturbing deterioration in market rating on two fronts — Malbak has underperformed significantly relative to the industrial market and, possibly more importantly, its own shares have not kept pace with the underlying value of the assets.

To deal with the latter first, the annual report gives tangible net worth at August 31, calculated at market or directors' valuation of all underlying assets (including subsidiaries), as 2 035c, a 30% increase on the 1 571c at the 1993 year-end. Against this, Malbak's own share price rose only 20% over the period, so the discount to net worth doubled from 5% to over 10% at the

## LEADING THE INDEX



**Thomas** ... *almost in line with underlying assets*

1994 year-end. However, executive chairman Grant Thomas says this situation has reversed since August 31 and, calculated on current market prices, Malbak at 2 075c is almost exactly in line with its underlying assets.

Nevertheless, measured against the broad industrial market, but based on p:e relatives, the current discount at which Malbak is trading relative to the market has widened from 13,5% a year ago to 23%, not much different to what it was in October 1991 before the Sankorp asset-shuffle which saw Malbak emerge as the focused consumer orientated group it is now.

The implication is that whereas the market a year ago was enthusiastic about the prospects for the "new" Malbak, perceptions since then have become jaded; probably because it has yet to beat its 1989 EPS peak of 136,1c, underscoring the considerable deterioration over the past five years in real terms.

The question now, however, is whether the market's downgrading of the share is fully justified on fundamentals. Here it is probably only fair to admit to some personal bias, since the group has performed almost exactly in line with the *FM*'s own expectations: in its review of the 1993 annual report the conclusion reached was that there were "reasonable prospects" that 1994 EPS would at least equal the 1989 high (in the event, they were 1,5c short) and that, thereafter, Malbak would probably embark on another strong growth phase (echoed this year by Thomas who has forecast "good real growth" for 1995).

That said, it is difficult to understand what the market could reasonably have expected from Malbak that it has not produced. Being heavily dependent on consumer spending, it was obviously going to be strongly influenced by conditions during the period before the elections. Considering that these took place two months into the group's second half, the 15% EPS growth achieved for the second half can hardly rate as disappointing.

Another noteworthy plus is that despite limited opportunities to grow turnover, there were pleasing improvements in most key asset management ratios — emphasising that Malbak has made good use of the opportunities offered by the recession to weed out operational weaknesses. Some examples here include a recovery in the asset-turn ratio from 1,67 times in 1993 to 1,72, and further success in reducing working capital requirements which, net, are now down to 13,3% of turnover from 13,6% a year ago.

Less pleasing is that most profit ratios have remained under pressure, with declines in the trading margin (6,1% against 6,5% previously), and the pre-interest return on total assets (10,4% against 10,8%). However, helped by a slight decline in the effective tax rate and, possibly, by the fact that the group is somewhat less liquid than in 1993, this did not follow through to the bottom line where return on equity improved marginally to 14,2% (13,5%).

## BALANCING EARNINGS

**Attributable earnings**

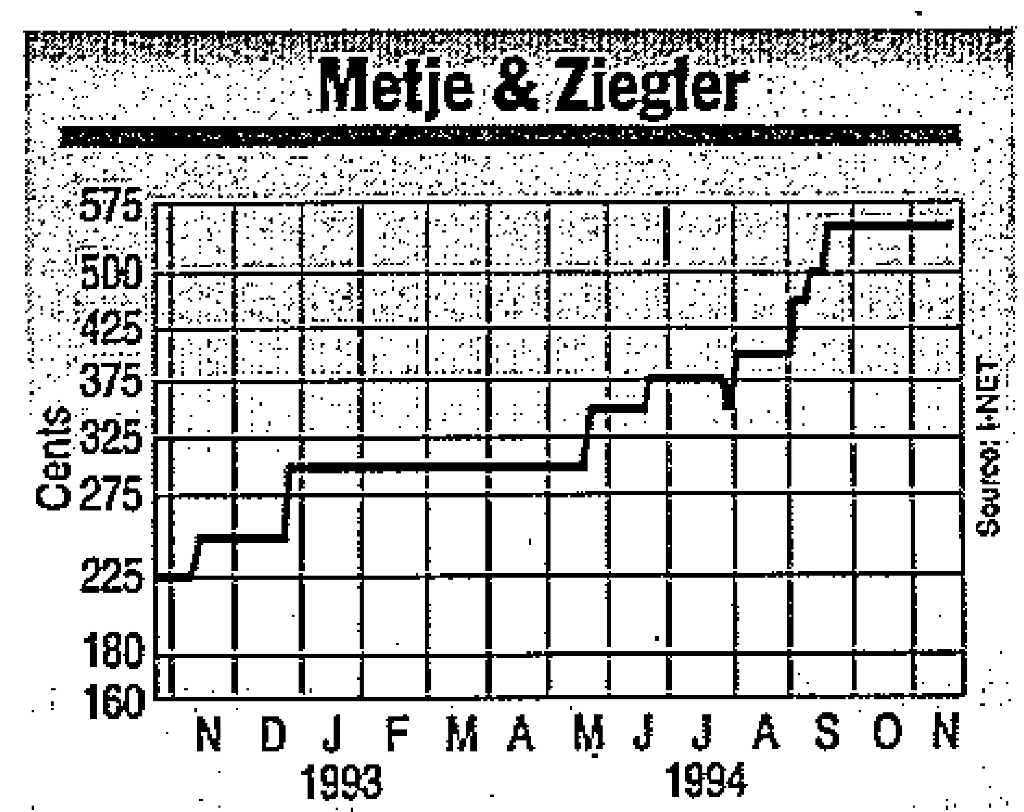
| | 1993 Rm | 1993 % | 1994 Rm | 1994 % |
|---|---|---|---|---|
| Food | 73 | 20 | 78 | 19 |
| Healthcare | 53 | 14 | 72 | 17 |
| Packaging/Paper | 65 | 17 | 65 | 16 |
| Consumer products | 59 | 16 | 88 | 21 |
| International | 30 | 8 | 33 | 8 |
| Investments/Other | 94 | 25 | 78 | 19 |
| | 374 | 100 | 414 | 100 |

So, while low profitability remains a problem, at least there are signs of returning stability on this front which, hopefully, will be reinforced in 1995 if expected improved growth rate in profits materialises.

Also, over the past few years Malbak has been labouring under two self-inflicted burdens. The first was the progressive conversion of the 13% debentures, now complete, and consequent elimination of the positive gearing effect which these instruments previously had on weighted average EPS (as used by the *FM*). This, in 1989, added more than 9c to EPS, without



P.T.O.




METJE & ZIEGLER

# Entree to Namibia

FM 2/12/94

**Activities:** *Distributes wide range of household products, builders' materials, machinery and equipment, franchise holders for cars and trucks, property interests.*

**Control:** *Directors 84%.*

**Chairman:** *E P H Bieber. MD: A M Behnsen.*

**Capital structure:** *3,5m ords. Market capitalisation: R30m.*

**Share market:** *Price: 550c. Yields: 2,2% on dividend; 11,2% on earnings; p:e ratio, 9,0; cover, 5,2. 12-month high, 550c; low, 225c. Trading volume last quarter, 19 000 shares.*

| Year to June 30 | '91 | '92 | '93 | '94 |
|---|---|---|---|---|
| ST debt (Rm) | 9,0 | 4,2 | 5,3 | 3,8 |
| LT debt (Rm) | 0,12 | 0,08 | 0,29 | 4,1 |
| Debt:equity ratio | 0,31 | 0,15 | 0,18 | 0,25 |
| Shareholders' interest | 0,56 | 0,55 | 0,56 | 0,56 |
| Int & leasing cover | 0,95 | 1,85 | 0,80 | 2,10 |
| Return on cap (%) | 3,5 | 4,8 | 2,4 | 7,6 |
| Turnover (% chance) | (2,1) | 7,8 | 10,5 | 13,8 |
| Pre-int profit (Rm) | 1,8 | 2,5 | 1,2 | 4,3 |
| Earnings (c) | (26,9) | 18,4 | (10,9) | 61,4 |
| Dividends (c) | nil | 5 | nil | 12 |
| Tangible NAV (c) | 815 | 828 | 835 | 893 |

180

**Improved results** in financial 1994 were attributed largely to better management and greater efficiencies generated by staff.

Well established in all major centres of Namibia, Metje & Ziegler is centralising retail operations at an outlet in a renovated complex in Independence Avenue, Windhoek. Chairman Peter Bieber says its turnover was not enough to generate a contribution to profits but in 1995 it is expected to become the leading specialist gift and household outlet in Windhoek.

M&Z holds franchises of Mercedes-Benz cars and trucks, Honda cars and has dealerships for Volkswagen and Audi passenger cars and commercial vehicles. Turnover remained satisfactory at Autohaus Windhoek. M&Z Motors performed below potential but Bieber says indications are that, subject to availability of models, it will again become a strong profit generator.

The hardware and building division, which has been losing money for some time, did better between January and June; tighter control of operations and stock indicate a return to profit. The property division produced sound returns.

The properties have been expanded and renovated: R2m was spent on M&Z Motors; a similar amount on building a new showroom and workshops at Autohaus Windhoek; and more than R1m on renovating many of the M&Z buildings throughout the country.

These improvements mostly account for the increase in fixed assets and were mainly financed by a R3,8m increase in long-term loans in mortgage bonds over land and buildings. FM 2/12/94

The net book value of properties is registered at R16,3m but the market value of the properties, as determined by the directors, is R60,3m. This would lift NAV by R12,74 a share, theoretically taking the book value of net assets from 893c to more than R21. However, not too much attention should be paid to it because of the current practice of valuing shares according to earnings growth rather than by the value of the underlying assets. 180

Bieber is optimistic about the group's future and reckons prospects for profit growth this year are good. If you believe the Namibian economy is set to improve, M&Z, though tightly held, offers an attractive opportunity to participate in that growth.

*Gerald Hirshon*


# Thebe Corp satisfies its growing appetite

S1 Times (Buss) 180

4/12/94

By ZILLA EFRAT

WITH a consolidated annualised turnover of R250-million, Thebe Investment Corporation is fast becoming one of South Africa's largest black-owned companies.

Since it was formed in July 1992, its interests have broadened to include an airline, South Africa's third largest cinema chain, computers, publishing, property, travel, car hire and scratch card lotteries.

While Thebe (seSotho for shield) declines to give figures, its assets are estimated to be worth well over R500-million.

Its latest area of expansion has been in financial services, especially through Msele Finance Holdings, established in July.

This growth has come on the back of a series of ventures with South Africa's key financial institutions, including FirstCorp Merchant Bank, with whom it bought a 48% stake in Bisho-based Citizen Bank in September.

Since then, it has gained a 50,01% share in insurance broking group Hubert Hosken & Co for R9-million.

Together with Fedsure and other shareholders, it formed Safrican Insurance Company — a R40-million company which will operate in the funeral insurance sector.

In October, Msele Nedventures — a development capital fund which will finance small- to medium-sized enterprises with stakes up to R1-million — was launched in association with Nedcor and a state-owned German agency.

Msele has also moved into asset management by taking a 26% stake in African Alliance Invesment Management. Other shareholders in this new venture include Investec and the National Council of Trade Unions.

Vusi Khanyile, Thebe's managing director, says all companies in the financial services division operate autonomously.

Another area of fast growth has been Thebe's entertainment and leisure arm, Moribo Investments. ... Moribo, a recently ... with

clude casinos, a record company, TV and radio.

Thebe Property recently moved into the low-cost housing market through a link-up with Richland Properties.

A sizeable chunk of Thebe's business is centred in the airline business through an investment in regional airline SA Express, a joint venture with a Canadian company and SA Airways.

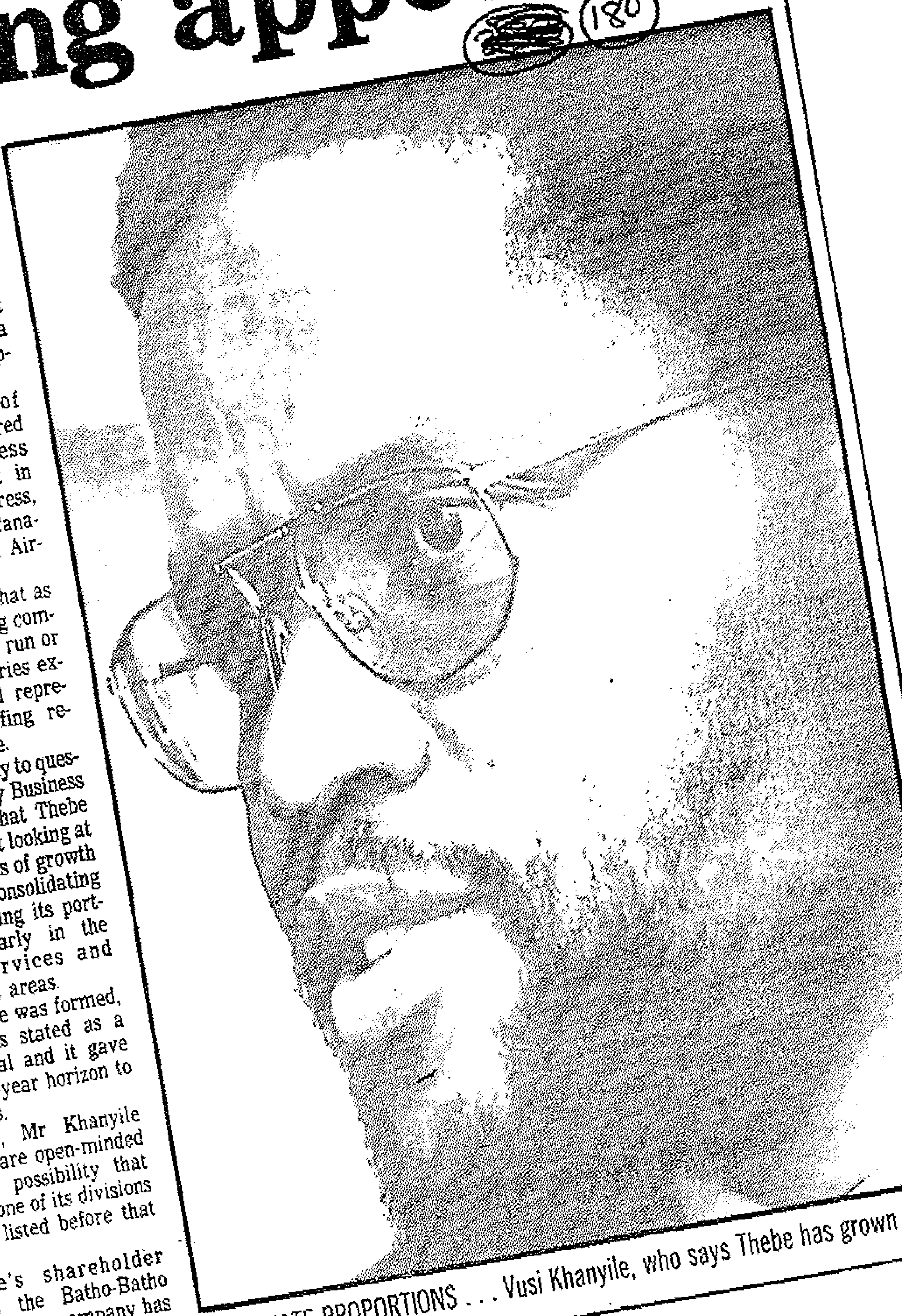
Mr Khanyile says that as an investment holding company Thebe does not run or manage its subsidiaries except through board representation. Its staffing remains at 15 people.

In a written reply to questions submitted by Business Times, he said that Thebe was currently not looking at any further areas of growth but rather at consolidating and strengthening its portfolio, particularly in the financial services and entertainment areas.

When Thebe was formed, a listing was stated as a strategic goal and it gave itself a five-year horizon to achieve this.

However, Mr Khanyile says: "We are open-minded about the possibility that Thebe or one of its divisions could be listed before that date."

Thebe's shareholder remains the Batho-Batho Trust, but the company has been working hard to shed the tag of being ANC-linked.



ADEQUATE PROPORTIONS . . . Vusi Khanyile, who says Thebe has grown

# IDC in $11m credit deal

JOHANNESBURG. — The Industrial Development Corporation (IDC) had signed a credit facility for $11m with a French government development agency, the corporation said yesterday. (180)

IDC MD Carel van der Merwe said the Société de promotion et de participation pour la coopération économique (Proparco) had extended the credit facility for 10 years on commercial terms. CT 6/12/94

Proparco, like the IDC, concentrated on the acceleration of industrial growth by assisting small and medium-sized companies in the private sector to start new businesses or expand operations.

The facility would "increase the financial resources of the IDC available to assist smaller and medium-sized industrialists which has totalled about R777m over the past three years, created 15 147 new jobs and generated increased exports of R1,2bn a year," Van der Merwe said.

The Proparco credit facility was the second loan made available to the IDC by a foreign development institution. A first loan equivalent to R30m was concluded with German agency DEG earlier this year.

SHOREDITS

# Lower risk profile

FM 9/12/94

**Activities:** *Construction, civil engineering, property and related industrial interests.*
**Control:** *Directors (50%).*
**Chairman:** *A K R Shoredits.*
**Capital structure:** *19,9m ords. Market capitalisation: R50,7m.*
**Share market:** *Price: 255c. Yields: 3,1% on dividend; 8,6% on earnings; p:e ratio, 11,6; cover, 2,7. 12-month high, 260c; low, 65c. Trading volume last quarter, 38 200 shares.*

| Year to June 30 | '91 | '92 | '93 | '94 |
|---|---|---|---|---|
| ST debt (Rm) | 19,2 | 25,6 | 30,2 | 23,5 |
| LT debt (Rm) | 11,9 | 11,2 | 7,1 | 5,6 |
| Debt:equity ratio | 2,26 | 2,36 | 3,15 | 2,22 |
| Shareholders' interest | 0,13 | 0,15 | 0,13 | 0,12 |
| Int & leasing cover | 1,81 | 1,33 | 1,05 | 1,34 |
| Return on cap (%) | 9,0 | 9,9 | 8,6 | 7,2 |
| Turnover (Rm) | 241 | 215 | 203 | 196 |
| Pre-int profit (Rm) | 9,3 | 10,4 | 7,6 | 7,7 |
| Pre-int margin (%) | 3,9 | 4,9 | 3,7 | 3,9 |
| Earnings (c) | 10,3 | 24,7 | (18,0) | 21,9 |
| Dividends (c) | 8 | 8 | 5,3 | 8 |
| Tangible NAV (c) | 128 | 144 | 107 | 121 |

**If the** copy received by the *FM* is anything to go by, Shoredits' 1994 annual report presented analysts with unusual challenges: like the dismantling and reassembly job needed to correct the pagination so as to avoid having to read chairman Andy Shoredits' review backwards. 180

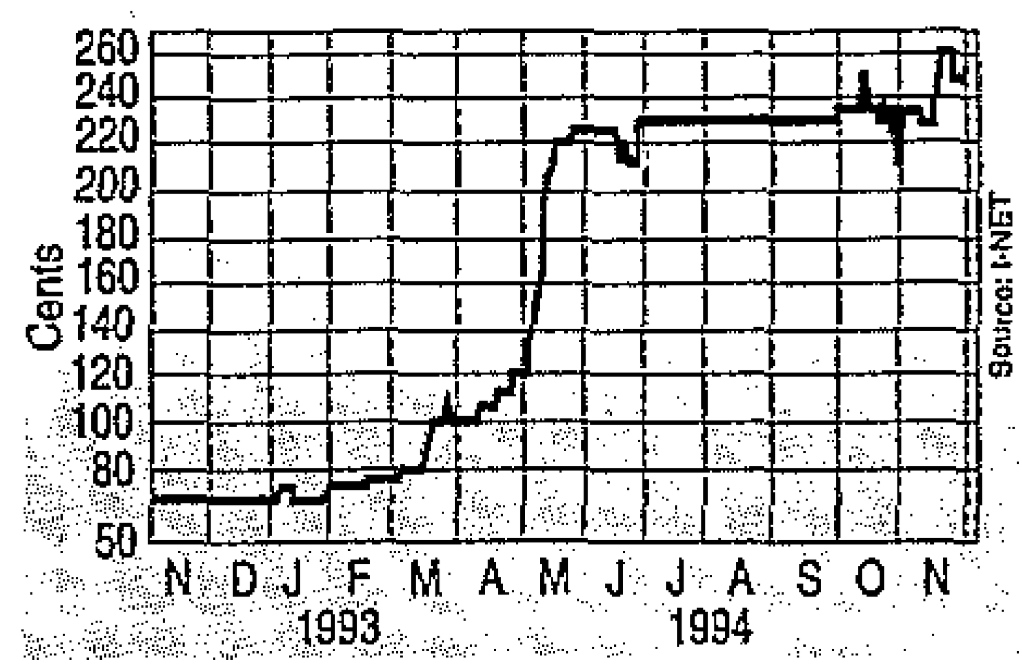
From there on, things became a bit easier. The group responded to criticism of the confusion caused by successive financial year-end changes by publishing a five-year summary of results and balance sheet values, all based on a constant June 30 reporting date. This helped with more accurate analysis of changes in financial structure which, hitherto, has been bedevilled by differences in such items as working capital which vary.

Things then again become more complicated because the report has not been updated to reflect the effects of last month's R19,2m rights issue.

Like the reconstruction of the annual report, this is not a difficult exercise but it should not have been necessary if the objective is to report comprehensively to investors.

COMPANIES

FM 9/12/94




On the question of the rights issue, one gets the impression that Shoredits had some heart-to-heart talks with its financial advisers, leading to the conclusion that it needed to do something about risk profile if the slide in the share price was to be arrested. By historical standards for this group, its 1994 debt:equity ratio of 2,22 was not particularly high. It was the lowest in the past four years. Looking further back, this ratio has been below 1,00 only once since the 1987 listing.

The opportunity to recapitalise was offered in March, when the share price almost trebled to 230c, so that by the time the terms of the rights offer were finalised in October it was possible to pitch the price at 210c — a level that would have seemed impossible a year ago when the price was still languishing at 65c.

The R19,2m raised, applied to the 1994 balance sheet, would have given an adjusted debt:equity ratio of 0,31, while on the expanded capital base market cap has increased sevenfold from R7m a year ago to R50,7m now.

There is no question the issue was well timed, if Shoredits' prognosis of the future proves correct. He notes that, after the uptick in the construction and civil sectors, "the latest scenarios suggest that boom times in the building industry such as those experienced in 1982-1983, will again be experienced in 1995-1996, and will thereafter further increase to the year 2000." He adds that order books in most divisions are at record levels and margins are improving, which is attributed to reduced spare capacity in the industry. 180

For the current year, however, in terms of EPS, the group will have to run hard to stand still. The rights issue virtually doubled the issued shares from 10,8m to 19,9m, and though the full effect of this will be felt only in 1996, this year's EPS will be calculated on a weighted average of about 16,9m shares — a 56% increase on the 1994 figure.

But even without any improvement in business activity, attributable earnings will be boosted by significantly lower interest payments, with the proviso that working capital requirements are kept under control.

Last year, the group had considerable success in this area, squeezing its net working capital requirement down from R20,5m (10,1% of turnover) to only R10,8m (5,1%), mainly by making more use of creditor finance. If this working capital equation can be maintained, well and good; if not, the benefits of the rights issue in terms of potential interest savings will be reduced. The group would then have to rely more heavily on improved trading results if EPS on the expanded capital base are to increase.

The 11,6 p:e ratio is still moderate (the sector index p:e is around 23) and Shoredits could run further if results live up to expectations.

*Brian Thompson*

THE STAR / TUESDAY DECEMBER 13 1994

# Manufacturers get short-changed

Star 13/12/94

**BY ROSS HERBERT**

South African manufacturers are at a significant competitive disadvantage with their overseas counterparts because they pay anything from 10 to 67 percent more for their raw materials — including steel, plastic, rubber, wood and aluminum — than suppliers charge international customers.

This is the conclusion to a comprehensive study funded by Cosatu to be released early next year by the Industrial Strategy Project and produced by the University of Cape Town.

The study examined factors affecting the competitiveness of 12 sectors of the South African economy including clothing, textiles, cars, engineering, household electrical goods, paper and pulp.

Based on interviews with local and international material buyers, the study found that South Africans were charged more than international buyers in nearly every category of raw material. (See chart.) In effect, international buyers are being subsidised by high local prices.

| BASIC RAW MATERIAL | INDUSTRY SECTOR | % ABOVE INTER PRICE | DERIVED PRODUCT | % ABOVE INTER PRICE |
|---|---|---|---|---|
| Ethylene | Commodity plastics | 20-44% | Polyethylenes | 19-39% |
| Polyethylene | Commodity plastics | 19-38% | Polypropylene | 39-46% |
| | Commodity plastics | 18-38% | PVC | 27-48% |
| Sheet metal | Motor | 41% | Wheel hub | 43% |
| Rubber | Motor | 57% | Tyre 195/85 R15H | 41% |
| Steel | Engineering | 67% | ERW pipe | 63-73% |
| | | | Galvanised sheet | 27% |
| | | | Reinforced bar | 38% |
| Copper | Electronics | LME | Transformers | 30-45% |
| Aluminium | Electronics | LME | Cables | 15-17,5% |
| | Mineral beneficiation | 10% | | |
| | Motor | 30-50% | Wheel rims | 24% |
| Wood | Paper | 10-15% | Pulp | 10-15% |

The effects are felt throughout the economy, but particularly by automobile component manufacturers. "The major issue is that the local steel price is much higher than the world price ... we are definitely being squeezed badly by suppliers," said Martin Spurrier, finance manager for the automotive seating manufacturing division of Dorbyl.

Dorbyl has begun evaluating imported Brazilian steel as an alternative to Iscor. "I've heard of people importing South African-made steel cheaper than we canbuy it locally," he said.

Iscor spokesman Ernest Webb-Stock said, "It is common practice in the steel industry worldwide to follow a multi-tiered pricing system."

Volume discounts, which are common in raw materials markets, also work against South African manufacturers who buy in smaller job lots.

(180)

"ISP research has found considerable evidence of anti-competitive collusion between the large firms. This undermines the possibility of developing vibrant small- and medium-scale enterprise," a draft of the study concluded.

"I think that the government should be much more insistent that prices for these primary inputs should be closer to world levels," said Anthony Black, an economics lecturer at the university who conducted the analysis of the automobile industry. "There could be a lot more growth and employment if prices were set properly."

The study cited the case of a South African and world-class Australian producer of kitchen appliances. In output per worker and per machine, the South African firm was as productive as the Australian firm.

However, SA prices were higher because companies paid high import duties and higher prices for locally produced steel, plastic and aluminum.

The study also concluded that local manufacturers were less efficient in that they produced too many different models and didn't reap the benefits of specialisation.

"South African consumers — especially low-income consumers — bear the cost of this excessive diversification in the form of poorer quality and higher priced products than on the international markets," the draft of the study said.

The study contains recommendations for each industry analysed, but overall recommends that industry make a concerted effort to "move up the value chain" to add more value to resources before exporting them.

# Manufacturing up 5%

(180) CT 15/12/94

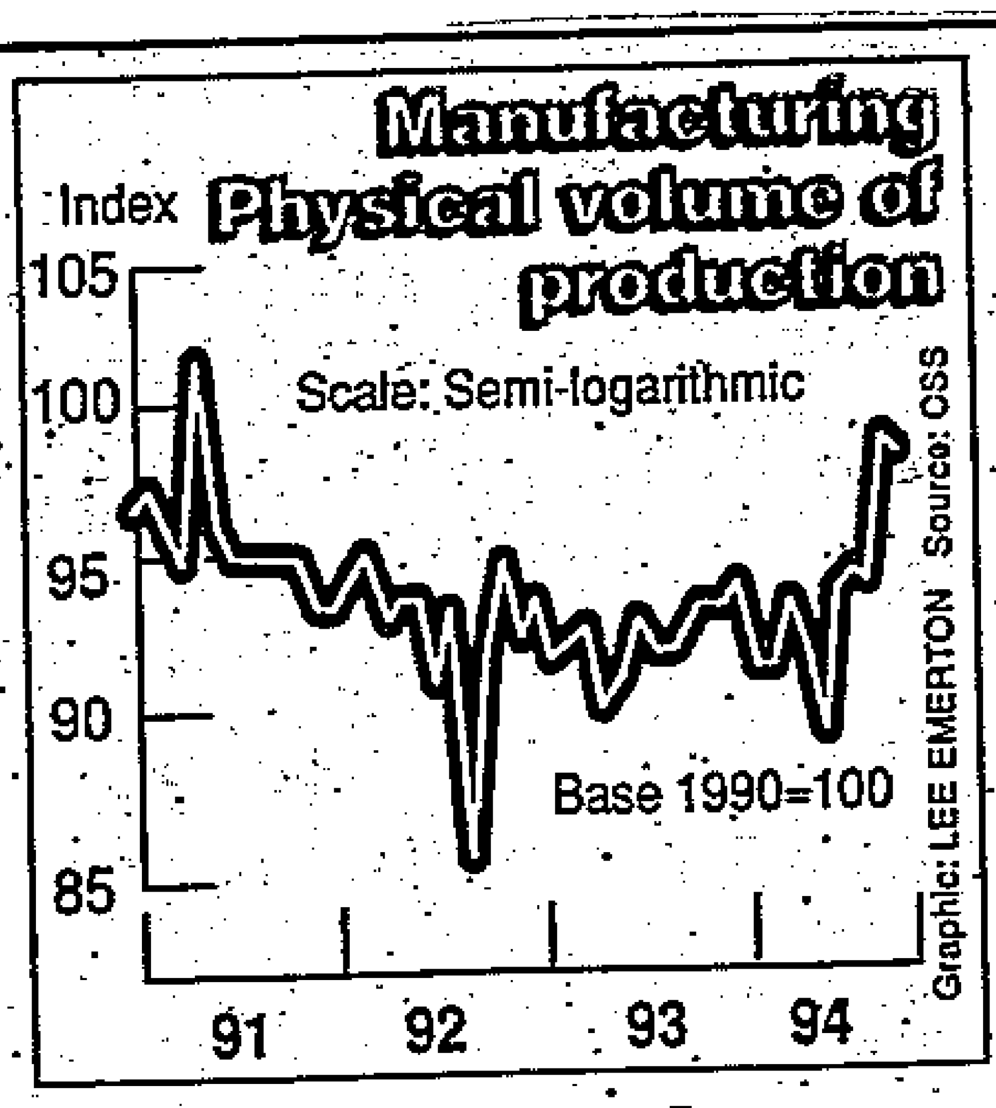
PRETORIA. — Production in SA's manufacturing sector rose a seasonally adjusted 4,8% in the three months to end-October from the previous three months, the Central Statistical Service said.

It said production maintained a sharp upward trend despite a decrease of 0,6% in the manufacturing production for October 1994 compared with September 1994 after sesonal adjustment.

The 4,8% increase was mainly due to a 1,6 percentage point contribution from petroleum and coal products, 0,5 percentage points each from food products and basic iron and steel products and 0,4 percentage points from chemical products industries.

Increases, on a seasonally-adjusted basis, were reported in 21 of the 28 manufacturing sectors.

It said the seasonally adjusted value of manufacturing sales rose 4,0% in the quarter to end-October from the previous three months due to rises in sales of R559m in food, R383m in basic iron and steel, R292m in chemical products, R267m in basic non-ferrous metal products and R266m in metal products.




# Manufacturing grows at 4,8% (180)

MUNGO SOGGOT

THE manufacturing sector boasted the fastest growth in production in almost five years during the three months to October, with Central Statistical Service (CSS) figures showing production up a seasonally adjusted 4,8% over the previous quarter.

Economists said the figures were particularly impressive as they included the strike-hit month of August and were a better reflection of economic recovery than the third-quarter GDP figures, which pegged annualised growth at 2,6%.

Econometrix chief economist Azar Jammine said these figures were "much closer to the coalface". The increased output would also alleviate some of the strain from the deficit on the current account of the balance of payments — a sign that SA was spending more than it was producing.

The quarter's increase was the fastest growth in manufacturing production recorded since 1989. BD 15/12/94

Economists predict a current account deficit of R1,5bn this year, caused mainly by a surge in capital equipment imports.

The SA Chamber of Business's (Sacob's) latest survey of confidence levels in the manufacturing sector found manufacturers were ending the year on an "overridingly positive note".

Sacob's November survey found most manufacturers were confident of an increase in sales, production and stock vol-

□ To Page 2

# Manufacturing (180) BD 15/12/94

□ From Page 1

umes in the short term. Medium- and longer-term confidence had also improved, especially regarding employment and investment in new capacity.

CSS said the upward trend had been maintained despite a 0,6% drop in production in October from September. The increase stemmed mainly from increases in production of petroleum and coal products (1,6 percentage points); food products (0,5 percentage points); basic iron and steel products (0,5 percentage points); and chemical products (0,4 percentage points).

The sales value of manufactured products in the three months to October was 4% higher than the previous quarter's, with most manufacturing groups recording increases, the CSS said. The biggest came from the food industry, which turned in a R559m rise in sales.

*Losses at UPD and weaker Premier Foods largely to blame*

# Premier earnings show an 8% decline

Star 19/12/94

**BY CHARLOTTE MATHEWS**

Premier group has reported an 8 percent decline in profit for the six months to October after ongoing losses at United Pharmaceutical Distributors (UPD) and lower profitability at Premier Foods.

Although turnover grew 7 percent to R7,7 billion, trading profit was only 5 percent better at R303,2 million. The interest bill climbed to R58,5 million (R40,4 million), but the tax rate eased to 33 percent from 34 percent.

Attributable earnings were R100,1 million (R109,3 million), equivalent to earnings of 12,1c (13,2c) a share. The dividend is unchanged from 1993 at 4c.

An extraordinary item of R35,9 million (R14 million) arose mainly on frauds discovered at UPD, which cost R90,8 million, but were partly offset by a R71,9 million profit on the sale of Premier's interests in Amerpharm.

UPD's accumulated losses at April 30 were R155,2 million after re-stating 1993 and 1994 results.

The figures include provisions for retrenchments, asset write-downs and liability ac-

Doug Band ... gearing expected to reduce to a more satisfactory level.

cruals, but exclude any provision for potential recoveries.

UPD is a joint venture between Premier's Wholesale Pharmaceutical Distributors and Medical Cash and Carry Holdings, owned by Norman Knight.

In September, Premier said it had discovered unacceptable activities had taken place, money had been misappropriated and the affairs of UPD conducted in a "reckless and negligent manner".

Premier had made an interest-bearing shareholders' loan of R350 million to UPD. To demonstrate its commitment to UPD, to address the impact of the losses incurred and recapitalise UPD, R275 million of Premier's financing had been converted into an interest-free subordinated loan from May 1994. 180

"Concerted action continues in a number of areas with the object of mitigating the losses incurred and making recoveries from certain third parties," says Premier chairman Doug Band.

It seems likely that the R14,9 million loss of the first six months will be significantly reduced in the rest of the financial year and progress achieved in restructuring UPD gives ground for some optimism about its future, Band says.

Premier plans to make UPD a wholly owned subsidiary and to make an offer of R2,20 a share to UPD minorities.

Among other businesses, Premier Foods was hit by particularly difficult trading conditions in the first quarter of the current financial year, as were other food companies.

The problems were exacerbated by substantially lower volumes in the maize milling industry.

The second quarter was significantly better thanks to improved market conditions.

Bonnita, which was listed in August, reported a 39 percent improvement in attributable earnings and expects further growth in 1995 as new plant capacity expands opportunities in local and export markets.

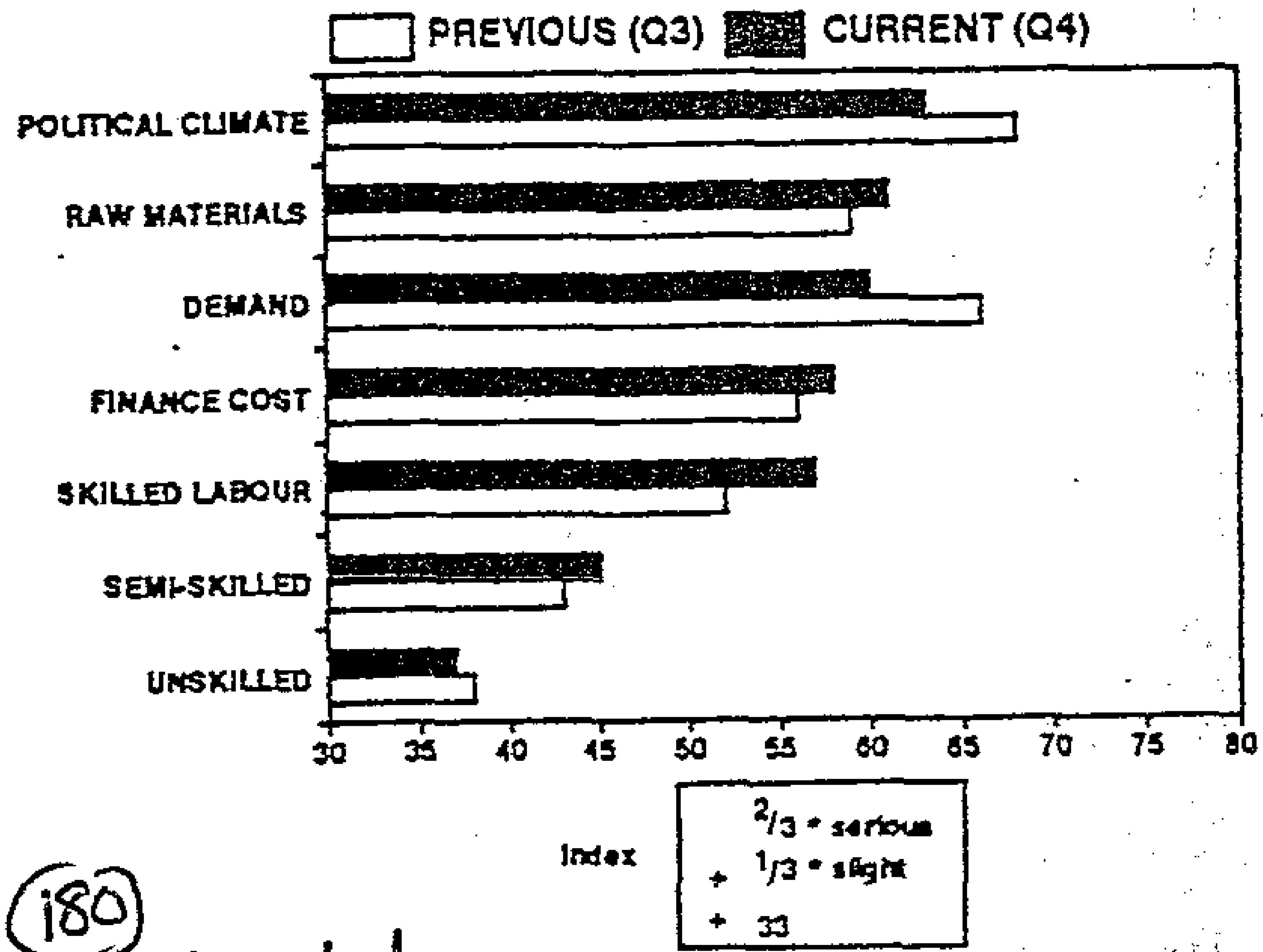
Premier Pharmaceuticals reported attributable earnings 22 percent higher, while Metro Cash and Carry, CNA Gallo, Clicks and Teltron all reported improved profits.

Premier's gearing rose to 41,2 percent from 35,3 percent a year previously, but this is expected to reduce to a more satisfactory level by year end, says Band.

The trend of improved trading in most operations, together with encouraging Christmas season sales and the group's weighting of trading towards the second half of the year, indicate that full-year profits for 1995 will be similar to 1994's.

By AUDREY D'ANGELO
Business Editor

BUSINESS CONSTRAINTS
*(Survey results)*




(180)

CT 20/12/94

# SA manufacturers reflect the uptick

THE manufacturing sector seems to be leading the general economic recovery, with more employees taken on and a lot of overtime worked during the last quarter, according to the latest survey by the Stellenbosch Bureau for Economic Research (BER).

And although some manufacturers expect a falling off in demand in the first quarter of 1995, the BER economists think business will remain "satisfactory" for the next 12 months.

"While hiccups in demand may be experienced over the immediate term, increased fixed investment expenditure and factory employment should sustain the recovery, supported by business confidence," the BER report says.

It also suggests that unit prices, which rose more slowly than expected in the last quarter in spite of pent-up demand, could rise more quickly in the first three months of 1995.

The report says manufacturing business conditions were much better in the fourth quarter of this year than anticipated, and confidence in the sector surged to a level comparable with the peak of the previous business cycle six years ago.

"It prompted manufacturers to employ more factory workers and to lengthen the working week considerably. The level of finished stocks is judged as being too low. This should stimulate production further, sustaining the increase in employment.

"The rate of unit cost increases is still tending upward but domestic selling prices increased at an unexpectedly lower rate during the fourth quarter.

"It is expected, however, that selling prices will increase at higher rates in the forecast quarter. High profitability therefore favours increased fixed investment spending.

"The latter is reflected in a sharp increase in planned fixed investment in machinery and equipment and proportionately high import volumes.

"The upgrading of technology to compete internationally and the expansion of productive capacity to meet increased domestic and export demand explain the pattern of fixed investment spending and imports."

But, the report warns, production levels are already being restricted by shortages of raw materials and skilled labour — although this situation is unusual so early in an upturn.

● *The government of national unity is likely to continue to follow disciplined economic policies in the short term.*

But, a BER paper warns, if the economy does not expand at a satisfactory rate in the next few years politicians may give way to pressure to follow inflationary populist policies.

The paper points out that the base document of the RDP implied that populist policies would be introduced.

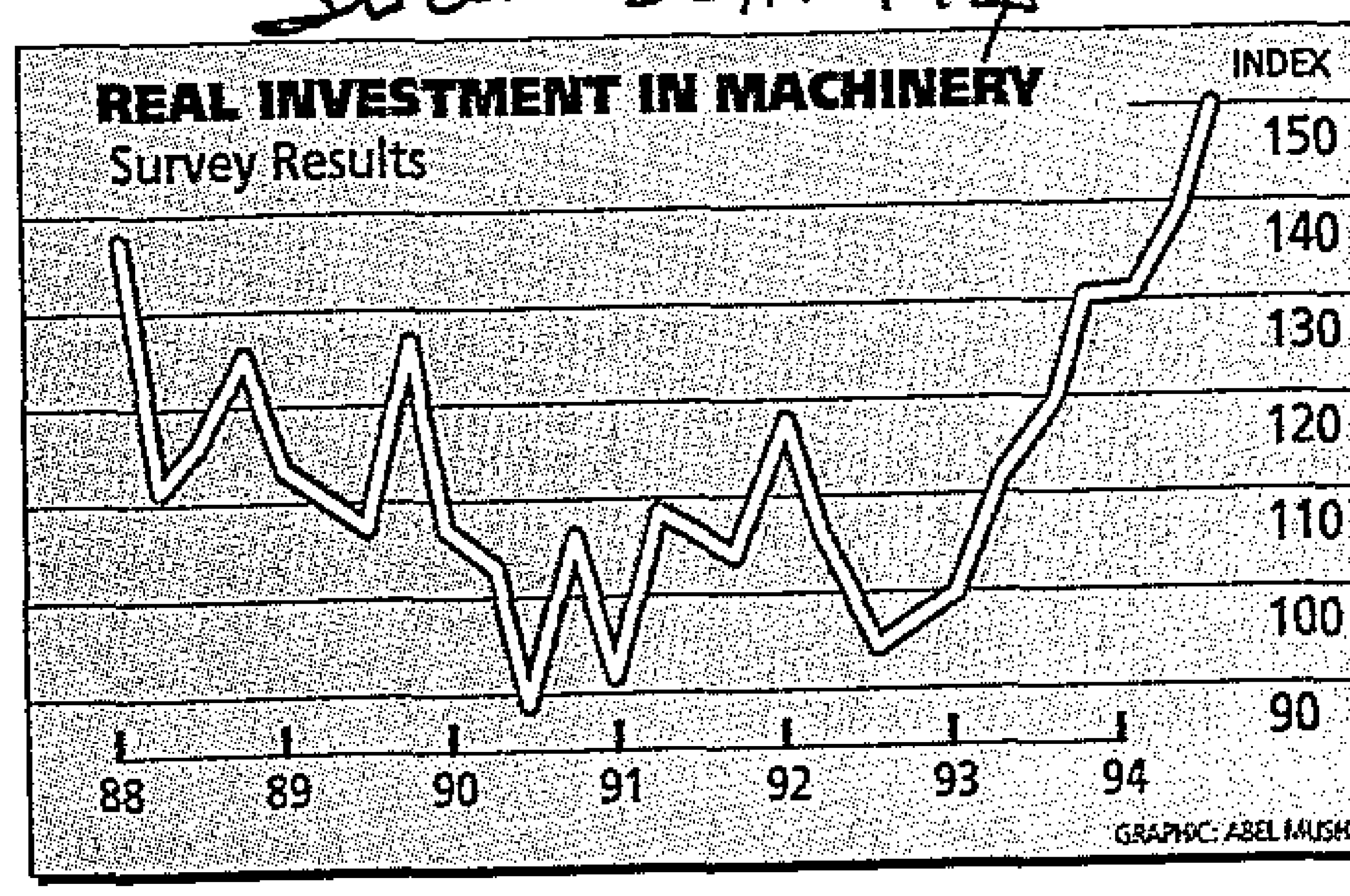
But the RDP White Paper "attempts to neutralise the fear ... by emphasising the government's commitment to macro-economic discipline."

*Business conditions better than expected*

# Manufacturing creates new jobs

Star 20/12/94

■ BY DEREK TOMMEY




Manufacturing is booming, creating new jobs for the first time for many years, says the Bureau for Economic Research (BER) at the University of Stellenbosch.

Its latest survey shows that manufacturers were taken by surprise by the upsurge in business, saying they were much better than had been expected.

As a result, the bureau's business confidence index surged to a level last achieved at the peak of the 1998 business boom.

But while the 1998 boom was led by a gold mining industry benefiting from a devaluation of the rand, the bureau says this boom could be different, with manufacturing leading the way.

Though hiccups may be experienced in the near future, more fixed investment and factory employment, supported by business confidence, should sustain the recovery.

The particularly large increase in production volumes in the last quarter of this year followed increased domestic and export sales and a decline in stocks of finished goods.

This led to a lengthening of the working week and the hiring of more workers.

However, the bureau says the improvement in employment is still marginal at this stage and that the pessimism of some manufacturers over the first quarter of next year is worrying.

(180)

Also of concern is the possible lack of production capacity in industry.

It says it would be unusual for manufacturers to experience capacity constraints at this stage of the upswing.

But judging from their responses about the length of delivery periods of orders received and their increased fixed investment, this could be the case, it says.

However, manufacturers lifted spending on fixed investment in the fourth quarter and plan more increases in the next 12 months.

This should lead to higher employment and make the recovery more sustainable.

Nearly 70 percent of manufacturers surveyed increased sales in the fourth quarter, compared with a year ago.

The ratio of unfilled orders to domestic sales declined between the third and fourth quarters, possibly a signal of a slowdown in demand.

But the ratio of unfilled export orders to sales rose sharply, suggesting SA is heading for an export-led recovery.

Although unit costs rose between the third and fourth quarters, domestic unit selling price increases were lower than expected.

## Net rise in factory employment

(180)

BD 20/12/94

# Confidence of manufacturers at a new high

EDWARD WEST

CAPE TOWN — The manufacturing business confidence index surged in the fourth quarter to a level last seen at the 1988 peak of the business cycle, the Stellenbosch-based Bureau of Economic Research said yesterday.

In its latest survey, the BER said the improvement in confidence, coupled with an improvement in general business conditions, suggested the manufacturing sector was starting to lead the economic recovery. The survey was the first since the beginning of the current economic upswing in which manufacturers reported a net increase in factory employment.

The BER said demand hiccups could be experienced, but increased fixed investment spending and factory employment should sustain the recovery, supported by business confidence, over the longer term.

Total fixed investment spending by manufacturers increased markedly in the fourth quarter, and more spending was planned on machinery and equipment over the next 12 months.

Nearly 75% of respondents reported increased domestic sales in the fourth quarter over the same period last year, with actual sales volumes exceeding expectations expressed in the third quarter survey.

The ratio of unfilled orders to domestic sales was tending lower from the third quarter's improved levels, giving an early signal of a possible slowing in domestic demand — in line with generally less optimistic sales and production expectations for the first quarter of 1995. But a sharp increase was reported in the expected ratio of unfilled export orders to sales.

Production volumes showed a large increase in the fourth quarter. Increased domestic and local sales and a depletion of finished goods stocks prompted manufacturers to increase output after production hiccups earlier in 1994. This led to a lengthening of the working week and the employment of more factory workers. The bottoming of factory retrenchments since end-1992 should lead to a sustained rise in factory employment.

From responses regarding fixed investment and the length of delivery periods of orders received, it appeared manufacturers were beginning to feel capacity constraints, unusual for so early in the economic upswing, the BER said.

Unit cost increases were still accelerating and the actual rates of increase in labour, raw materials and total unit costs for the fourth quarter were higher than expected in the third quarter. Unit costs were expected to continue climbing in the first quarter of 1995.

The most serious constraint affecting activity remained the political climate — even though an improvement had been reported — followed by raw material shortages, higher interest rates and a shortage of skilled labour.

The BER said the improvement in business conditions was broadly based, and although there was some pessimism about the first quarter of 1995, the satisfactory state of business conditions was expected to continue over the next 12 months.

● See Page 3

BARLOWS FM 23/12/94

# Value unlocked

**Considering that** the break-up of the old Barlow Rand probably ranks as one of the most significant events in SA corporate history, response to the first annual report published by the new Barlows has been remarkably subdued — in particular, there seems to have been a singular lack of interest as to how shareholders have fared as a result of the unbundling which, for accounting purposes, was backdated to October 1 1993 but which came into effect from January this year. (180)

The unbundling was accomplished by distributing to its own shareholders most of Barlows' holdings in C G Smith, Reunert, Rand Mines and RM Properties. Putting all

FM 23/12/94

**Activities:** *Manufacture and distribution of products to the mining, building and construction industries; consumer durables including electrical appliances and motor vehicles.*
**Control:** *Old Mutual (30,5%).*
**Chairman:** *W A M Clewlow.*
**Capital structure:** *199,4m ords. Market capitalisation: R6,88bn.*
**Share market:** *Price: 3 450c. Yields: 1,6% on dividend; 5,0% on earnings; p:e ratio, 20,2; cover, 3,1. 12-month high, 4 075c; low, 2 650c. Trading volume last quarter, 8,7m shares.*

| Year to Sept 30 | †'92 | †'93 | *‡'93 | ‡'94 |
|---|---|---|---|---|
| ST debt (Rm) | 1 813 | 1 743 | 1 074 | 773 |
| LT debt (Rm) | 2 713 | 2 763 | 730 | 414 |
| Debt:equity ratio | 0,32 | 0,16 | 0,11 | 0,12 |
| Shareholders' interest | 0,43 | 0,44 | 0,41 | 0,48 |
| Int & leasing cover | 9,9 | 12,4 | 11,0 | n/a |
| Return on cap (%) | 12,7 | 10,7 | 5,9 | 7,4 |
| Turnover (Rbn) | 35,34 | 37,98 | 11,76 | 12,87 |
| Pre-int profit (Rm) | 2 808 | 2 557 | 494 | 603 |
| Pre-int margin (%) | 7,6 | 6,5 | 4,0 | 4,5 |
| Earnings (c) | 432 | 361 | 126 | 171 |
| Dividends (c) | 173 | 173 | n/a | 56 |
| Tangible NAV (c) | 2 406 | 2 442 | 1 469 | 1 708 |

* Pro forma. † = Old Group. ‡ = New Group.

this back into a single box, based on current share prices and the ratios in which the shares in the various companies were distributed, indicates that the original investment represented by one old Barlow Rand share now has a value of around 7 730c compared with the 5 050c price a year ago when the *FM* reviewed the 1993 annual report.

This breaks down to 3 500c applicable to Barlows, up from around 2 000c this time last year and 4 280c (1993: 3 050c) to the rest of the package, from which it is clear that the new Barlows has contributed the major portion of the overall 54% enhancement in value.

To this extent, it is clear that the unbundling has succeeded in its primary objective of unlocking value for shareholders as it is unlikely that the market would have been inspired to revalue the group as previously constituted on the basis of a roughly 4% increase in earnings applicable to the "bundled" interests.

But the market has also shown some ambivalence in coming to terms with the new group. Though its effective 75% share price gain over the year was almost double the improvement in the Industrial index, Barlows has fared less well compared with other gross domestic fixed investment-orientated sectors and companies.

The Building & Construction sector, one of the main beneficiaries of the uptick in fixed investment spending, has gained 132% over the same period. Even M&R, which managed only 2% EPS growth last year against Barlows' 35%, gained 83%. In the process the

**Clewlow** ... *worthwhile increase in earnings*

premium at which Barlows had been rated relative to M&R a year ago disappeared and both counters are now valued at a p:e of 20 despite Barlows, on paper at least, having significantly better recovery potential as it brings underperforming assets up to speed. (~~332~~) (180)

Part of the problem for Barlows is that it has had to overcome the perception that, with the notable exception of Pretoria Portland Cement, the assets left after the unbundling were the least profitable, and therefore least attractive, parts of the old group. What's more, these perceptions have now gained a degree of substance with the publication of a full set of pro forma financial statements for 1993, showing that the reconstituted group that year achieved a gross return on total assets of only 5,9%, against 10,7% for the old group, and a return on equity of 8,6% against 14,8%.

Even after last year's improved results, returns are still decidedly substandard at 7,4% gross on total assets, and 10% net on equity. From a breakdown of operating profit and net assets in the latest report, it is apparent only the Cement & Lime division (PPC) and the financial activities are producing acceptable results on assets employed, leaving 72% of assets still in the "underperforming" category.

## DIVISIONAL RESULTS

**Attributable earnings**

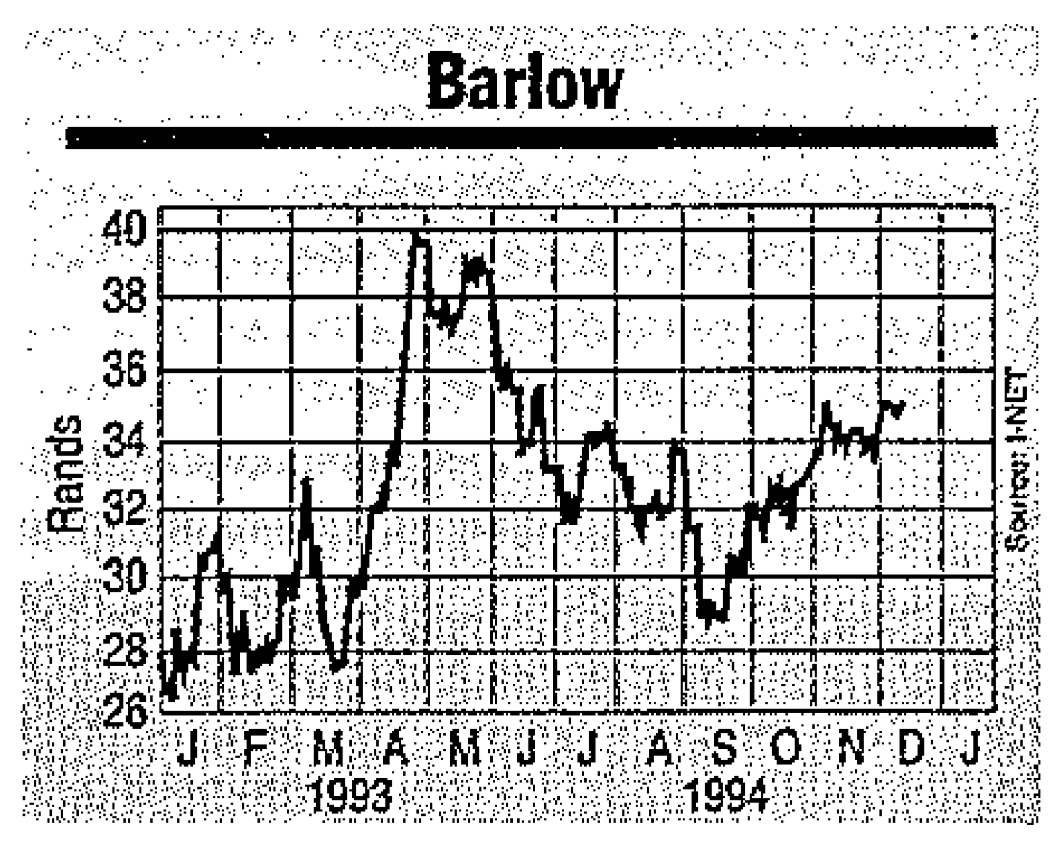
| | 1993 Rm | 1993 % | 1994 Rm | 1994 % |
|---|---|---|---|---|
| Cement & Lime | 72,8 | 29,4 | 91,2 | 26,9 |
| Industry | 99,4 | 40,2 | 154,6 | 45,7 |
| International | 17,5 | 7,1 | 36,9 | 10,9 |
| Finance/Other | 57,6 | 23,3 | 55,9 | 16,5 |
| Total | 247,3 | 100,0 | 338,6 | 100,0 |

What should not be overlooked, though, is that it is unfair to judge the new Barlows on a single year's results. For one thing, apart from the unbundling, many of the operations have undergone rigorous restructuring, the benefits of which are not yet reflected in the income statement. For another, the improved local economy only really made an impact in the last quarter of the group's financial year, from which it can be concluded that the picture presented by the 1994 financial statements would have been significantly different if fourth-quarter conditions had applied all year — as, it is hoped, they will in 1995.

Another bull point for 1995 are early signs that the more narrowly focused group is having some success in improving asset management. Significant in this regard is that last year's 9% turnover increase was achieved on a total asset base which (with investments at book value) was 2,5% smaller than the comparable 1993 figure. This resulted in a marked upturn in the asset:turn ratio from 1,4 in 1993 to 1,6, which is on a par with what the old group was achieving in its final years.

There was less success in the control of working capital which, net, increased to 17,2% of turnover from 14,4% previously. While this probably reflects the upturn in business conditions towards year-end, it nevertheless represented an additional investment in working capital of R361m or 75% of net borrowings at September 30 1994 of R480m.

The balance sheet, fundamentally strong with a debt:equity ratio of only 0,12, has been strengthened since year-end through




the US$75m convertible Eurobond issue which, with a coupon of 7%, should have the additional benefit of reducing the group's average cost of external funding from 1994's 12,6%.

Though there is plenty of capacity to fund future expansion, profitability is still too low for debt to be used with any material gearing benefits for shareholders. In 1994 interest payments absorbed 22% of pre-interest profit, only one percentage point less than the ratio of borrowings (gross) to total capital employed (excluding interest-free liabilities).

The current year's results should give a better idea of how the new Barlows can be expected to perform as, for the first time, the income statement will reflect the simultaneous benefits of the upturn and the steps taken to enhance profitability. Chairman Warren Clewlow is looking to a "worthwhile increase in earnings" for 1995, while the respective divisional reviews generally describe growth prospects within a range from "reasonable" to "significant."

With any luck, in a year's time 1994 will be seen to have been a year of consolidation

## COMPANIES

FM 23/12/94

for the new group with the establishment of a firm platform from which future growth can take place in tandem with accelerated infrastructural spending. What is needed now is for the group to demonstrate that it can realise its potential. If it does, the share price will still have considerable upward potential as profitability normalises. (~~232~~) (180) Brian Thompson

# Project aid expected to pay off

SELLO MOTLHABAKWE

THE Trade and Industry Department expected to recoup 68% of the R29,4m granted for 167 approved projects as part of incentives under the support programme for industrial innovation, a department spokesman said yesterday. TE(180)

Only 77 of the projects qualifying for the scheme were completed and sold. The remaining products were completed in the past 18 months and no sales figures were available.

Total turnover generated by sales of the 77 products amounted to R164,8m of which R148,9m — about 90% — was from local sales. Export sales generated R15,9m while product spin-offs earned R6m in sales.

A total of 548 people were employed during 1993 to manufacture or assemble the newly developed goods.

Of the R29,4m paid out by the state in grants, an estimated R20,1m to R22m would be paid in tax through VAT and corporate income tax. This would amount to 68% of the amount paid to industrial firms involved in product innovation. BD 23/12/94

The industrial innovation support programme was initiated by the department in April last year as part of a strategy to promote the development of technology in the manufacturing industry. The present programme replaced the old innovation support for electronics scheme and is administered by the Industrial Development Corporation.

MANUFACTURING – GENERAL

1995

# *Royal nod for South African manufacturers*

Buckingham Palace has given SA manufacturers permission to use British royal emblems, photographs and portraits on souvenirs produced to commemorate Queen Elizabeth's planned March visit.

Palace rules governing the use of royal emblems, photographs and portraits had been temporarily relaxed until June 25, three months after the end of the Queen's visit, the British Information Services in Johannesburg said yesterday.

The permission is conditional on the souvenirs being in good taste, not bearing any advertising nor implying royal approval of a product.

Emblems that fall under palace rules are the royal arms, the arms of the Duke of Edinburgh, formal representations of the ro[illegible] crowns, and photographs [illegible] portra[illegible]s of the Queen o[illegible]ke of Edinburgh.

Copie[illegible] the detailed rules are av[illegible] from the British high comm[illegible]ssions in Cape Town or Pretoria. — Sapa.

(180) Star 5/1/95

▶ **New royal kissing scandal, and more – Page 7**

# Most top industrial businesses in Gauteng

(180)

BD 18/1/95

SAMANTHA SHARPE

GAUTENG was home to 206 of the Financial Mail's top 300 industrial companies of last year — 68,7% of the national total — the latest Anglo American Property Services analysis of the 300 industrial company head offices in SA shows.

The survey, which aims to identify SA's major economic areas and analyse the types of businesses located in each, based on the top 300 industrial companies, showed all the country's print and publishing companies located in Gauteng.

The region was also home to 66% of the beverages, hotel and leisure and 84% of the building and construction companies ranking in the top 300.

Other sectors dominant in the region included industrial holdings (79%) and engineering (91%) and electronics (100%).

The Western Cape was home to 51 top companies, with its strength in the 33,3% of SA's top clothing footwear and textiles companies and 41% of the country's retailers and wholesalers based in the area.

Geographic and climatic conditions were the key factors behind the region hosting 33,3% of the top fishing companies and 28% of the food sector, the survey said.

Representation from KwaZulu/Natal had remained constant with 26 of the top 300 companies based in the region. "Sugar (100%) dominates, while tobacco and matches (100%), clothing, footwear and textiles (26%) and fishing (33,3%) are also featured," it said.

The Eastern Cape had six companies in the top 300 list with clothing, footwear and textiles the major contributors. But its main economic base rested on the motor industry.

The Northwest had four companies listed — two in investment and one each in furniture and household goods, and in engineering.

The steel and allied sector had 33,3% of its head offices in the Eastern Transvaal, making it the major industry from the region.

"The Northern Transvaal has the food sector (5%) as its sole representative on the top 300 list," the survey said, while the Free State made no contribution to the list.

The largest province with the smallest population, the Northern Cape, also fell short, with mining and agriculture the main source of business activity.

Four of the top companies had their head offices located in areas outside the boundaries of SA, the survey said.

Three were in Namibia and one in the US.

# SA manufacturers 'ranked lowest'

CT 2/2/95
(180)

By ROSS HERBERTA

JOHANNESBURG. — Failure of follow-through and proper execution are the curses of South African industry and explain why it ranks near the bottom in competitiveness, according to a worldwide survey.

The survey is part of the Global Manufacturing Futures Project by the Boston University Manufacturing Roundtable, which works with 11 universities worldwide to evaluate industry in 41 countries.

"There is ominous evidence here that we are not good at implementing things," says Norman Faull, professor of business administration at the University of Cape Town, who conducted the research in SA.

He says SA is acquainted with and has tried many of the advanced methods used in the US and Japan. But local industry fails to implement new techniques and suffers from a lack of discipline top-to-bottom, often starting an approach and backing off after difficulties arise at lower corporate echelons.

The study examines 38 of the latest buzz-words and advanced techniques for improving efficiency, from just-in-time manufacturing to cross-functional teams to re-engineering and continuous process improvement.

Of the 38 techniques evaluated, local industry is able to realise fewer benefits from such techniques than those in other countries. SA rates lowest of 41 countries in 29 of 38 techniques and next to last in seven.

"It is a daunting picture. There is such faddism in South African management. But actually getting real results (from new manufacturing techniques) takes at least 18 months," says Faull.

Distribution and delivery problems are also endemic in SA.

About 65% of manufacturers say deliveries are late more than 10% of the time, with an average on-time delivery of 84%, a problem that compounds itself because late raw-material deliveries affect deliveries by manufacturers and distributors.

"If each of us is off 10% of the time, the end customer hasn't a chance of getting a reliable delivery," says Faull.

"These are real issues, particularly when it comes to implementation. The culture is too bureaucratic and autocratic," says Marc Bechet, who is responsible for planning, information systems and financial control at Ciba Geigy.

The 212 SA companies that participated in the survey say that improving exports is much harder than expected.

Companies on average achieved seven% of export sales in Africa and 10% overseas - figures they expect to double over the next three years. When surveyed two years ago, companies had predicted a doubling of exports, but achieved no real growth.

Of 16 areas, price competitiveness is the one of greatest weakness.

Average unit sales volumes grew 4%, but prices rose 8%.

Industry generally has not realised benefits from its spending on computer technology.

Faull attributes the failure to lack of understanding of and discipline in the use of computer technology.

Management, according to the survey, intends placing emphasis on the continuous improvement of existing manufacturing systems. It also plans to emphasise, in order of priority, worker training, supervisor training and management training.

In turnover per worker, SA lags significantly behind other nations. Local industry had sales of R238000 per employee, against R948000 in the US, R899000 in Korea, R864000 in Singapore, R743000 in Australia and R554000 in New Zealand.

Faull will present his findings in full at the Benchmarking to Achieve Best Practices conference in Sandton from February 27 to 28.

*Near bottom of world competitiveness table*

# Local industry in parlous state

(180) Star 2/2/95

**BY ROSS HERBERT**

A failure of follow-through and proper execution are the curses of South African industry and explain why it ranks near the bottom in competitiveness, according to a worldwide survey.

The survey is part of the Global Manufacturing Futures Project by the Boston University Manufacturing Roundtable, which works with 11 universities worldwide to evaluate industry in 41 countries.

"There is ominous evidence here that we are not good at implementing things," says Norman Faull, professor of business administration at the University of Cape Town, who conducted the research in SA.

He says SA is acquainted with and has tried many of the advanced methods used in the US and Japan. But local industry fails to implement new techniques and suffers from a lack of discipline top-to-bottom, often starting an approach and backing off after difficulties arise at lower corporate echelons.

The study examines 38 of the latest buzz-words and advanced techniques for improving efficiency, from just-in-time manufacturing to cross-functional teams to re-engineering and continuous process improvement.

Of the 38 techniques evaluated, local industry is able to realise fewer benefits from such techniques than those in other countries. SA rates lowest of 41 countries in 29 of 38 techniques and next to last in seven.

"It is a daunting picture. There is such faddism in South African management. But actually getting real results (from new manufacturing techniques) takes at least 18 months," says Faull.

Distribution and delivery problems are also endemic in SA.

**WORLD COMPETITIVENESS SCOREBOARD**

| | |
|---|---|
| 1 | USA |
| 2 | SINGAPORE |
| 3 | JAPAN |
| 4 | HONG KONG |
| 5 | GERMANY |
| 6 | SWITZERLAND |
| 7 | DENMARK |
| 8 | NETHERLANDS |
| 9 | NEW ZEALAND |
| 10 | SWEDEN |
| 11 | NORWAY |
| 12 | AUSTRIA |
| 13 | FRANCE |
| 14 | UNITED KINGDOM |
| 15 | AUSTRALIA |
| 16 | CANADA |
| 17 | MALAYSIA |
| 18 | TAIWAN |
| 19 | IRELAND |
| 20 | FINLAND |
| 21 | BELGIUM/LUX |
| 22 | CHILE |
| 23 | THAILAND |
| 24 | KOREA |
| 25 | SPAIN |
| 26 | MEXICO |
| 27 | ARGENTINA |
| 28 | PORTUGAL |
| 29 | TURKEY |
| 30 | COLOMBIA |
| 31 | INDONESIA |
| 32 | ITALY |
| 33 | PHILIPPINES |
| 34 | INDIA |
| 35 | SOUTH AFRICA |
| 36 | CZECH REPUBLIC |
| 37 | GREECE |
| 38 | BRAZIL |
| 39 | HUNGARY |
| 40 | VENEZUELA |
| 41 | POLAND |

Source: WORLD COMPETITIVENESS REPORT. Graphic: A. MUSH

About 65 percent of manufacturers say deliveries are late more than 10 percent of the time, with an average on-time delivery of 84 percent, a problem that compounds itself because late raw-material deliveries affect deliveries by manufacturers and distributors.

"If each of us is off 10 percent of the time, the end customer hasn't a chance of getting a reliable delivery," says Faull.

"These are real issues, particularly when it comes to implementation. The culture is too bureaucratic and autocratic," says Marc Bechet, who is responsible for planning, information systems and financial control at Ciba Geigy.

The 212 SA companies that participated in the survey say that improving exports is much harder than expected.

Companies on average achieved seven percent of export sales in Africa and 10 percent overseas — figures they expect to double over the next three years. When surveyed two years ago, companies had predicted a doubling of exports, but achieved no real growth.

Of 16 areas, price competitiveness is the one of greatest weakness.

Average unit sales volumes grew 4 percent, but prices rose 8 percent.

Industry generally has not realised benefits from its spending on computer technology.

Faull attributes the failure to lack of understanding of and discipline in the use of computer technology.

Management, according to the survey, intends placing emphasis on the continuous improvement of existing manufacturing systems. It also plans to emphasise, in order of priority, worker training, supervisor training and management training.

In turnover per worker, SA lags significantly behind other nations. Local industry had sales of R238 000 per employee, against R948 000 in the US, R899 000 in Korea, R864 000 in Singapore, R743 000 in Australia and R554 000 in New Zealand.

Faull will present his findings in full at the Benchmarking to Achieve Best Practices conference in Sandton from February 27 to 28.

# Business confidence at all-time high

Star 8/2/95

**BY ROSS HERBERT** (180)

Confidence among manufacturers has reached its highest level ever, according to results of a survey released by the SA Chamber of Business (Sacob) yesterday.

The proportion of businesses predicting higher sales this year reached 88 percent, up from 84 percent in November, and the highest level recorded since Sacob began its business confidence index (BCI). But Sacob economists expressed reservations for 1995, particularly over the Budget, inflation and the outcome of local government elections, which will have a significant effect on how RDP projects are implemented.

"It is also important that industrial action and labour unrest — particularly in the public sector — do not promote an image of SA that is synonymous with lawlessness and ungovernability."

Director-general Raymond Parsons said economic growth over 3 percent couldn't be taken for granted. "Some red lights are flashing already," he said.

The BCI, which is based on 13 indicators, held steady in January at 108,2.

In January last year it was at 104,9 and rose to a high of 111 in August before edging down to 107 to 108 in the fourth quarter of 1994.

The report predicted inflation at less than 10 percent, but expressed concern for the long term as a result of rapidly growing money supply.

In December, M3, the broadly defined indicator of money supply, grew by 16 percent — 7 percent above the target set by the Reserve Bank.

The main explanation of the jump is a rapid rise in consumer credit, which can only increase inflationary pressure.

# Manufacturers bullish on outlook

(180) CT 8/2/95

By AUDREY D'ANGELO
Business Editor

BUSINESS confidence is high — particularly in the manufacturing sector — SA Chamber of Business (Sacob) surveys show.

The Sacob business confidence index (BCI) for January was unchanged from December at 108,2, slightly up from 108,1 in November and 107,4 in October.

And Sacob economist Keith Lockwood says its manufacturing survey shows that 88% of respondents expect "improvements in almost all aspects of their business in the coming 12 months."

In the Western Cape, 64% expect to employ more skilled workers this year and 75% expect to invest in new plant.

However, the number of manufacturers throughout the country expecting to employ more people has dropped since November. Those expecting to employ more unskilled workers has dropped from 59% to 56% and those expecting to employ more skilled workers has dropped from 64% to 61%.

Lockwood says that the reasons for the decline are not clear "but could be associated with the apparent increase in industrial action in the past month."

In their report on the BCI Sacob economists say they see no reason for inflation to rise above 10% this year, particularly if the monetary authorities act soon to curb the growth in money supply.

They still believe an economic growth rate of 3,5% is possible, but prospects may have to be reassessed "as events unfold".

They warn that SA's foreign currency reserves still cover only two months' worth of imports and "in view of the fact that the current account deficit is expected to increase during 1995 it is important that net capital inflows are maintained and extended."

This, they say "means that SA must continue to present a good image to the international investment community who are concerned primarily with political stability and predictability and certainty in the policy arena.

"In the light of the recent crisis in Mexico international investment flows are likely to be even more discerning and risk-averse than before — so perceptions of this country's prospects wil be critical.

"As the SA economy is not yet strong enough to sustain normal political activity a government of national unity is still necessary to underpin business and investor confidence."

The budget will be particularly important in building credibility for the government and its ability to manage the economy. "Successful trade-offs in the budget will shape the future investment climate.

"Predictability and certainty for business decision-taking should be a cornerstone."

# Producer prices rise by 9,7%

(180)

CT 14/2/95

By AUDREY D'ANGELO
Business Editor

THE producer price index (PPI) rose by 0,6% between November and December — mainly due to higher domestic prices. The domestic component of the PPI rose by 0,7% during the month, while the imported component rose by only 0,1%, reflecting the stability of the rand and low inflation among SA's major trading partners.

The PPI for December showed a rise of 9,7% over the 12 months compared with 9,4% in November. The annual percentage rise for locally produced goods was 10,4% compared with 9,9% in November. The annual percentage rise for imported goods was 6,9% compared with 6,7% in November.

The biggest rise for domestic goods was in mining and quarrying products, which rose by 2,1% during the month, due mainly to a rise of 4,8% in the price of coal. Agricultural products, manufactured food, textiles and made-up goods rose by 1,1% during the month.

Two economists — Johan Els of Old Mutual and Nick Barnardt of stockbrokers Ed Hern, Rudolph — pointed out that the continuing trend for domestic prices to rise

## Domestic prices 'too high'

at a faster rate than those of imported goods would encourage imports with undesirable consequences for the balance of payments (BoP).

Barnardt said the increasing gap between the price of imports and domestic goods was "worrying" and showed that "we cannot forever fight inflation by keeping the rand stable (against other currencies)".

He thought the solution was to abolish the finrand accepting a depreciation of about 12% in the rand while continuing to control inflation by tight monetary and fiscal policies. "We need an exchange rate depreciation to keep the BoP from getting out of hand."

But Sanlam chief economist Johan Louw said he did not think Stals could abolish the financial rand at present "against the background of what has happened in Mexico".

Louw pointed out that present inflows were of short-term capital rather than long-term investment.

Discussing the PPI, Louw said he expected it to average 9% for the first quarter of this year because it was rising from a low base in the first quarter of 1993. "But it will decelerate later in the year, because it is rising from higher levels. I expect it to average 8,5% for 1995."

Boland Bank economist Francois Jansen said he thought it encouraging that the imported component of the PPI had remained low, in spite of the substantial depreciation of the rand against the dollar in the middle of last year, because it showed that fears of imported inflation had been exaggerated.

Southern Life economist Sandra Gordon said food prices had risen by a higher than expected 1,3% month on month. "This reflects higher meat prices (1,7% month on month), and surge in fruit prices, (18,7% month on month) which more than offset declines in grain (-0,1% month on month), milk and eggs (-0,4%) and vegetable prices (6,9%).

She forecasts an average PPI of between 9% and 9,5% during 1995. Johan Els said he did not think the higher meat and fruit prices were the start of a trend.

He expected the PPI to move up gradually during the year to reach 12% in December, and to average 10,5% for the year.

Strong fourth quarter despite disputes

(180)

# GDP growth boosted by manufacturers

BD 16/2/95

A ROBUST manufacturing performance helped the economy steam ahead in the fourth quarter of last year to register annualised growth of 6,4%, propelling last year's GDP growth above expectations to 2,3%, Central Statistical Service figures released yesterday showed.

Economists were encouraged that growth had been widespread. They welcomed a revised third-quarter growth figure of 4,1% — up from 2,6% — as this reflected robust economic activity. Third-quarter manufacturing growth was revised upwards to 7,4% from 1,8%. Economists were surprised by the sharp revision for a period plagued by labour disputes.

Sacob economist Keith Lockwood said growth had spread to the non-agricultural sector last year. Manufacturing's sturdy showing would soon feed through to other sectors, like the retail and wholesale sectors. Economic growth this year was likely to be less dependent on the agriculture sector, which would probably turn in a lower output in real terms than last year.

Unless otherwise stated, all figures are seasonally adjusted, annualised quarter-on-quarter changes.

The breakdown of the fourth-quarter growth figures — stated at factor incomes — showed manufacturing at 10,3%, the non-agricultural sector's growth at 5%, mining at 0,4% and agriculture at 27,7%.

Ed Hern Rudolph economist Nick Barnardt said agriculture's fourth quarter-performance was heartening, if surprising, considering the drought at the time. Some of the strong performance possibly stemmed from farmers' efforts to increase

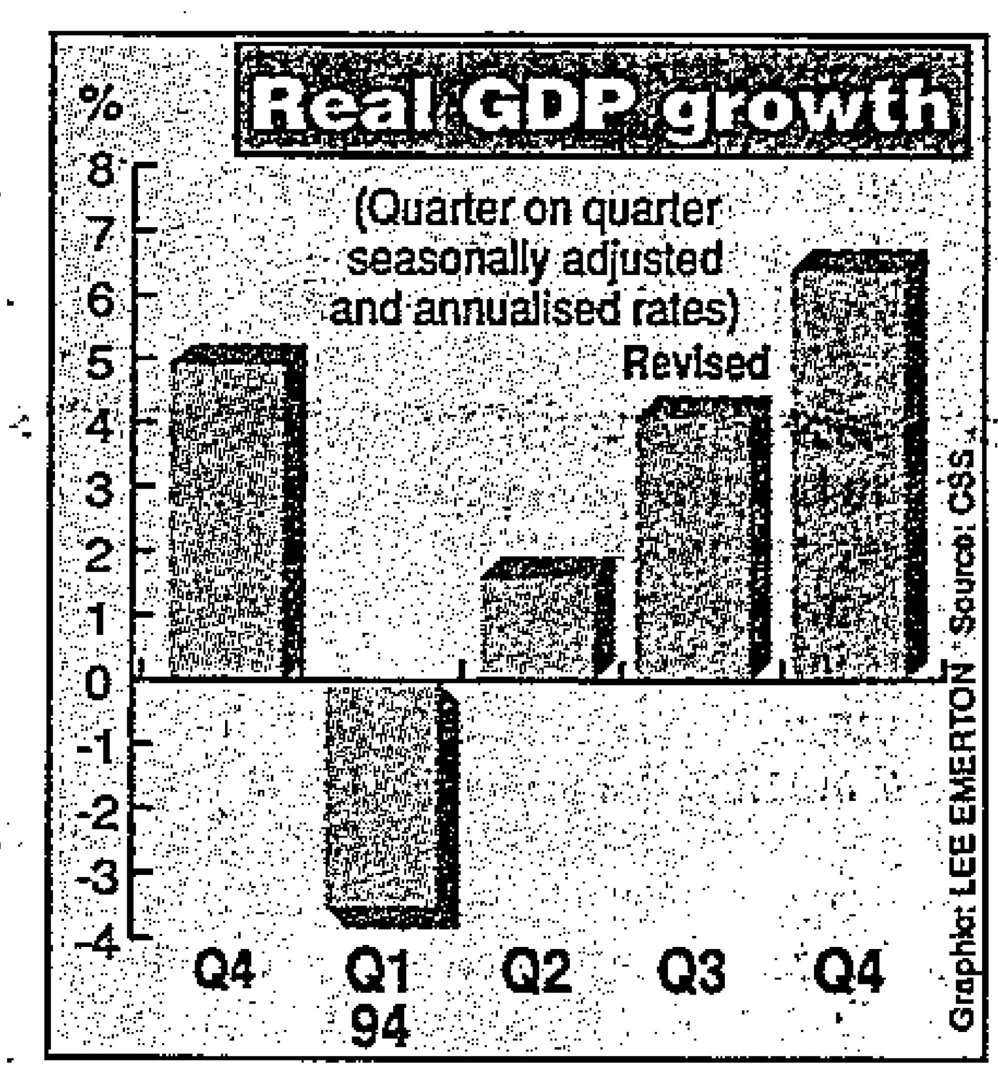
MUNGO SOGGOT

slaughtering because of the drought. This could reduce the amount of livestock available for slaughter in coming months.

Rand Merchant Bank chief economist Rudolf Gouws said some of the jump in manufacturing growth probably stemmed from efforts to make up for lost production due to third-quarter labour disputes. The sector was unlikely to sustain real growth of 10% this year. It would be closer to 5%.

Lockwood said the improvement in manufacturing could also lead to a pick-up in SA's export performance which would ease pressure on the balance of payments.

Nedcor said the manufacturing recovery appeared to have been concentrated in basic industrial or beneficiated primary product industries which produced for export or for the construction, mining and agricultural sectors.



# Draft law set to reform board

CAPE TOWN — Draft legislation intended to make the Industrial Development Corporation's board more representative of "the society that it serves" was tabled in Parliament yesterday. (180) BD 22/2/95

Trade and Industry Minister Trevor Manuel said in a memorandum on the Industrial Development Amendment Act that the current maximum of nine directors was too restrictive and should be increased to 15 to allow him to make the board more representative. — Sapa.

moved to a ...

# Manufacturing sales show increase of 11%

BD 22/2/95 (180)

MUNGO SOGGOT

MANUFACTURING production last year rose 2,6% from the previous year and the value of manufacturing sales jumped 10,9%, Central Statistical Service figures released yesterday showed.

Economists said this confirmed last week's fourth-quarter GDP figures, which showed that a sturdy manufacturing performance — accounting for a quarter of GDP — had boosted fourth-quarter GDP growth. Third-quarter manufacturing growth was pegged at an annualised 7,4% and fourth quarter at 10,3%.

Basic industrial and export industries had shown the strongest growth, with manufacturers of consumer goods trailing behind, they said.

Sacob economist Keith Lockwood said robust production growth boosted by the petroleum and coal products sector and the electrical machinery industries sector — each contributed 0,4 percentage points to the 2,6% overall annual increase — reflected the general pick-up in economic activity towards the end of last year.

The figures showed the paper and paper products sector, the basic iron and steel products sector and the motor sector had each contributed 0,3 percentage points, while the food sector had made a 0,7 percentage point negative contribution.

Lockwood forecast significant growth in output this year for the iron and steel and electrical machinery sectors, which would be buoyed by a fixed investment boom.

Another economist said the consumer sector had picked up less as it had come off a higher base, after remaining relatively stable during the recession which had hit heavy industry more directly.

The University of Stellenbosch's bureau of economic research (BER) said recently its most recent manufacturing survey showed there was likely to be keen domestic demand for the sector's goods in the first quarter.

As stock levels were relatively low and there was an increase in orders, the rate of production would probably remain "lively", it said.

"There can be no doubt at all that the manufacturing sector has entered an upswing phase in its business cycle. As a result the confidence level has increased from 58 index points to 74 out of a scale of 100," the BER said.

BUSINESS DAY, T

# SA manufacturers 'underdeveloped'

(180) BD 28/2/95

SELLO MOTLHABAKWE

SA's manufacturing sector is substantially underdeveloped in terms of automation and computerisation compared to world standards, a survey by telecommunications market research organisation BMI-TechKnowledge has found.

The survey, conducted last year among 750 SA manufacturing executives and their companies, said underdeveloped computerisation and automation levels were linked to low productivity and performance.

It found that many of the executives interviewed lacked a clear understanding of the fundamentals of information technology and its relevance to their companies.

While political developments had provided a chance for manufacturers to penetrate the international market, there was a window period of one to two years in which to take advantage of international opportunities.

Information from some of the executives indicated that they were aware of the importance of improving their information systems. Some had actually started doing so at the time of the interview.

The survey found that expenditure on manufacturing, distribution and financial software increased by about 34% last year, compared with a worldwide increase of 13,6% for packaged applications.

This represented a bonanza for information technology vendors as manufacturing accounted for about 24% of the local packaged application solutions market.

The upturn in manufacturing activity, reported by almost all manufacturing groups, provided major opportunities for information technology vendors.

The manufacturing entreprises identified as holding the greatest potential for information technology vendors were those involved in food, beverages and tobacco, petroleum, chemicals and allied products as well as pharmaceuticals and fabricated metal products.

The report identified a number of areas to which it advised the information technology industry to pay particular attention. They included the discrepancies between the views of vendors and users in terms of what a systems user was looking for.

It said users wanted more advanced and cost effective systems, but did not necessarily have an adequate understanding of the fundamentals of the systems they wanted and their relevance to their manufacturing requirements.

# Sacob forecasts more jobs in manufacturing

CT(BR) 13/3/95 (180)

BY AUDREY D'ANGELO
CAPE BUSINESS EDITOR

More jobs should become available in the manufacturing industry in the next few months, the latest SA Chamber of Business (Sacob) manufacturing confidence survey shows.

The survey, which was undertaken last month and covered both skilled and unskilled workers, found Western Cape manufacturers were the most optimistic and those in Gauteng the least.

Sacob economist Keith Lockwood says a very high proportion of respondents expect market conditions to improve over the next year.

"However, in response to developments in the past month, the proportion of industrialists who expect a rise in sales has fallen to 85 percent from 88 percent in the previous survey.

"It is not clear to what extent this drop is a response to the rise in interest rates, or concern over what the Budget has in store for both the business sector and consumers.

"The predominantly positive picture does, however, support a general view that the economic recovery will continue for some time and across most sectors."

Lockwood says that despite the slight deterioration in the outlook for sales, there has been an increase in the number of respondents expecting to use more of their productive capacity over the next 12 months.

Overall, the proportion of manufacturers expecting to employ more unskilled workers has risen from 56 percent in January to 59 percent.

And the proportion expecting to employ more skilled workers has risen from 61 percent to 62 percent.

"With the exception of the East London area, which expects no change, the majority of subjects polled in all parts of the country expects to employ more skilled workers in the coming year," says Lockwood.

CT(BR) 15/3/95 (180)

# PPI surges to a three-year high

**Economists predict gloomy outlook for consumer prices as producer prices rise across the board**

By Roy Cokayne
PRETORIA BUSINESS EDITOR

Producer price inflation, a leading indicator of the course of consumer prices, surged to its highest level in over three years in January.

Economists said that the latest Production Price Index (PPI) figures were disappointing, and would have an impact on consumer prices in months to come.

Figures released by Central Statistical Service (CSS) revealed the PPI rose 0,8 percent in January to 10,5 percent, from 9,7 percent in December last year.

CSS said January's PPI was the highest increase in the index since October 1991 when it was 11,1 percent. Between December last year and January this year, the PPI rose by 1,6 percent and by a seasonally adjusted 1 [illegible] percent.

The annual rate of increase in the PPI for imported commodities in January was 9,3 percent — the highest rate of increase since September 1991 when the rate was 10,1 percent. In December last year this rate was 6,9 percent.

The PPI for several commodities for South African consumption showed relatively large increases.

Included among these were the price indices for tobacco products (up 12,7 percent), electricity (up 5,4 percent), footwear (up 4 percent) and some agricultural products such as grain (up 10,5 percent), vegetables and dried beans (up 3,7 percent).

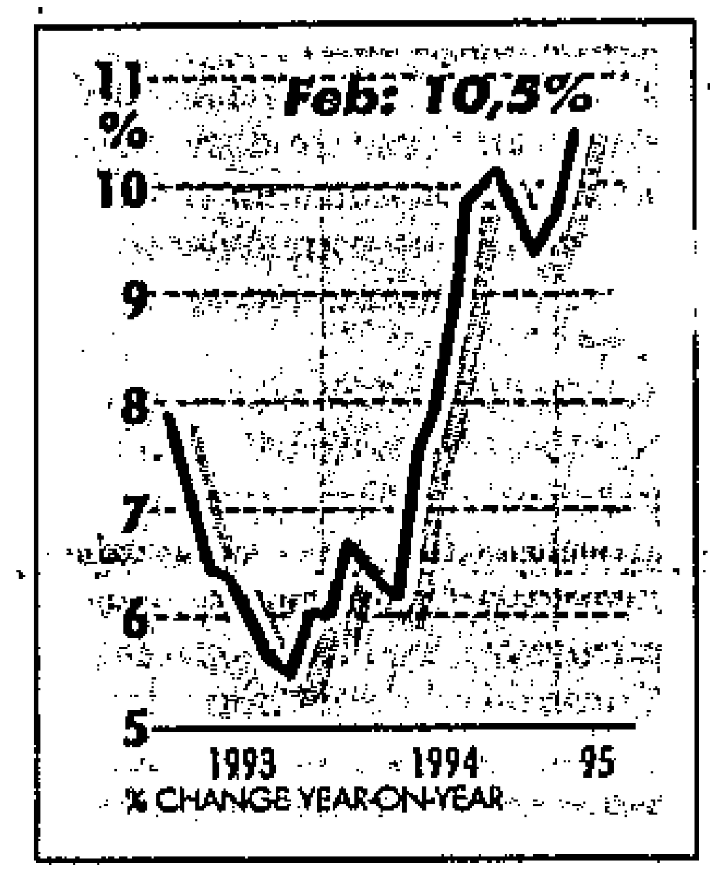
By contrast, the price indices for fruit dropped by 28,4 percent and leather and leather products by 1,3 percent.

Econometrix director and chief economist Azar Jammine said the general jump in prices was the sharpest in a long time.

Special reasons, such as price rises being pushed through on January 1, were the only possible explanation for the sharp increase in the PPI. However, he added that the seasonally adjusted rate had also risen.

What was really disturbing was that the PPI was a leading indicator of the course of consumer prices. But even non-food prices had risen. "Every way you look at the PPI figures, they look bad", Jammine said.

**Producer price index**




Standard Bank group economist Nico Czypionka said the latest PPI figures were certainly above the bank's expectations.

He said the month-by-month rate of increase of 1,[illegible] percent translated into an annual PPI rate of 19 percent.

Czypionka said what was disturbing was that price increases had occurred across the board.

The picture was not particularly healthy. The PPI fell below 6 percent in 1993 but had backed up to a level that was not really palatable.

Czypionka said the latest PPI figures would have an impact on inflation expectations and would not be well-received by the market.

He believed the CPI would hover around 10 percent this year.

# Big day for futures

The largest futures close-out since the inception of Safex is expected tomorrow.

Although near-dated gold contracts came under pressure, the all share and industrial contracts were buoyant, prompting the comment that South Africa had achieved new status as a global player now that the financial rand had been scrapped.

The all share index closed at 5268, the all gold index at 1514 and the industrial index at 6632.

The March 1995 all share contract was bid at 5293 and offered at 5295.

The near-dated gold contract was bid at 1510 and offered at 1515.

And the near-dated industrial contract was bid at 6690 and offered at 6695. — Staff Writer

# Ellerines earnings per share surge by 33%

CT 22/3/95

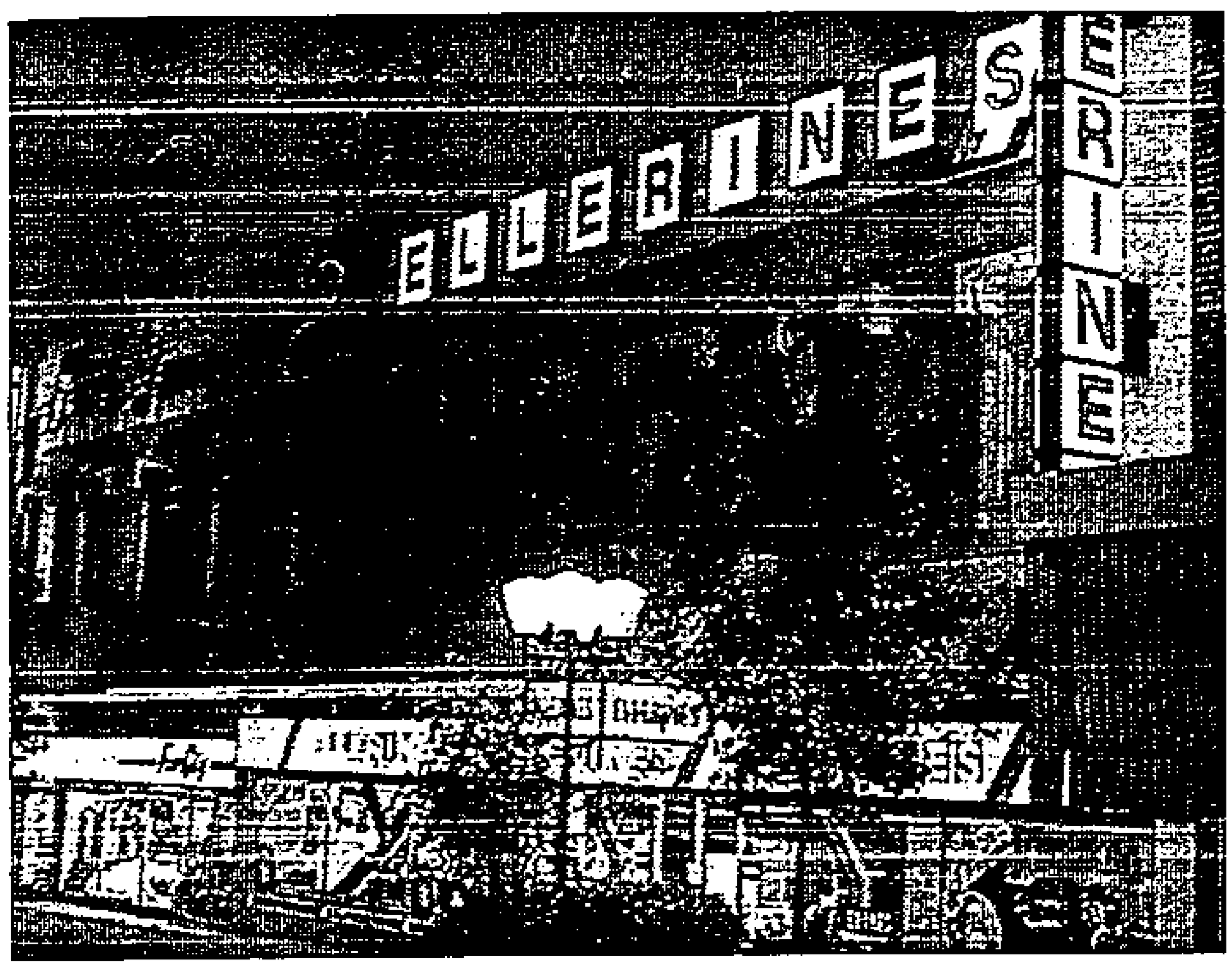
The furniture retailer
:s planning to open its 400th
branch later this year

Y CHARLOTTE MATHEWS
INVESTMENT EDITOR

Ialbak-controlled furniture retail-· Ellerine Holdings lifted earnings ɜr share, excluding abnormal ɜms, by an above-expectations 3 percent to 61c in the six months › February, compared with the ıme period in 1994.

Management attributed the ɔod performance to strong sales ·owth and continuous control of ·penses and working capital. ıles are growing through existing ores as well as new stores and the ɔmpany plans to open its 400th utlet in June.

A 20 percent rise in sales at 508,7 million was outstripped by 29 percent climb in operating rofit to R77,8 million, showing ıargins improving to 15,3 percent from 14,2 percent previously.




**HOME COMFORTS** *The industry is expected to benefit from the government's emphasis on housing*

Net interest paid halved to R1,3 million from R2,7 million and the tax rate was unchanged at 42,3 percent.

An abnormal item of R3,1 million received in the first half of the 1994 financial year represented interest on a tax refund while the refund itself was shown as a R14 million extraordinary item. No abnormal or extraordinary items were taken in the last six months.

Including the exceptional credits, ordinary shareholders' earnings were 22 percent higher at R43,9 million, equivalent to earnings of 61,0c (58,2c) a share.

Capitalisation shares or an interim cash dividend of 20,3c (16,7c) a share are being offered to shareholders.

According to Ellerines directors, the retail furniture and appliance industry are expected to benefit from the government's stress on the provision of housing. Ellerines' target market falls directly within the focus of the reconstruction and development programme.

"While we expect the favourable trend to continue during the second half of the financial year, the increase in earnings will have to be viewed against the improved trading conditions which have prevailed since May 1994," they said.

# European experts to help SA

Sowetan 22/3/95

(180)

**BRUSSELS**—A high-powered delegation of European Union officials and businessmen flies into Cape Town tonight to help give a kick-start to South African industry.

This follows an invitation from Deputy President Thabo Mbeki, who visited Brussels recently, where he held talks with EU Industry Commissioner Mr Martin Bangemann.

One of Bangemann's chief advisers Mr Alexander Schaub will lead the delegation. "One of the best ways in which the EU can help South Africa is through industrial cooperation," he said.

"This will allow South African industry, which has a lot of potential which is not fully exploited, to progress more rapidly in cooperation with European partners. "Our aim is to get companies from both sides together, and to set favourable conditions in terms of certification and standardisation.

"We also want to boost the role of small and medium sized enterprises, and I will be addressing a conference on this in Durban next week, which has been partly funded by the EU," Schaub said. — *Sowetan Foreign News Service.*

# Manufacturing jobs still down

(180)(335)

**BY DEREK TOMMEY**

The upturn has not yet led to increased employment in the manufacturing sector.

Since the end of the recession, the number of people employed in the industry has risen by about 1 percent to 270 000, says Michael McDonald, head of the economic division at the Steel and Engineering Industries Federation (Seifsa) which employs about 75 percent of them.

This is a far cry from the boom days of 1981 when the steel and engineering industry had a labour force of 450 000.

McDonald says it is unlikely that this figure will be reached again.. At best, the industry's labour force might rise to 350 000 in the coming years.

One reason is that the nature of the labour force has changed.

Much of the machinery and equipment used today needs to be manned by skilled workers whose numbers have therefore increased, while there has been a sharp reduction in the number of unskilled workers.

The industry could be facing a shortage of skilled workers soon. The apprentice intake is only a quarter of what it was 10 years ago. STAR 23/3/95

However, several training programmes, approved by both the unions and employers, will be launched in the ner future to upgrade skills.

Part of the programme involves reducing the number of employment grades from 13 to 5.

**Manufacturing jobs static:** The upturn in the economy has not yet led to increased employment in the manufacturing sector. Since the end of the recession the number of people employed in the industry has risen by about 1 percent to 270 000, says Michael McDonald, head of the economic division of the Steel and Engineering Industries Federation (Seifsa), which employs ~~about~~ 75 percent of them. This is a far cry from the boom days of 1981, when the industry had a labour force of 450 000.

(180)

CT (BR) 23/3/95

# Spotlight on fabrication

THE SA government was looking at various strategies to help extend the country's successful basic mineral beneficiation industries to downstream, metal-based fabrication, said Paul Jourdan, special advisor to Trade and Industry Minister Trevor Manuel. (180)

SA's downstream metal fabrication industries were generally not internationally competitive, mainly because of high feedstock prices in the domestic market, Manuel told the sub-Saharan oil and minerals conference. BD 30/3/95

The main reason was a lack of domestic competition combined with the country's geographical isolation from main alternative suppliers.

Because of the high employment potential of metal and mineral fabrication industries, government was focusing on ways to reduce feedstock prices and eliminate import parity pricing. The removal of all tariffs on metals was being considered. — Reuter.

# Survival mode

(180) FM 31/3/95

**To say** that the survival of SA manufacturers depends on two conditions may be deemed by critics as naive. But economists are adamant that any new growth policy for the manufacturing sector must be based on export-led programmes and capital-intensive strategies.

A cure for low productivity and a brake on climbing wage bills are also musts if SA is to compete seriously in the global arena. In the past, SA gained its export advantage from value-adding operations and a rich resource base.

Though some sectors — plastics, motor vehicles and furniture — have targeted foreign markets, the main thrust has come from base metals, steel and chemicals. These made up almost two-thirds of manufactured exports.

During recession, manufacturers looked abroad to bolster bottom lines. But whenever the local economy improved, companies then tended to ignore world markets. This became a pattern and led to foreign traders becoming reluctant to enter into long-term supply agreements. Sanctions didn't help.

But despite them, exports of manufactured goods grew 10% a year between 1985-1990 — more than double the growth rate achieved in the Seventies.

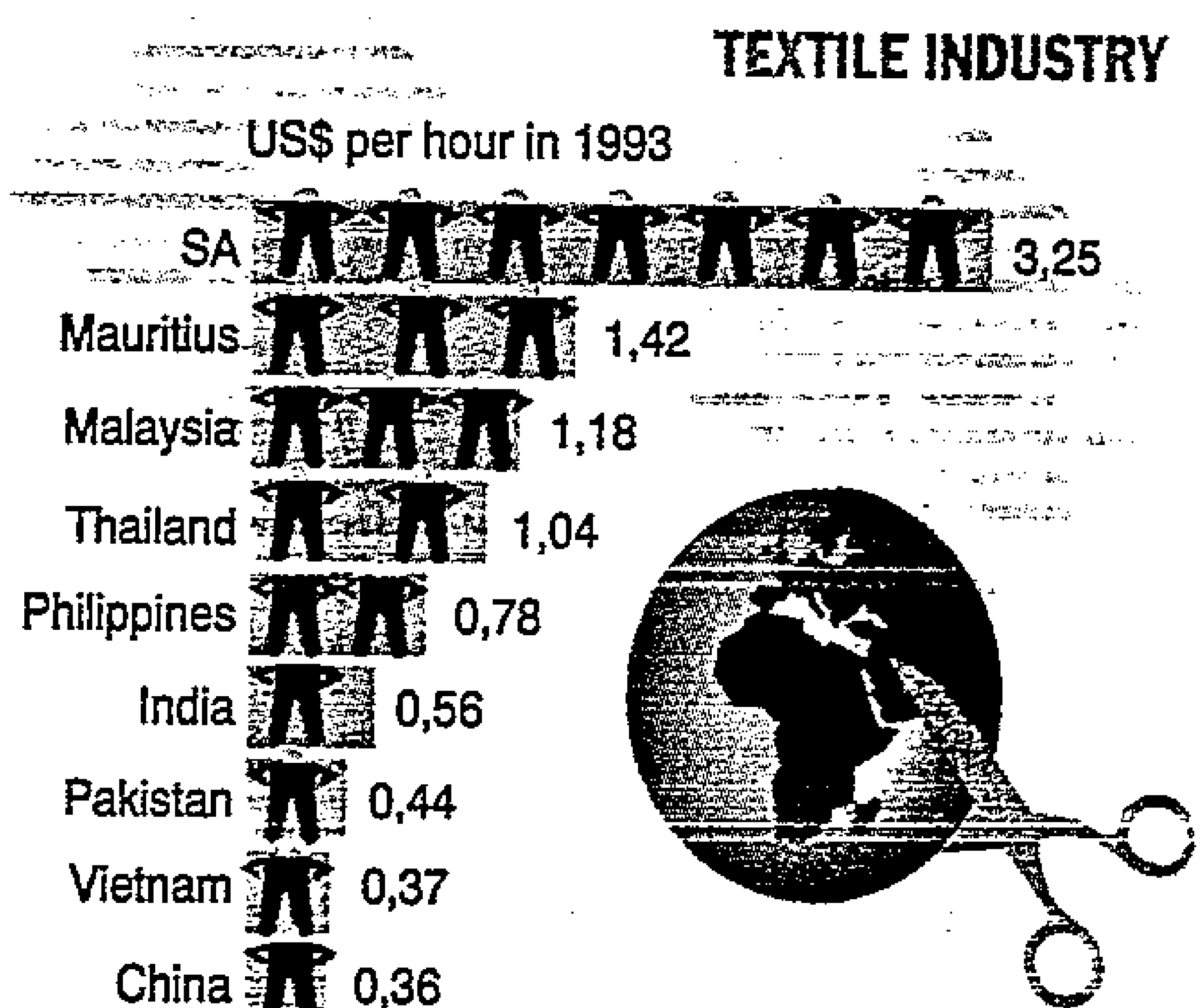
Many back-door deals resulted, with "neutrals" such as Turkey becoming conduits for what were considered contraband goods. These were fed on to global markets under various guises. Because they were not instantly recognisable as South African, no traditional supply lines were established and the effort backfired on local industry.

When the constraints were lifted, local manufacturers headed for what they thought to be their markets, only to find that ad hoc arrangements ruled. The countries that had been buying SA goods had to be wooed all over again.

But a London-based trading house says SA must now be seen as a serious player. Quality, price and supply must be guaranteed. There is no room to switch at will. A buoyant market at home must no longer override foreign commitments.

Economists say worker expectations could pose a threat to exports. Government, they say, must ensure manufacturers are not held to ransom by strike blackmail. Despite membership aspirations, unions must know the consequences of their actions.

**HIGH COST OF LABOUR**




SOURCE: FINANCIAL TIMES/TRANSNET

Just as the National Party faced the poor white, rural Afrikaner problem in 1948, so the ANC faces a huge, unskilled, black labour pool. The Nationalist solution was to use massive semi-State corporations providing protected jobs. Government now realises part of the solution lies in creating small and medium-sized businesses. But these are most vulnerable to union action.

The ANC's opposition to low-wage, sweat-shop policies is well documented and economists say this could be a stumbling block in that government wants the best of both worlds — creating jobs but at wage levels above those found in competing economies (see graph).

However, economists are tentatively encouraged by the recently released draft Labour Relations Bill in which Minister Tito Mboweni advocates a self-regulatory, mediation and arbitration approach to bring SA in line with developed countries.

The axiom for manufacturing, says one economist, should be: "If you can't compete successfully in your own market, what chance do you have in global markets?" Sacob estimates the industry costs are about 15% above the OECD average as local companies pay a quarter more for nonlabour inputs than First-World competitors do while capital and labour costs in relation to productivity are higher.

But economists expect industrial relations to improve, possibly boosting productivity after a training and education upgrade that would support higher wages.

Also, a shift in trade policy has been underlined by export-friendly strategies and tariff reform. Crucial to the export drive will be the introduction of new incentives. These could include pre- and post-shipping export finance, and duty drawbacks — within the ambit of Gatt. Manufacturers could also see assistance for research and development.

But will this be enough to see an export-led revival? Says an economist: "The situation now and that at the end of the decade depends on the grasp of a total economic vision such as Japan developed 30 years ago. So many vested interests at Cabinet level are vying for public money that there could be a failure to see how important training and education, in the context of the manufacturing industry, are to the well-being of the economy."

# SA economy no world competitor

180

Star 6/4/95

**BY CLAIRE GEBHARDT**
ECONOMICS EDITOR

South Africa has made the leap to political transformation but hasn't begun to leap the economic chasm. In fact, it needs a miracle as profound as the one that gave the country democracy to give it prosperity too.

This is the message of a "global competitiveness survey" commissioned by the National Economic Forum and presented to the Cabinet yesterday.

The survey, conducted by the Monitor Company, was done in collaboration with the Harvard Business School and Professor Michael Porter of *Competitive Advantage of Nations* fame. Staff of the IDC, the Department of Trade and Industry, the CEAS, Cosatu and Business Africa were seconded to Monitor.

The survey concludes that the country's "rusty and outdated" economic engine needs a dramatic overhaul.

In almost every sector researched, identical products were being made at substantially lower cost and/or higher quality in other countries. Many industries existed only because of protection and subsidies.

The message is simple — South African firms and industries must adapt or die.

One of the findings is that South Africa's per capita GDP is lower than that of Botswana and Hungary, and on a par with Brazil and Colombia.

With population growing by 2,5% a year, we'll need growth of 7% to 8% a year for twenty years merely to reach Taiwan's level of GDP per person.

To do so over ten years would require growth rates of 12% to 13% a year. Current forecasts of 3% to 4% were "inadequate".

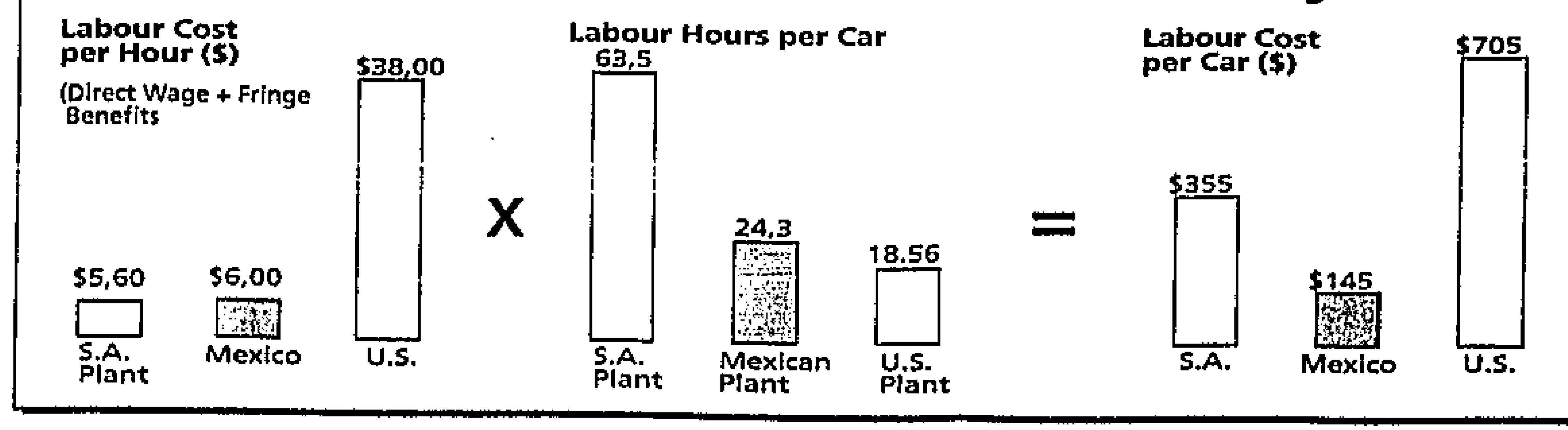
The survey concludes that transformation is achievable. Since 1980, South Korea's GDP has grown by an average of 9% each year. In contrast, South Africa's per capita GDP growth has declined from 2,5% between 1961 and 1972 to a negative 1,7% between 1985 and 1991.

The primary economic goal of a nation should be to ensure high and rising living standards for its people, and this requires competitiveness.

Five imperatives for competitiveness are identified as:

- Strong co-ordinated clusters (a strong network of related industries) — SA clusters are weakened by the lack of a strong machinery base and poor supporting services.
- World-class strategic capability — firms focus on production or the Government rather than customers and competitors.
- Strong and integrated skills, technology and work organisation — skills must match the new generations of computer-controlled machines that assume team-oriented problem-solving skills.
- High inter-firm rivalry — weak competition policies, high tariffs, a lack of small and medium enterprises, low levels of foreign direct investment and high levels of government ownership have reduced rivalry and stunted growth.
- Capable bureaucracy — government policies (GEIS, Phase 6, tariffs) have hindered the creation of competitiveness. Policy administration must be quick and low cost.

**Comparative labour costs in vehicle assembly**




**Exorbitant car prices . . . consumers in South Africa are paying up to R5-billion a year more for their cars than they should be, a study of the competitiveness of SA firms has found.**

**The major study by independent consulting group Monitor, commissioned by the National Economic Forum, found that the cost of assembling a vehicle in South Africa — not including components — was 72% higher than in Germany or the United States.**

**The price premium for vehicles currently costs consumers R4-billion to R5-billion a year, approximately equal to the RDP or national housing budget." — Own Correspondent.**

# Damning paper on 'rusty' SA industry

BD 6/4/95

(180)

ADRIAN HADLAND

CAPE TOWN — A poor level of competitiveness and critical weaknesses characterised SA's economy and hindered its prospects for real growth, a report released yesterday said.

Commissioned by the former national economic forum to determine strategies for improving SA's competitiveness, the Monitor Company report said SA firms would have to make "radical and painful changes" to win in the new trade environment. "Underneath the attractively painted body panels the engine is rusty and outdated," it said.

In every "cluster" of related industries and enterprises, comparable products were produced more cheaply or were of a higher quality in other countries. In the metal products industry, prices were driven by high steel costs, outdated machinery, poor skills and poor work organisation.

Construction costs were almost double those of other countries. The cost of housing in SA was $192m^2$ compared with $155m^2$ in Thailand, $135m^2$ in Chile, $107m^2$ in Kenya and $64m^2$ in Indonesia.

A lack of strategic focus combined with poor skills, outdated machinery and high conversion costs contributed to the mediocre performance of SA's textile industry.

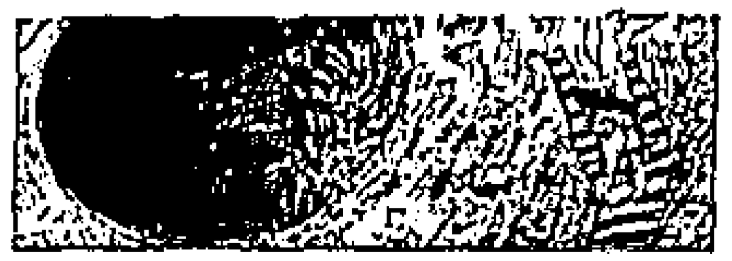
"In sugar, the local price is almost twice the world price."

SA did have some advantages, including well-developed machinery functions in the forestry, sugar, armaments and mining sectors, well-developed research and development programmes in agricultural bio-technology, a competitive clothing industry and strong positions in the food, beverages and personal sectors.

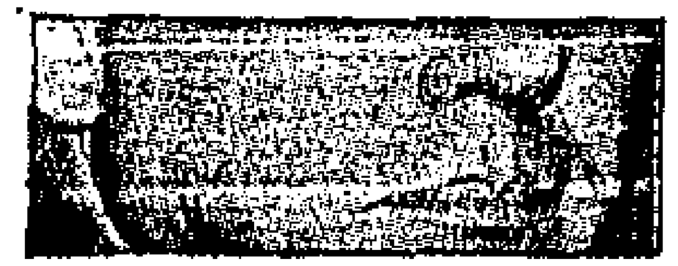
While the report focused on evaluating SA's competitive position, and a second phase would concentrate on developing industrial strategies to improve this, the Monitor Company said five "imperatives" required attention.

SA needed to create strong, co-ordinated industrial clusters; establish world-class strategic capability; develop strong and integrated skills, machinery and work organisation; encourage inter-firm rivalry; and build a capable, effective bureaucracy. "Government, business and labour will need to act to create a strong platform, one which supports innovation and upgrading and from which these firms can compete."

Reuter reports Trade and Industry Minister Trevor Manuel warned yesterday that industry should gear up to become more competitive. "Tariff protection on demand is dead," he said after a joint parliamentary committee had been briefed on the study. The study would be used by the National Economic, Development and Labour Council to guide debate on a new industrial strategy.



SA-BORN SIR ALASTAIR MORTON FACES YET ANOTHER CRISIS



TARNISHED MEDIA TYCOON FACES UP TO THE 'CRAFTBUSTER'

HOW A SPARTAN DWELLING CAN BE TRANSFORMED

# Alarm bells ring as producer price inflation rises again

CT(BR) 12/4/95

(180)

BY CLAIRE GEBHARDT
ECONOMICS EDITOR

South Africa's producer price inflation continued to climb in February to 10,6 percent — its highest rate since October 1991, according to the Central Statistical Service.

This is the third consecutive monthly increase for the production price index (PPI), which stood at 10,5 percent in January.

Economists said yesterday the figure was giving advance warning that inflationary pressures were igniting again. The PPI was forecast to move up to 11 percent over the next few months.

Consumer price inflation, which narrowly retained its single-digit status at 9,9 percent in February, was likely to move up very rapidly into double-digit territory given the latest figures.

The PPI rose 1,2 percent on a month-on-month basis. Seasonally adjusted, the increase was at 1,1 percent.

Tracy Ledger, an economist at Mathison & Hollidge, said capacity constraints and higher food prices were driving producer inflation.

Johann Louw, the chief economist at Sanlam, said the "higher-than-expected" monthly number indicated that cost pressures were building up — particularly on the labour and capacity utilisation fronts.

The annual rate of increase for locally produced commodities was 11,1 percent in February, compared to 10,75 percent in January.

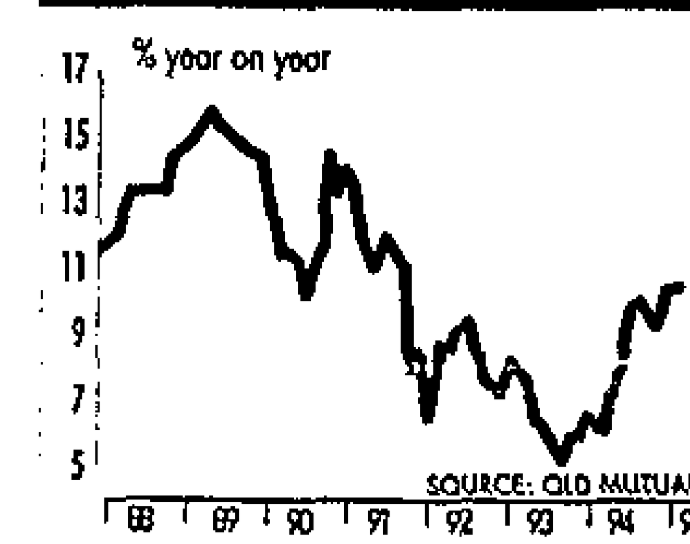
This index showed an increase of 1,4 percent from January 1995 to February 1995.

The PPI for imported commodities showed an annual rate of increase of 8,5 percent for February — 0,9 percentage points lower than the corresponding rate of 9,3 percent for January.

A monthly increase of 20 percent in the price index for vegetables and dried beans was mainly responsible for a 1,3 percent increase in the price index for agricultural food products. The prices of "other agricultural" products decreased by 3 percent.

Louw said with pressure on both the producer and consumer fronts, the CPI was likely to peak at about 12,5 percent by the end of the year or early next year.

**Producer price index**



# Producer inflation increases to 10,6%

(180) 12/4/95

MUNGO SOGGOT

PRODUCER inflation rose to 10,6% in February from 10,5% in January after a broadly based increase in domestic inflation offset a drop in imported inflation, Central Statistical Service (CSS) figures released yesterday showed.

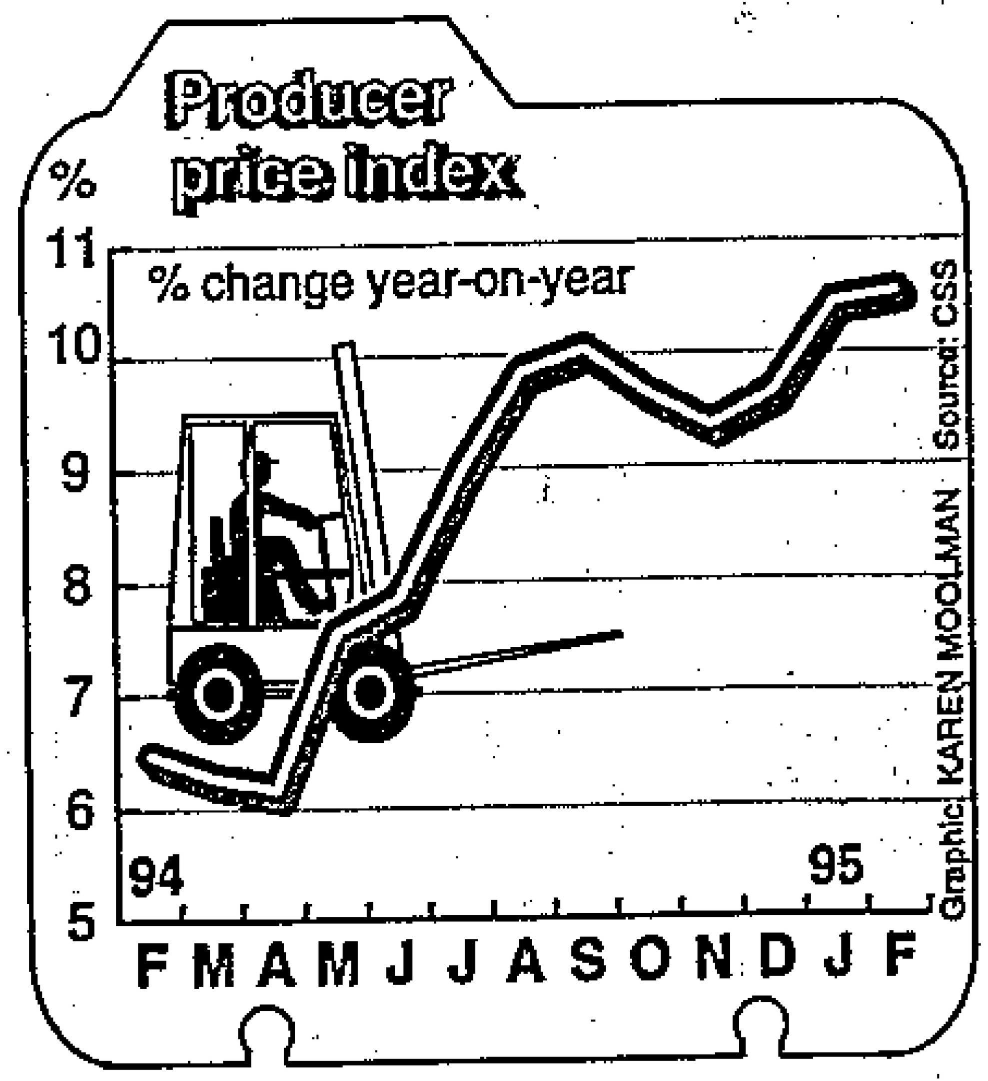
Economists said the breakdown disclosed demand pressures from the economic upturn which would eventually hit consumer inflation.

Econometrix economist Tony Twine said it was "not good news" that January's 1,6% monthly increase in the producer price index (PPI) had been followed by a 1,2% monthly increase in February.

One economist said the 0,1% monthly drop in the imported component of the index probably reflected the "lag effect" of the strong rand in January.

It was worrying that there had been substantial monthly increases in many manufacturing categories, although some of these increases would not be sustainable, she said.

Old Mutual economist Johann Els said a drop in imported oil prices had helped cut imported inflation. The pick up in manufacturing production last year was starting to lift prices, he said. "Local manufacturing inflation is still the culprit."




Producer inflation would probably increase to about 13,5% in December, bringing the year's average to 11,5%. March's figure could be as high as 11,5%, Els said. Other economists were less negative in their projections for the year.

The domestic component of the index was up 1,4% over January.

The figures indicated continued pressure from food prices.

Nedcor chief economist Dennis Dykes said: "Food inflation is not dead."

The CSS said a 20% increase in the vege-

☐ To Page 2

## Inflation

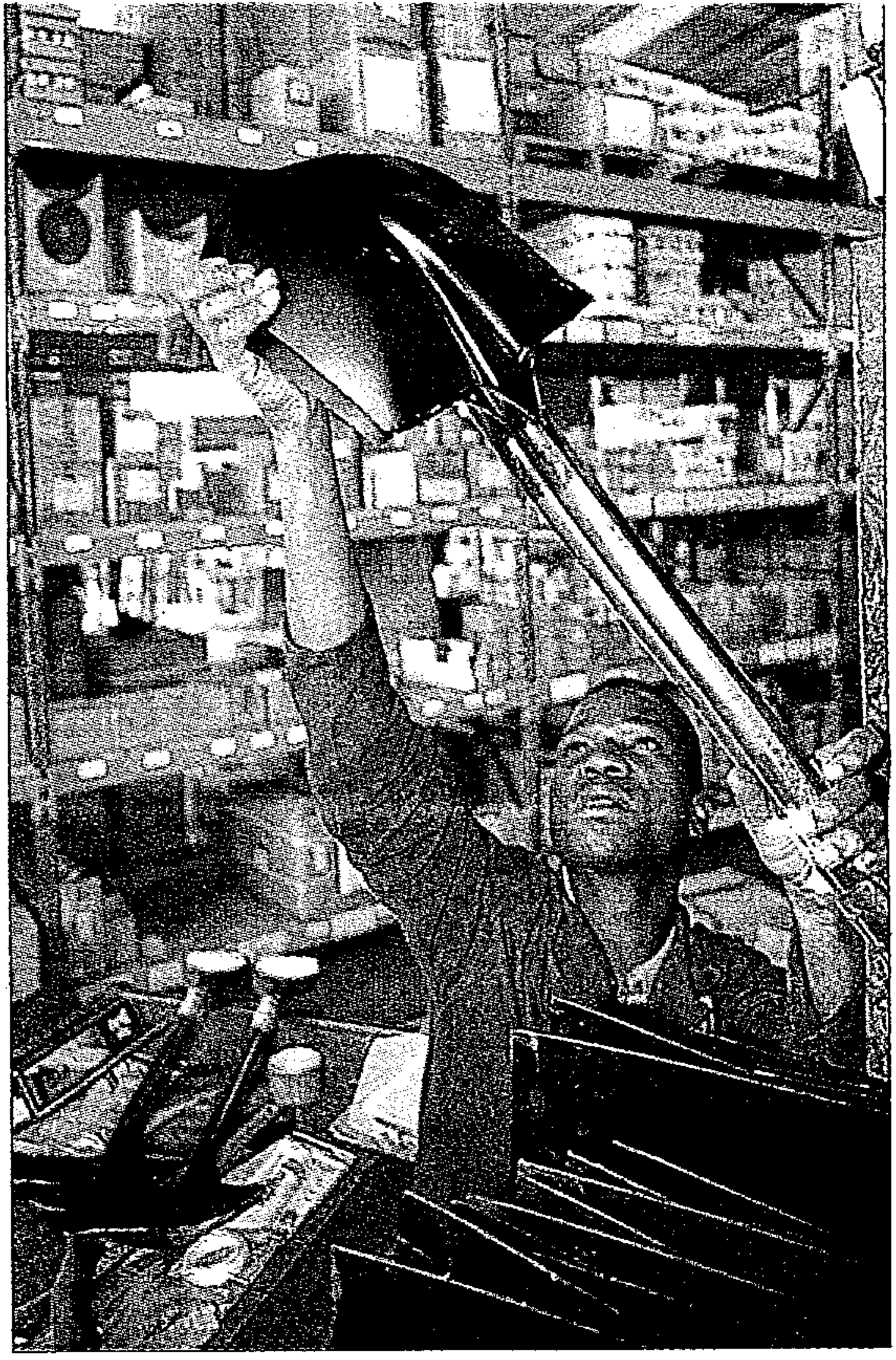
(180) BD 12/4/95

☐ From Page 1

table and dried ~~beans~~ price index was largely responsible for a 1,3% rise in the agricultural food products price index in January.

The fresh meat price index and the meat products index each rose 1,2%, while the fruit and vegetable price index was up 0,3%. Overall, the food price index was up 0,7% month on month.

The metal products index rose 3,1% and the base metals index went up 2,2%, mainly because of a 6% jump in the nonferrous metals price index, the CSS said. Economists said this reflected the worldwide increase in commodity prices.



**ON LINE** *Willie Makhobla fills an order that has been assembled by Hardware Distributors' automated ordering system* PHOTO: JOHN WOODROOF

# Better distribution: Getting SA on track

CT (BR) 13/4/95 (180)

By Ross Herbert

The need to distribute products efficiently is as old as manufacturing. But brutal global competition among manufacturers has led to the rise of logistics management as a science in its own right, offering the potential of huge improvements in manufacturing efficiency as well as consumer satisfaction.

Hardware Distributor's customer ordering system (see adjoining story) is but one effort in a global trend to view the entire supply chain — from raw material makers to manufacturers, wholesalers, retailers and post-sale service providers — as an integrated whole requiring greater co-ordination among companies and, as in HD's case, computer systems that tie together buyers and sellers in the supply chain.

"Very few, if any, companies we've dealt with have a board-level person focusing on distribution," said Johan Buys, principal consultant for logistics and distribution at Ernst & Young Management Consulting, which has been offering seminars on improving distribution management.

**Computerised ordering cuts manufacturing risk, late deliveries and inventories**

"Computer technology is affecting distribution in a very, very big way. People want to know exactly where products are and what's available," he said.

Instead of basing estimates on economic attributes and guesses, computerised ordering allows "pull-based" manufacturing where goods can be virtually built to meet specific customer orders. That cuts manufacturing risk, inventories and late deliveries.

Buys, who consulted on the issue with two of South Africa's biggest retailers, said the retailers on average had 40 percent of product orders not delivered on time.

At a conference on advanced manufacturing management, American Tourister, a US luggage company, said it studied its supply chain and found the total cycle time — from the moment it ordered its raw materials until finished suitcases were purchased by customers — was 535 days.

By studying the whole process, including the operations of its suppliers, its own manufacturing, distribution and retailing, the company was able to cut the cycle to 200 days and is working toward a target of 100 days.

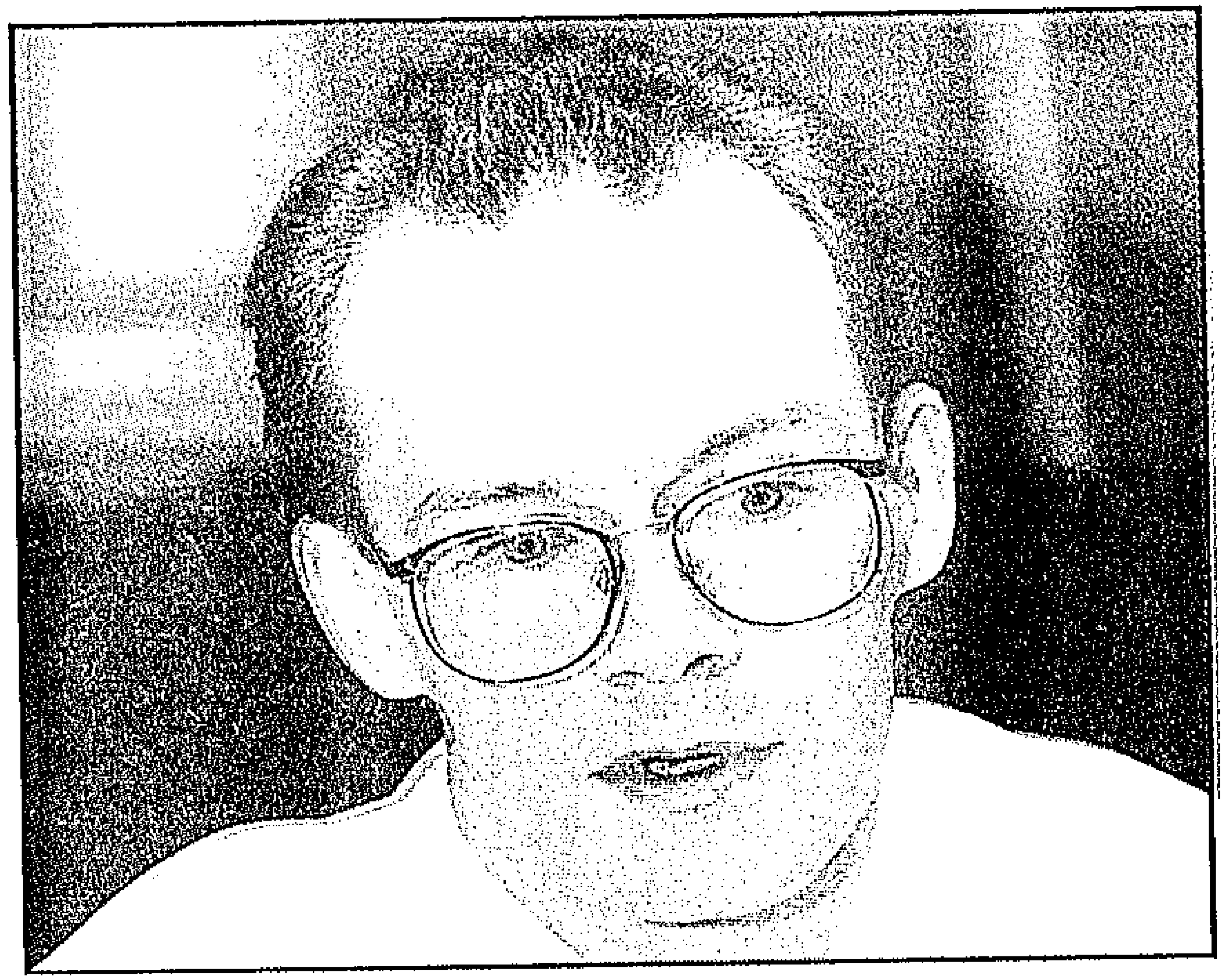
Ernst & Young recommends several key strategies for improving the supply chain:

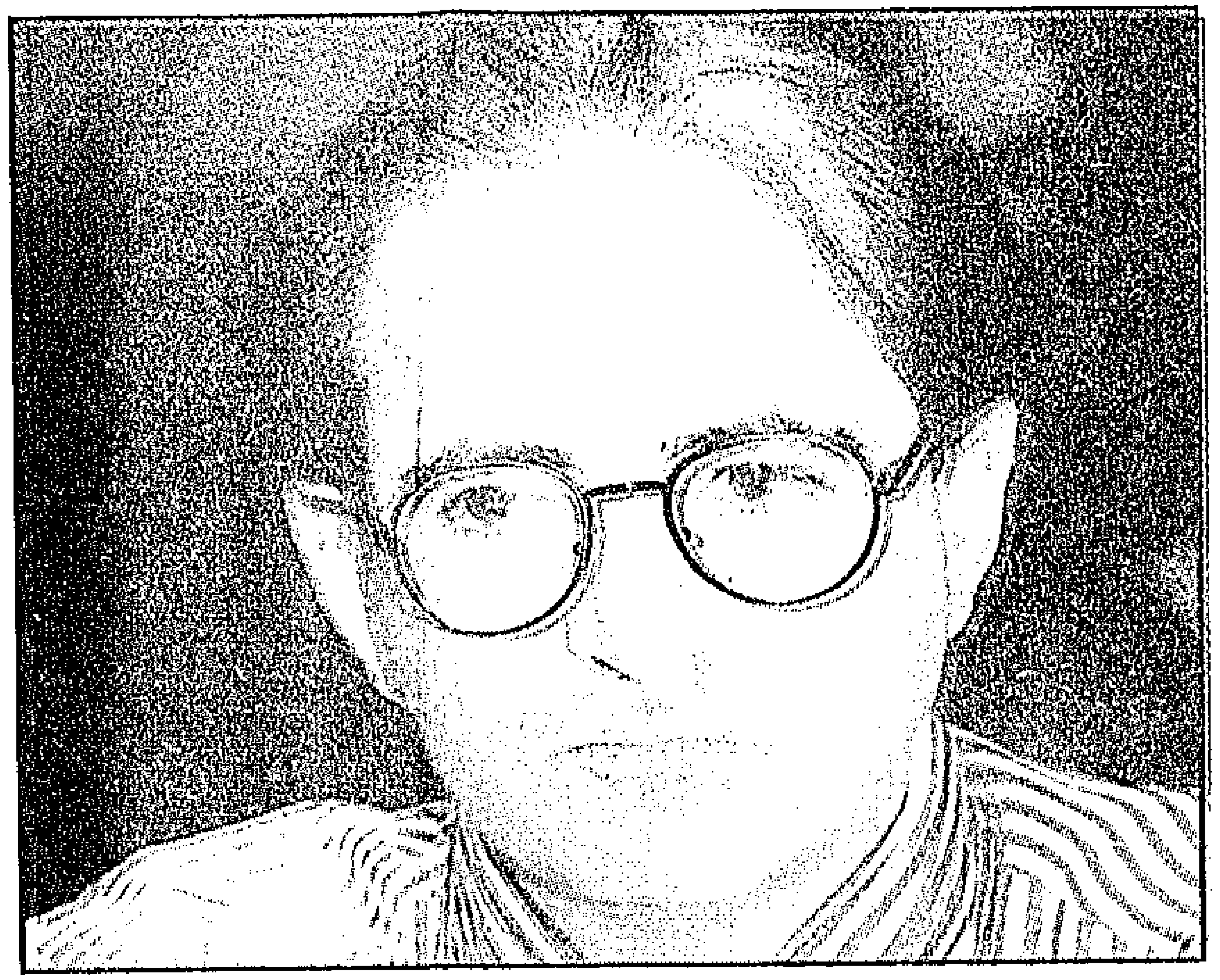
- Buys said companies should forge "master partnerships" with key suppliers, customers and shipping companies. According to a recent study by the Centre for Advanced Purchasing Studies, such partnerships on average led to a 50 percent reduction in incoming material defects and achieved a 95 percent on-time deliveries within a year of implementation;
- Facilitating a smooth flow of information across the traditional functional boundaries within companies and among suppliers and purchasers in different companies is crucial;
- Implementing real-time electronic data interchange, a form of computer-to-computer messaging that allows companies to order goods and pay each other electronically, can dramatically cut the time needed for order fulfilment;
- Companies should take a "green fields" approach to warehousing and distribution: even if only as an exercise, they should plot where customers and suppliers are and rethink the location of distribution facilities;
- Logistics is one of the most difficult production processes to change, requiring just as much attention as sales or manufacturing strategies. Buys said that without senior management commitment, change will not occur.

NEWSMAKERS

# Champions of competitiveness

ST(BT)16/4/95. (180)





UNITED ON RIVALRY . . . David Green and Ralph Judah, co-ordinators of the Monitor survey on competitiveness  Pictures: HERBERT MABUZA

RALPH Judah and Alec Erwin were contemporaries in the student movement during the 1970s. Mr Judah went to the US and became a management consultant; Mr Erwin became a unionist.

A quarter of a century later, Mr Judah met Mr Erwin, now Deputy Finance Minister, to discuss a study on SA industry's competitiveness and to be carried out by Monitor, an international consultancy which has its roots in the work of Michael Porter at Harvard.

The study was agreed to by the National Economic Forum and financed by Trade and Industry, the Industrial Development Corporation and Monitor. Mr Judah opened offices for Monitor in South Africa in 1994.

Monitor's findings were released last week by Industry Minister Trevor Manuel. Reports on the study have generally highlighted the rusty and outdated state of South Africa's economy.

But Mr Judah, and fellow co-ordinator David Green, who comes from Bristol and studied at Harvard, say they "are not pessimistic at all. There are signs for optimism".

They stress, though, that South Africa has to meet five criteria to transform non-competitive industries into ones which can compete in global markets, earn foreign exchange and provide growth and jobs:

- Create strong industrial clusters where supporting firms and industries assist in creating competitiveness;
- Create world-class strategic capability within firms and the government;
- Develop machinery, skills and work organisation;
- Create high rivalry among firms;
- Create a highly capable bureaucracy.

Mr Green says creating high rivalry is the most important of the five. Monitor has made two presentations to the Cabinet and has been questioned on how to promote rivalry.

They stress that conglomeration is not necessarily bad for rivalry.

Nor is vertical integration always bad — indeed, in some cases vertical integration may help promote competitiveness.

"Vertical integration is bad if it reduces rivalry," says Mr Green.

He says options to improve rivalry include using existing competition tools and institutions, reducing trade barriers and promoting foreign direct investment.

Too many SA companies try to do too much themselves.

They try to run every aspect of their own business rather than contract out work such as janitorial services. This can impoverish rivalry in the support cluster by reducing competiton in the market for janitorial services.

Government procurement policies can help promote rivalry, for instance, by demanding that products comply with (or exceed) international standards.

Privatisation, where the privatised entity is required to compete with other private sector companies, can also boost rivalry.

Mr Green notes that debate centres on whether state entities should be privatised with monopoly powers intact, giving the government a higher price for the entity, or whether privatisation should be used to help raise the competitive temperature.

While the former option gives greater proceeds for debt reduction, the latter typically leads to greater growth and more tax revenue (which can be used to retire debt).

Monitor believes that South Africa has "three to five years" to see material progress in all five areas it has identified which need attention.

Both the Trade and Industry Department and the Industrial Development Corporation are already restructuring to focus on cluster-type solutions. They say the policy environment is now stresssing a move away from government largesse towards *laissez-faire*.

The scrapping of the finrand, lower tariffs, cutting subsidies, freeing up the JSE and promoting small and medium-sized enterprises are all helping raise the competitive temperature.

Mr Judah, who has specialised in in the textile sector, says textile firms will have to become competitive within the next three to five years even if government gives them a 10-year umbrella.

He says US firms have achieved dramatic turnarounds in four to five years. In South Africa there are cases where such turnarounds have been achieved in just two years.

If a company cannot adjust in three to five years "it's goodbye Charlie, no matter what".

**Kevin Davie**

# SA factories make a poor impression

(180) ~~(2??)~~ ST (BT) 16/4/95

By TERRY BETTY

SOUTH Africa's manufacturing industry is the least competitive of 20 countries surveyed in a global study.

The global Manufacturing Futures Survey for 1994, co-ordinated locally by Norman Faull of UCT's Graduate School of Business, shows that South Africa's manufacturing competitiveness has fallen markedly over the past two years.

It also shows that competition from overseas companies in South Africa has toughened and that local companies are struggling to contain costs.

Professor Faull says the MFS looks at 20 countries and is co-ordinated by Boston University. This is the second time South Africa has participated in the survey.

SA companies report an average turnover of R238 000 for each employee. This compares with R899 000 for South Korea, which is at the top of the list.

Conversely, this translates into South Africa employing 4,2 people for every R1-million turnover, as opposed to 1,1 people in Korea.

Professor Faull says: "To be competitive at these levels of employment, one assumes that real wages must be lower, and/or the exchange rate is weakening — as it is for Mexico and South Africa against most of the other currencies."

The survey also shows that with an average 950 employees, SA companies are larger than those in New Zealand with 178, Singapore with 375, Taiwan with 406, Mexico with 663 and Australia with 669. It is smaller than those in Japan with 2 739, Europe with 2 756 and the US with 4 700.

"South Africa does not appear to have firms 'sized' for the league in which it competes," says Professor Faull.

"This probably reflects the roots of the SA economy in deep-level mining and the resultant concentration of wealth required for those highly capital-intensive undertakings spilling over into the structure of the economy as a whole," says Professor Faull.

"Disinvestment probably also resulted in a further concentration of capital."

South Africa is the only country where revenue growth far outstrips growth in physical volume of sales.

In the surveyed period revenue grew by 8% whereas volume of turnover only grew by 4%. The other countries surveyed showed the two to be in line with each other.

Professor Faull says this indicates either input price over-recovery or just plain inflation. "It could be seen as only possible to achieve in relatively insulated markets."

At 12,4 years, South Africa is again at the bottom of the list after Mexico in average age of equipment.

Taiwan is tops on the list with equipment aged an average seven years and Korea at 7,6 years.

South Africa is at the bottom of the league in inventory turns per year. Inventory turns over 7,1 times a year in South Africa compared with 17,3 times in Taiwan and 16 times in Mexico.

Professor Faull says this increases the overhead costs and the cost of doing business. It diminishes South Africa's ability to compete in price-sensitive markets.

SA companies are also at the bottom of the pile in percentage on time deliveries with an 86% strike rate. The most successful countries are Japan at 96% and Korea with 93%.

The SA survey looked at 212 companies, with a combined turnover of R50-billion and employing more than 200 000 people.

# Optimistic outlook for manufacturing

(180) CT(BR) 20/4/95

From Sapa

The first-quarter slowdown in domestic sales and production volumes in the manufacturing sector should be interpreted as a temporary lapse of the strong growth in the fourth quarter of 1994, said the Bureau for Economic Research at Stellenbosch University.

In its nationwide manufacturing survey released today, the bureau said export sales and order volumes had continued to improve and to exceed expectations.

"Expectations regarding the domestic and export market are generally optimistic," the bureau said, noting that the growth in manufacturing production volumes was expected to accelerate in the second quarter.

Stocks of finished goods in relation to demand are at unsatisfactorily low levels regarding exports, but this would stimulate production. "The factory employment position is also improving, due to the rehiring of workers and the normalising of previously stretched working hours," the bureau said.

However, the bureau believed the second quarter outlook for factory employment was not as positive as that in the first quarter.

Fixed investment outlook had improved significantly. In all categories, particularly machinery and equipment, capital expenditure was expected to increase. "The emphasis appears furthermore to be on additions to production capacity rather than replacement spending only," the bureau said.

On a regional basis, general business conditions appeared to be the most favourable in the Eastern Cape and Kwazulu Natal, followed by Gauteng and the North West province.

While business conditions were somewhat below average in the Western Cape and the Free State, business confidence remained at high levels in these two provinces.

**Elderly/homes of aged: financial support by State abolished/reduced**

*22. Mrs T J MALAN asked the Minister for Welfare and Population Development:†

(1) Whether it has been decided to abolish or reduce the financial support of the State to the elderly and to homes for the aged; if not, what is the position in this regard; if so, from what date;

(2) whether governing bodies of homes for the aged were informed of this decision; if not, why not; if so, what are the relevant details;

(3) whether he consulted any institutions and/or organisations on this matter; if not, why not; if so, which institutions and/or organisations;

(4) whether he will make a statement on the matter?

N334E

The MINISTER FOR WELFARE AND POPULATION DEVELOPMENT:

(1) No, financial sup[illegible]t towards older persons will not be [illegible]lished but it will be reduced. Within the constraints of the budget it is expected that there will be a shift in the rendering of services. Each province is responsible for the financing of services rendered to older persons.

The Government will not abdicate its responsibility towards the plight of the destitute, poor and very old as well as the frail older persons. This year 10,8% of the total Government budget has been allocated for social security and welfare services and of which approximately 60% of the total welfare budget is allocated only for care of the aged. The increased number of older persons and the imbalances in the provision of services and facilities has led to initiatives for a change of direction. In the past, institutional care was over-emphasised which is an expensive and unaffordable service. A shift from institutional care to community-based services with the family as core support system should form the basis for a new dispensation;

(2) no, the provinces have not formally informed managements of homes for the aged of decreasing financing. The national welfare bodies are aware of the unaffordability of institutional care for the past few years with an average unit cost which varies between R11 000 and R22 000 per person per annum;

(3) yes, an inclusive Discussion Group on Ageing was constituted on 29 September 1994, under chairmanship of Dr Sam Motsuenyane. The major national welfare organisations, formal and informal institutions, as well as older persons are involved in the Discussion Group. The Co-ordinating Committee for the Discussion Group released a Discussion Document on Ageing for comment;

(4) No.

**Lack of competitiveness in SA industries**

*23. Comdt A BLAAS asked the Minister of Trade and Industry: (180)

Whether, with reference to a report in the Sunday Times of 19 March 1995, he or his Department intends taking any steps in respect of a report by the international consultancy Monitor on the lack of competitiveness in South African industries; if not, why not; if so, what steps?

Hansard 3/5/95

N335E

The MINISTER OF TRADE AND INDUSTRY:

A report entitled *Global Advantage of South Africa Project, Phase One Findings: National Industrial Strategy Issues* was formally released on 5 April 1995. It was the result of a global competitiveness survey commissioned by the former National Economic forum and conducted by Monitor Company.

It will be noted in the report that five imperatives were identified for transforming the South African industry to one that is globally competitive.

Low rivalry and the high cost of intermediate inputs experienced by downstream manufacturers, are both related to concentrated ownership and a lack of strong competition policy. Work is already in progress to amend competition policy and legislation.

Import tariffs are being phased down and in many cases tariffs, particularly those on inputs, will be reduced to levels below our



World Trade Organisation commitments and to zero where possible.

The lowering of import tariffs will also help to address the general lack of strategic capability such as the lack of focused specialisation.

To assist the industrial sector to become more competitive, we are in the process through NEDLAC, to develop supply-side support measures.

As industrial growth and greater competitiveness depends on a improved export performance, we are in the process of developing more incisive export promotion policy and strategies. We have also, and are still negotiating preferential access to certain overseas markets to assist exporters.

One of the imperatives for competitiveness identified in the report was a capable bureaucracy. Obviously a lot of our energy will be and, in fact, has been directed to set this right. Naturally Government will have to take the realities that the report focuses on into consideration when policy is formulated.

However, I wish to emphasise that the successful transformation of South Africa into a globally competitive nation depends very much on the teamwork between the various roleplayers, which include Government, business and the labour force. It must however, be borne in mind that the way forward cannot be regarded as a single event. It rather is a continuing process of interaction between roleplayers and for that reason the report is going to be referred to NEDLAC for further discussion.

I would also like to see this matter publicly debated in various forums such as the press, at seminars, congresses, workshops, etc of organised labour and business. The purpose of this approach would be to make the process a unified one and not one that excludes certain roleplayers.

*24. Comdt A BLAAS—Transport.† [Question standing over.]

**Safety of tourists to Republic: special safety measures by SAPS**

*25. Mr T C NTSIZI asked the Minister for Safety and Security:

(1) Whether the South African Police Service has taken or intends taking any special safety measures to ensure the safety of tourists to the Republic; if not, why not; if so, (a) what measures and (b) when;

(2) how many tourists were (a) murdered and (b) robbed and/or (c) stabbed in the 1994-95 financial year?

N337E

The MINISTER FOR SAFETY AND SECURITY:

(1) Yes.

(a) The South African Police Service has been deployed to its fullest extent on ground level to protect tourists and the broader public. Mobile charge offices, high police visibility on national roads and during special events has been and will be utilised to ensure the safety of tourists during holiday seasons, at resorts, hotels, restaurants and special events. Tourist Support Units (3) are operating in Durban, Cape Town and Johannesburg.

(b) On a continuous basis but especially at special events, such as the 1820 National Arts Festival (Grahamstown) and the forthcoming Rugby World Cup, where there are a large influx of tourists.

(2) (a) 2

(b) 234

**The Hague Convention on Civil Aspects of International Child Abduction: SA a party/signatory**

*26. Ms S C VOS asked the Minister of Justice:

(1) Whether South Africa is a party or signatory to the The Hague Convention on the Civil Aspects of International Child Abduction of 1980; if so, what are the relevant details; if not, why not;

(2) whether it is the intention to accede to this Convention; if not, why not; if so, when;

(3) whether this Department has at its disposal any statistics or details relating to cases involving child abduction from the Republic in the past five years; if not, why not; if so, what are the relevant details;

(4) whether his Department provides any assistance to parents and/or families of children abducted from the Republic; if

JOBS

INDUSTRIOUS: Zav Rustomjee, a new broom at Department of Trade and Industry

# Adding v

Under Zav Rustomjee,
ment of Trade and Indu
they deserve, writes K

TAXPAYERS are getting a lot of mileage out of Zavareh Rustomjee, the Department of Trade and Industry's most senior bureaucrat.

Colleagues say the youthful Dr Rustomjee works a 16-hour day. seven days a week to restructure a moribund bureaucracy into one which will back business in its drive to become competitive, and more importantly, earn foreign exchange.

Dr Rustomjee has just tabled his first annual report as the Department of Trade and Industry's director-general, and while its predecessor was written in officialese, the report is now packed with useful information on programmes available to business and the success they have achieved.

Dr Rustomjee is happy to take issue with business. A comment made him in the report perhaps best sums up the new thinking which is now driving the Department of Trade and Industry. He writes:

"My experinece thus far as director-general suggests that if firms spent only half the resources and time that they are at present giving to lobbying for protective tariffs and the retention of General Export Incentive Scheme benefits, and channelled the balance into a crtical examination and international benchmarking of their productive processes, a growth rate of 5% could be reached before 1999!"

The department has set this growth rate as its target.

It sees potential to create 300 000 to 500 000 sustainable non-agricultural jobs by 1999 chiefly through increasing manufactured exports and substantially increasing investment in the manufacturing sector.

Some jobs are not going to be that hard to create. Dr Rustomjee notes that departmental research suggests employment in

# alue to government

's workaholic director-general, the Depart-
-try is giving taxpayers the kind of service
VIN DAVIE.

ST(BT) 4/6/95

(180)

ie clothing sector is at east 160 000, suggesting of-ficial figures of 108 000, rovided by the govern-ment and the employers' ederations, are nearly 0% out.

The department says a tudy has identified 200 roduct categories in which South Africa has a ompetitive advantage.

Its representatives broad have identified narketing opportunities in he agri-manufacuring sec-or, including seasonal ruits and vegetables, tinned foods, dairy, fish and seafood products.

Trade and Industry has registered 21 774 exporters (mostly small and medium-sized enterprises) on its electronic database. The details of these export-ers have been made avail-able to its 42 foreign eco-nomic officies, including the four new offices opened last year in Kuala Lumpur, New Delhi, Mexico City and Karachi.

Six trade offices — in New York, London, Taipei, Tel Aviv, Lisbon and Paris — have been connected to the Internet. More will fol-low depending on cost and demand.

The department made several grants available last year for export assist-ance to SA business.

Of 363 applications for primary export market re-search assistance, 152 were approved. The scheme gen-erated R22-million in ex-ports against a R1,3-mil-lion cost of assistance.

Nearly 500 companies received assistance of R2,9-million under a scheme which promotes participation at specialised exhibitions abroad. The de-partment says exporters won R73-million in orders and generated "positive contacts for increased ex-ports in the future".

It also provided R6-mil-lion for exporters to par-ticipate in national pavil-ions at 18 international trade fairs. Orders valued at R56-million were re-ceived.

Dr Rustomjee's depart-ment has been concluding trade and investment deals with a number of countries including a (temporary) generalised system of pref-erences with the European Union and trade deals, both agreed and planned, with the US, Norway, Taiwan, Japan, Malaysia, Canada, India and China.

The department has pro-cessed 5 112 claims for Geis payments totalling R2-billion. A backlog of 5 000 claims still have to be processed, which the de-partment attributes to an increase in claims, staff shortages, new control measures and general poor quality of claims.

The department was busy in many other areas as well. Its activities in-clude breaking up the cement cartel, ensuring that people are able to re-turn undamaged cooldrink bottles and exposing a major furniture group which recovered R20-mil-lion for insurance premi-ums in an allegedly illegal manner.

Deregulation of the li-quor industry has led to more than 3 000 applica-tions for liquor licences, a 32% increase during the past three years.

It's been a busy year for Trade and Industry.

ET(BR) 10/5/95 (180)

# Industry at its best in a decade

**Surge in production attributed to manufacturers boosting inventory levels, which were depleted during the recession**

BY DEREK TOMMEY
MINING EDITOR

The South African economy's manufacturing engine is growing faster than at any time in the past decade.

Year-on-year growth in manufacturing production rose to over 11 percent in the first two months of 1995, the highest figure in over 10 years, economics consulting firm Econometrix said yesterday.

Some increased production may reflect a bit of a catch-up after the industrial disruption and election-related holidays last year.

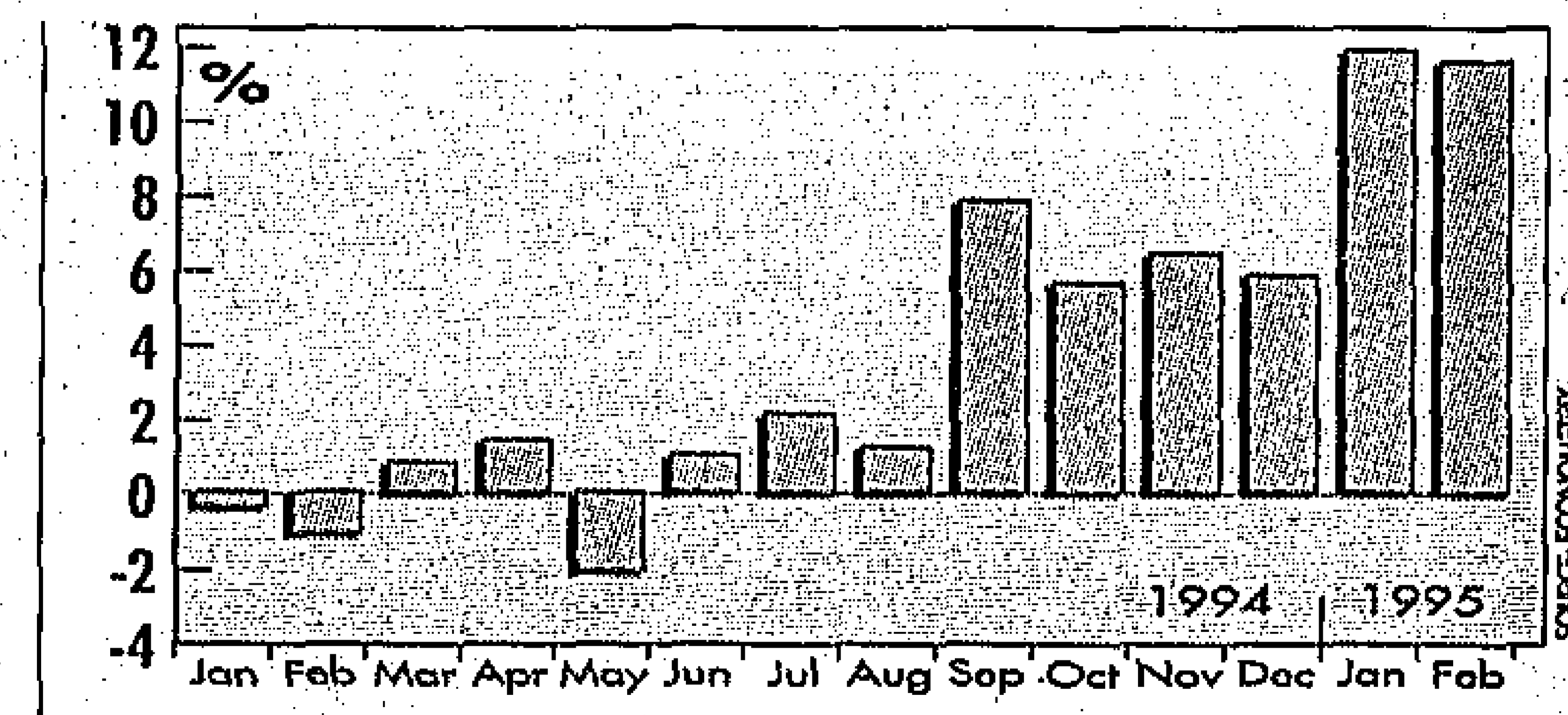
But the principal factor underlying the surge in production is the restoration of inventories to more normal levels after the recession, Econometrix notes. The recession reduced the inventory level from 30 percent of GDP a decade ago to 16 percent in late 1993.

The upsurge may also reflect an attempt by manufacturers to try to recapture markets lost to increased imports due to insufficient availability of inventory domestically.

And it may also reflect an upswing in global economic activity, which appears to have encouraged manufacturers to increase production for export.

"Whatever the reason, it is most encouraging to witness the extent to which confidence has been returning to the South African economy," said Econometrix.

**Year-on-year growth in manufacturing production**



# Plan to make SA more competitive

CT(EC) 17/5/95 (180)

By Bruce Cameron

Trevor Manuel, minister of trade and industry, has outlined a six-point programme to make South African business internationally competitive.

Speaking at a Young and Rubicam branding and competitiveness conference, Manuel said a recent report had shown South Africa faced a deep crisis in competitiveness.

He said a number of immediate steps had to be taken to rectify the position. The six points he provided as a solution were:

- The weaning of manufacturers from protectionism. He said it would not be sufficient to meet the demands of the phased-in new Gatt rules. This would be disastrous, as in the next five to 10 years the rules would change repeatedly. Business had to invest heavily in the next two years to meet demands;
- Technology, training and retraining needed to be upgraded with a need for production organisation improvements;
- Business had to consider trade blocs individually, including the southern African region, paying attention to market peculiarities;
- The creation of inter-firm rivalry, not only between local companies, but also by exposing local companies to foreign competition. The Maintenance of Competition Act would be radically revised to achieve this;
- Improving the country's industrial design weakness; and
- A need for manufacturers to enter the internationally competitive world of branding of products.

Branding of products was a battle against mediocrity that would signal a willingness to compete, Manuel said.

A number of countries with high growth rates, including Singapore, Malaysia and Indonesia, were not in the brand market, providing South Africa with an opportunity.

# Manuel approves review of regional programme

(180)

**John Dludlu** BD 18/5/95

TRADE and Industry Minister Trevor Manuel had approved plans to review the regional industrial development programme — which could see some functions transferred to the provinces — the programme's chief director Johann Reinhardt said yesterday.

In its current form, the programme offers a package of incentives to support the establishment of new industrial undertakings or the expansion of existing ones through establishment grants, relocation subsidies and profit-based incentives.

Reinhardt said independent consultants would be invited, through a public tender within the next three weeks, to undertake the review.

Among key issues to be investigated by the inquiry would be the possibility of transferring the programme to the provinces and whether to make it a rebate or cash-grant incentive scheme, Reinhardt said.

At present, provinces cannot formulate fiscal incentives because of a lack of infrastructure, and because of the constitution. However, some provinces continue to operate incentives inherited from the previous local authorities, such as land discounts.

Other issues, which will determine the continuation of the programme, would be its contribution to RDP objectives and its relationship with government's small business development strategy and trade and industrial policies, he said.

Trade and Industry Department chief director for industrial and technology strategy Alan Hirsch said the process of reviewing incentives — including the development programme — would have to involve other constituencies such as labour, community and business. The programme and other issues on regional industrial development are to be investigated by a National Economic, Development and Labour Council subcommitee.

# 'Companies scared of competition'

(180) Star 18/5/95

BY BRUCE CAMERON

A number of South African companies have closed down operations, or are threatening to close down operations, as the Government moves to meet the demands of open trade in terms of the General Agreement of Tariffs and Trade, Trade and Industry Minister Trevor Manuel told the Senate in opening the debate on his budget yesterday.

He had recently received news of closures and pending closures of firms which would rather throw in the towel than face competition "with shock" he said.

Manuel said the moves followed the first tariff reductions on January 27.

The barriers were put in place during the apartheid era to protect the economy from the ravages of sanctions.

Manuel did not tell the Senate how many companies were involved or how many jobs were in jeopardy.But he said the Government would push ahead to meet its Gatt commitments, reducing protective tariff barriers, phasing out the General Export Incentive Scheme (Geis) over three years and adopting policies to force and help companies become internationally competitive.

Trevor Manuel ... received news with shock.

Manuel said the anti-export bias of of past policies, which gave rise to Geis, had partially diminished.

He said to fully overcome the anti-export bias of many South African companies required a determined effort from all parties to improve competitiveness.

Manuel said much of of his department's time had been diverted by the enormous pressures exerted by some established industries which found it difficult to address weaknesses of past practices and adjust to international competition.

In responding to these industries, "we have tried to break with the past and not simply use tariffs as the policy instrument".

## Strong message

Manuel said that in spite of problems, the Government had been able to communicate a consistently strong message and the country was seeing increased investment flows from both domestic and foreign investors. He predicted this year would see an economic growth rate in excess of the population growth for the first time in 20 years, and said the challenge was to put fundamentals in place for growth.

# Chemical workers to declare dispute

BD 19/5/95

Renee Grawitzky

THE Chemical Workers' Industrial Union (CWIU) resolved yesterday to declare a dispute and prepare for a national strike.

The decision was taken after an assessment by the union of progress made during a meeting with chemical employers on Tuesday.

CWIU general secretary Musi Buthelezi said Labour Minister Tito Mboweni had, in terms of reconstruction and development programme objectives, supported centralised bargaining to address socioeconomic issues.

The union wanted government to legislate centralised bargaining. If necessary the union would start action to "bring some sense to government by disrupting the economy" and to force employers on this issue.

Employers were presented with a demand to attend the meeting to negotiate on wages — and the union's demand for a centralised bargaining forum in the industry.

Buthelezi advised employers that once an in-principle agreement was reached on centralised bargaining, the parties could discuss the structure of the forum. This could include divisional forums falling under a broader national body.

Buthelezi said employers were not prepared to give an upfront commitment to centralised bargaining, but instead proposed centralised bargaining within divisional forums.

Based on this response the union would declare a dispute and intended applying for a conciliation board hearing.

At the same time the union would attempt to continue talking to employers about an agreement on centralised bargaining.

The union, with Cosatu, would target employers who intended disciplining workers who began industrial action this week.

Buthelezi said talks had taken place with other affiliates also demanding central forums with their respective employers.

The union had approached the Nactu-aligned SA Chemical Workers' Union to discuss the campaign for centralised bargaining.

However, the union was not available to confirm this.

# Manufacturing hit hardest by strikes

CAPE TOWN — The number of strikes in SA increased from 790 in 1993 to 804 in the 12 months ending October 31, the Labour Department's annual report showed.

Workers lost R148,48m in wages through strikes. The greatest loss of man-days — 50,55% — occurred in the manufacturing sector, followed by mining (23,55%).

The country's economic hub, the Witwatersrand, had the highest incidence of strikes, accounting for 26,24%, followed by Pretoria with 10,3%.

BD 19/5/95

Port Elizabeth registered the lowest rate of 3,23%.

180

Most of the strikes were over wage disputes (27,11%), while demands for higher wages and other reasons came to 11,32%, and 25,5% of strikes were over conditions of employment.

A sign of improving shop-floor relations was that only 16,04% of strikes resulted from disciplinary action by employers.

The membership of registered trade unions also declined 14,5% from 2,89-million in 1993 to 2,47-million in October. The decline was ascribed to saturation in the growth potential of new trade unions and also to the decrease in job opportunities as a result of the recession.

Another reason cited was that an important part of the trade union leadership entered the political and administrative arena, resulting in a depletion of the executive ranks of unions.

Only 23,7% of the economically active population belonged to trade unions, the Labour Department said. — Sapa.

# GDP increase of 2,9% expected

Star 23/5/95 (180)

Strong manufacturing sector growth of 5,6% this year will propel the economy, but the agriculture sector's forecast decline of 17,4% is likely to inhibit the increase in real gross domestic product (GDP) to 2,9%.

So says Unisa's bureau of market research's (BMR) annual retail sales forecast, released yesterday. The BMR expected the gain in the manufacturing sector would be responsible for just less than half (R5-billion) of the total value added (R11,3-billion) to GDP, at factor cost.

It forecast the electricity, gas and water, and construction sectors would also register increases of 5,4 and 6,5% respectively.

In the tertiary sector, the wholesale and retail trade, catering and accommodation, transport, storage and communication, and finance, insurance, real estate and business services sectors would all grow by 4% or more.

The secondary sector's overall increase of 5,6% in conjunction with the tertiary sector's anticipated total gain of 3,3% should result in 4,0% growth in non-agricultural GDP this year.

However, the BMR said this growth would be achieved provided political stability was maintained in 1995, and business and consumer confidence remained bouyant.

With regard to inflation, the bureau expected consumer prices to rise by an average of 9,7% this year compared to 9,0% last year.

The monthly consumer price index would likely peak at 10,54% in June, and thereafter decline to 8,78% by year-end, as food price increases fell from 16% in May to 6,0% in December.

However, the bureau said housing costs — the most heavily weighted index in the CPI — were likely to soar by up to 11,3% this year from a 1,0% increase in 1994.

It anticipated the average price increase for retail sales would be 8,6% — lower than the expected inflation rate — while the prices of non-retail items would gain 10,5%.

Personal disposable income would probably increase by 2,7% and retail sales would gain by the same percentage.

Of the total expected sales, blacks were expected to account for 47%, whites 40%, coloureds 8,3% and Asians 4,0%. — Sapa.

# State-of-the-art technology crucial for SA, says Erwin

CT(BR) 1/6/95 (180)

BY CLAIRE GEBHARDT

ECONOMICS EDITOR

**VITAL SKILLS** *Alec Erwin encourages better training at work*

For South Africa to attempt to compete with low wage economies was tantamount to entering a cul de sac, deputy finance minister Alec Erwin said yesterday.

Addressing the 7th National Conference of the Institute of Personnel Management (IPM), Erwin said South Africa had to compete on the world terrain with human resource development aimed at productivity, efficiency, training and skill.

The domestic economy was heavily focused on the production of minerals and raw materials and this type of production was in long-term technological decline.

"Any company that does not beneficiate its products is facing the same decline."

Erwin said the challenge for South Africa was not just to be export-competitive but to avoid a de-industrialisation process.

A crucial question was whether South Africa could maintain its manufacturing and industrial sector, given the changes in world manufacturing and the drop in production levels.

The manufacturing sector was still the largest sector of employment, he said.

One of the answers was state-of-the-art training.

Erwin urged companies to raise the level of skill and training of their employees.

Production methods changed very rapidly and an economy which was unable to move its work force from one area to another would be unable to compete internationally.

He urged the raising of the level of skills in science and technology and for companies to invest in state-of-the-art technology.

"The economies we are going to compete with are moving products very quickly and this requires sophisticated technology."

Erwin said some of the problem areas the reconstruction and development programme (RDP) was seeking to address were:

- Basic needs, as historically there had been a complete skewing of basic needs as regards the racial divide and as regards urban and rural infrastructural needs. The same "skewness" applied to human resources.
- There were glaring deficiencies in the lack of emphasis on science, technology and numeracy. At the tertiary level there was an over proliferation of social science degrees.
- The economy was fragmented. A rapid industrialisation, built on the strength of the mining industry, had been brought about through the use of tariff protection.

South Africa had also relied heavily on repressive labour measures and on cheap labour rather than human resource development, he said.

# Output still at 'pre-recession levels'

(180) BD 7/6/95

Mungo Soggot

BULLISH talk of growth in the manufacturing sector was "merely talk" as the sector's physical output had recovered to only its pre-recession 1990 level, Edey Rogers economist Edward Osborn said in the stockbrokers' economic review.

Osborn said that the strong growth of the manufacturing sector in the second half of last year had mainly reflected an expansion of Sasol's synthetic fuels operations.

"It is no big deal," he said, referring to optimism created by the apparently robust manufacturing growth. The sector had outshone all other sectors and had grown a seasonally adjusted annualised 10,3% quarter-on-quarter in the fourth quarter last year and 3,9% in the first quarter this year. First quarter growth was relatively low as it came off a high base from the previous quarter.

Edey Rogers' forecast for overall economic growth for the year was 2,8%. "Clearly the word growth is an economic misnomer.... We have been in the economic wilderness for six years."

Osborn said there were indications that the second quarter growth performance would be as poor as the first's 1,1%. Mining and agriculture would remain in the doldrums, manufacturing would be adjusting to having swollen inventories and it appeared that the building and construction industry would only "turn the corner" in the third and fourth quarters.

This scenario would probably lead to a fall in imports, which could turn around the trade balance and the current account of the balance of payments, which had been pushed into deficit by an import surge and meagre exports.

"The capital account, though, will continue to hang like a sword of Damocles over us, suspended by the thin thread of international confidence."

Osborn said the strong growth in credit extension, the rise in inflation, the rise in money market rates and pressure on the Reserve Bank's reserves were fuelling mounting expectations of a hike in Bank rate, but that factors like poor retail sales and low growth in the first quarter could postpone a hike.

"As always the Reserve Bank must be impaled uncomfortably on the horns of a dilemma. An increase seems inevitable. Hopefully, though, with a mind to the damaging levels of real interest rates that we are suffering, the increase will be confined to a half percentage point, perhaps coupled with a further increase in the reserve requirement ratio. An increase seems inevitable."

## NEWS FOCUS

BRIAN KANTOR

# Grappling with competitiveness

(180) BD 7/6/95

ECONOMISTS have some rather simple but extremely practical notions about how economic actors go about their work and how the sum of their actions determines the scale and scope of the economy at large. But economists have very little to say about how the individual firm succeeds in beating its competition — that is, becomes more competitive than others.

What goes on inside the firm is very much a big black box as far as economic analysis is concerned.

In all industries, as in all economies, there are great and ordinary companies that somehow coexist. As in other aspects of life, there is always scope for improving the performance of firms and the managers who lead them.

In a simple world of free competition without barriers to entry by other firms located inside or outside the country, without tariffs, taxes, subsidies, exchange controls and regulations of what firms may or may not do, describing a firm as being profitable would be the same as saying the firm was competitive. In reality, profitability may not necessarily mean competitive precisely because of the influences of one kind or another. Also, unprofitable firms or sectors of the economy might well be capable of competing were it not for the handicaps imposed on them by government or the favours granted to others that mean artificially high costs of inputs.

Clearly, it would be of advantage to know which SA industries were capable of competing and being profitable on their own economic merits, if only government would get out of the arena and allow firms to compete freely and, especially, to source their material inputs as world market prices. Answers to this question would be valuable for economic policy making.

As far as I can ascertain, there is nothing in the recent Monitor report on competitiveness in SA industry, carried out by the international consultancy in association with the National Economic Forum, that indicates that the writers have any major new insights that would help make the SA economy more efficient and competitive.

The Monitor authors do not use the language and methods of economics. They appear to be management gurus invading the province of economists where they are clearly not at home. References to clusters and diamonds may be familiar to those aware of Michael Porter's work; they are not helpful to the uninitiated. This language often describes only what is obvious anyway. What may work to inspire the management of an individual firm does not necessarily translate into something helpful for the management of the economy. It simply confuses the issue.

The Monitor report is heavy with opinion and casual empiricism. There is a long wish list of things that everbody would surely like to see happen in SA — from improved education, industry co-operation and better service to more committed and capable public officials. But very little is provided in the report about the general state of the economy and its strengths and weaknesses that the experienced SA observer did not already know — and could describe in less esoteric terms.

There are also any number of statements made in the report that are difficult to accept, some that contradict each other and others that are implausible.

The statement about so-called inherited factors (natural resources, climate and unskilled or semi-skilled labour) actually undermining economic perfomance are particularly misconceived. It denies the profit motive and also the nature of economic man. South Africans have every economic incentive to discover and extract the wealth under the ground; they have not had the profit incentive to do everything with raw materials that processors in other countries have done. Beneficiation may or may not pay, and it us up to the market to discover what pays.

Another bit of economic nonsense is found in a complaint about demands coming from the sophisticated and wealthy consumers who buy imports while unique African demands go unsatisfied. The obvious truth is that to demand goods you need incomes. The problem is one of increasing disposable incomes.

The limitations imposed on economic structure by the limitations of a small local market are ignored in the discussion on domestic rivalry. There often will not be room for more than a few efficient local rivals until the economy grows. It is another example of wishful thinking to look for rivalry where it just does not pay. The way to protect the consumer, and firms seeking well-priced inputs, is to expose local producers to foreign competition.

The analysis of the motor industry does nothing more than compare prices. The issue of how to get from where we are to something better — which is exercising so many minds in SA — is not addressed.

The absence of any attempt to factor out the cost of raw materials to the textile industry from protected local suppliers of inputs seems particularly glaring. How much effective protection is received by the clothing and textile industries about which such strong conclusions are made?

Much of the rest of the report is based upon opinion surveys and cited opinions. How representative these opinions are, how the surveys were carried out and by whom is not indicated. Why sugar comes out so favourably is not made apparent. At one point it is clearly being subsidised; at another stage of the discussion the sugar cluster is regarded as "most developed with relatively strong R&D machinery etc.". What is one to make of this?

The report's shortcomings — its methods, language, what it says and doesn't say — are profound. The Monitor approach is largely irrelevant to resolving the key economic issues that confront SA.

☐ Kantor is head of economics at UCT.

# Manufacturing 'has a dearth of skills'

Ingrid Salgado

(180)
BD 8/6/95

THE manufacturing sector's continued use of imported intermediate materials would worsen SA's balance of payments, Minister without Portfolio Jay Naidoo said.

Speaking at last night's launch of the Learning Laboratory's multimedia programme Techno Routes, Naidoo said although the sector was experiencing a boom, it faced a major skills constraint and companies needed to focus their attention on training programmes.

Naidoo said world competition would become "ruthless" as SA adapted to new tariff structures. Business would gain the competitive edge by investing in its human resources and not cheap labour. The private sector's skills investment was 0,5% of expenditure. In Malaysia it was 5%.

SA's legacy was a "very distorted" skills profile, with almost half the population illiterate. Training was a vital component to the new growth plan and should be linked to industrial restructuring.

As SA was beginning to launch major housing programmes, its biggest constraint was trained people to develop small and medium enterprises. "We have to plan for what SA is in 25 years time and we must now put in place the building blocks that will get us there."

Government faced the challenge of training and demilitarising tens of thousands of youth, and the private sector needed to play a role. The 2 000 child detainees released from SA's prisons were released into "a vacuum" and crime would be reduced by providing them with job skills. Neither the death penalty nor more police would reduce crime. This would occur from addressing poverty and delivering service infrastructure.

# Economists shocked by PPI surge

(180) Star 14/6/95

**BY CLAIRE GEBHARDT**
ECONOMICS EDITOR

South Africa's producer inflation surged in April to an annualised 11,5% percent — it's highest level in almost four years after climbing to 10,9% in March, Central Statistical Service (CSS) figures showed yesterday.

The massive increase, which exceeded market expectations by a significant amount, was attributed to large increases in both the local and imported components of the production price index (PPI).

Economists said the PPI "shocker" boded ill for the containment of inflationary pressures and predicted that consumer inflation forecasts would be revised sharply upwards. Market expectations had centred around a figure of about 11%.

Old Mutual chief economist Dave Mohr said if the Reserve Bank was waiting for further evidence to push up interest rates, another piece of the jigsaw had fallen into place.

CSS said the PPI for locally produced commodities increased by 11,7% year-on-year — 0,6 percentage points higher than the corresponding rate of 11,1% for March 1995. The monthly increase was 1,7% and 1,0% seasonally adjusted.

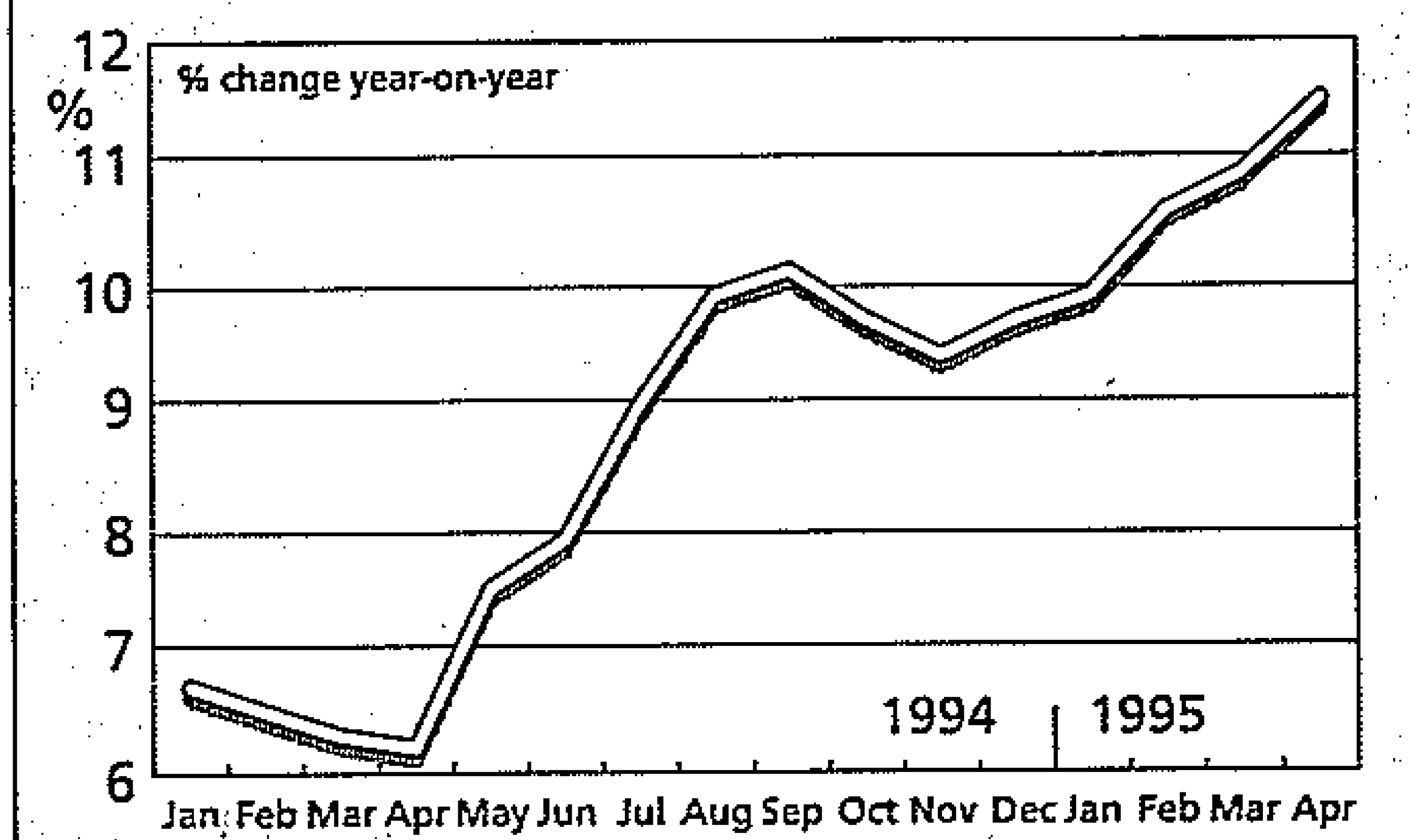
Food inflation remained a culprit with price increases for vegetables soaring month-on-month by a massive 21,6% — grain was up 5,7%.

The imported component of the PPI rose 1,4% month-on-month and 10,5% year-on-year — the highest rate of increase since August 1991.

The monthly rate of increase from March to April was 1,4% — a seasonally adjusted increase of 1,5%.

Investec group economist Carole Mason said the PPI was well outside the range of most expectations and the increases in both the local and imported components were worrying.

**Producer price index**



ET(BR) 14/6/95

# Producer inflation for April at four-year high

(180)

By Claire Gebhardt

Economics Editor

South Africa's producer inflation surged in April to an annualised 11,5 percent — its highest level in almost four years after climbing to 10,9 percent in March, Central Statistical Service figures showed yesterday.

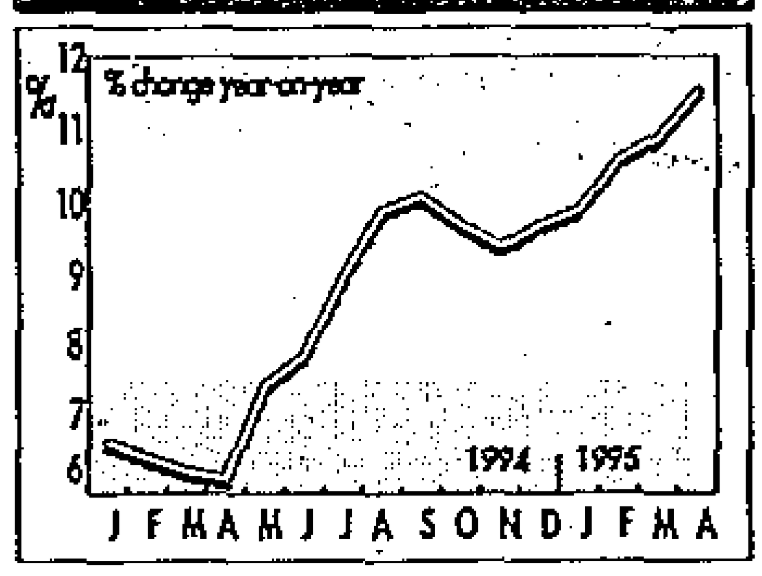
The massive increase, which exceeded market expectations by a significant amount, was attributed to large increases in the local and imported components of the producer price index (PPI).

Economists said the "PPI shocker" boded ill for the containment of inflationary pressures and predicted that consumer inflation forecasts would be revised sharply upwards. Market expectations had centred on a figure of about 11 percent.

Old Mutual chief economist Dave Mohr said that if the Reserve Bank was waiting for more evidence to push up interest rates another piece of the jigsaw had fallen into place.

The PPI for locally produced commodities increased by 11,7 percent year-on-year. This was 0,6 percentage points higher than the corresponding rate of 11,1 percent for March this year. The monthly increase was 1,7 percent and 1,0 percent, seasonally adjusted.

PPI




Food inflation remained a culprit with price increases for vegetables soaring month-on-month by a massive 21,6 percent — grain was up 5,7 percent. The imported component of the PPI rose 1,4 percent month-on-month and 10,5 percent year-on-year — the highest rate of increase since August 1991.

The monthly rate of increase from March to April was 1,4 percent, a seasonally adjusted increase of 1,5 percent. Economists attributed this to rand depreciation and an uptick in international oil prices.

Investec group economist Carole Mason said the PPI was well outside the range of most expectations and the increases in the local and imported components were "worrying".

She said the near-term upward trend in inflation would be disguised in coming months because of technical "aberrations".

# Cosatu-inspired report released

CT (BR) 20/6/95 (180)

The Industrial Strategy Project, which has closely studied most of South Africa's manufacturing industries and found them wanting, was the brainchild of the labour federation Cosatu.

The project was started in the late eighties, not so much to study the capabilities of the country's manufacturing sector, but rather what effect sanctions would have on the economy.

With the lifting of sanctions the project, based at the university of Cape Town, "expanded into a full analysis of South Africa's economic crisis".

The reports of the project, published in book form by the University of Cape Town Press, were released yesterday.

The books examine market and ownership structures; small and medium-sized firms and the conglomerates; human resource development and work place organisation; technological and institutional capacities.

The authors of the overall report are Avril Joffe, a research associate in the sociology work unit at the university of the Witwatersrand; David Kaplan, an associate professor in the department of economics and director of the Development Policy Research Unit at the university of Cape Town; Raphael Kapinsky, a fellow at the Institute of Development Studies at the University of Sussex, and David Lewis, a senior research officer at the Development Policy Research Unit at the university of Cape Town and special adviser to the labour minister, Tito Mboweni.

# Local firms 'lack specialisation' (180)

BD 20/6/95

**Adrian Hadland**

CAPE TOWN — A lack of specialisation continues to hinder the efficiency and competitiveness of SA's manufacturing sector, according to a report released yesterday.

The domestic manufacturing sector was characterised by a pronounced lack of specialisation, said the report, researched and compiled by the University of Cape Town's industrial strategy project and supported by Cosatu.

The report — Improving Manufacturing Performance — said: "Typically, local firms produce a far larger product range than similar-sized firms located elsewhere."

This was principally a consequence of a protective trade regime which, together with inflexible skill demarcation, made it difficult for production to respond to customer needs and changing market conditions.

The production of resource-based commodities by large, dominant conglomerates had blinded these corporations to the plethora of niches in modern manufacturing, as well as to the instruments required to produce highly differentiated quality products, the report said.

"As SA enters a period of trade policy reform, it will be forced to develop much higher levels of specialisation."

Project convenor David Kaplan told a briefing yesterday a more open relationship with international markets and a much strengthened competition policy would be vital for SA's future competitiveness.

"The exceptional degree of diversity that characterises the average SA firm is counter-productive — those firms that focus their activities more narrowly are best placed to compete on world markets."

The report was the result of two years research which targeted 13 industrial sectors, including the paper and pulp, motor, textiles and chemical industries.

A brief summary of the findings, as well as policy proposals aimed at improving the manufacturing performance of the industries, were released at the briefing, attended by Trade and Industry Minister Trevor Manuel.

Wide-ranging recommendations included permanent tax credits for incremental firm-level research and development expenditures, the restructuring of the department of trade and industry into a more efficient information-processing body and the refocusing of the Industrial Development Corporation.

Manuel said the sector analyses filled a gap that had long existed in strong economic policy research.

He said, however, he disagreed with some of the views expressed in the findings, particularly those on competition policy, which were "too soft".

The report recommended the extensive restructuring of the paper and pulp industry, a higher degree of beneficiation in the minerals sector and the production of fewer models in the motor vehicle and component industry. It urged Sasol to concentrate on the downstream production of petrochemicals and a reduction in its fuel from coal activities.

# Report gives manufacturing industry poor rating

By Bruce Cameron
Political Editor

The country's manufacturing industry has received another damning report card — this time from a four-year study initiated by the trade union federation, Cosatu, and sponsored by a number of European countries.

The study is the most in-depth into industry and follows on from other recent reports, which found the manufacturing sector wanting.

The latest report, undertaken by the Industrial Strategy Project, based at the University of Cape Town, not only examined the broad competitiveness of industry but also the major sectors.

Information from the report has already been used by the ANC and is expected to be a major reference work for government.

David Lewis, the project's leader and special adviser to Labour Minister Tito Mboweni, said yesterday the manufacturing industry was found wanting in many different areas.

These included export penetration, job creation and productivity.

Lewis said there were three key overarching findings of the project on which policy for the reform of industry should be based.

The first was that no "winning sectors" should be picked from South Africa's very diverse industrial base.

Choices would be made, for example by the demand of the reconstruction and development programme, for building supplies and consumer goods.

But the policy's role was to strengthen the environment and underlying capabilities to enable companies to be internationally competitive.

The sectorial studies were unanimous that the exceptional degree of diversity of average companies was counter-productive and their activities should rather be focused.

Second, two types of companies had been identified in every sector — a minority group that on initiative and progress were close to the world frontier and the majority group that were laggards.

"The task of policy is to infuse the laggards with the dynamism of the market leaders. If left to sink or swim, many firms risk sinking."

Third, the key to the whole process was consensus among the major players — labour, investors and government.

☐ See inside

(180) CT (BR) 20/6/95

# SA companies need change — probe

(180) Sowetan 20/6/95

MANY South African industrial firms are generally inefficient and uncompetitive, a study has found. The two-year probe into the poor manufacturing performance of 13 industrial sectors, including the paper and pulp and motor industries, ended yesterday.

A brief summary of the findings, as well as policy proposals aimed at improving the manufacturing performance of the industries, were released at a Press conference attended by Trade and Industry Minister Trevor Manuel.

The detailed study, compiled by the University of Cape Town's Industrial Strategy Project (ISP), with the support of Cosatu, was financed through Swedish, Dutch and Canadian funders.

## Inefficient and uncompetitive

The project found that many South African industrial firms were generally inefficient and uncompetitive.

Cooperation from the various industries had been "extremely good", project convener David Kaplan, an associate professor in UCT's Economics Department, told journalists.

Manuel said the ISP's sectoral analyses had succeeded in filling a gap that had long existed in strong economic policy research.

The industries targeted by the ISP included paper and pulp, chemical and commodity plastics, clothing, household electrical durables, textiles and mineral beneficiation.

The probe into the paper and pulp sector recommended extensive restructuring of the industry if it was to survive international competition.

It suggested that educational publishers agree to use a limited range of papers to produce textbooks.

## Producing pulp

Also, the industry sticks to producing and exporting pulp, newsprint and corrugated papers and leaves the manufacturing of printing and writing papers to other countries.

Exports should also increase, and a larger investment made in research and development, training and improved work organisation.

# Minerals: Add value at home

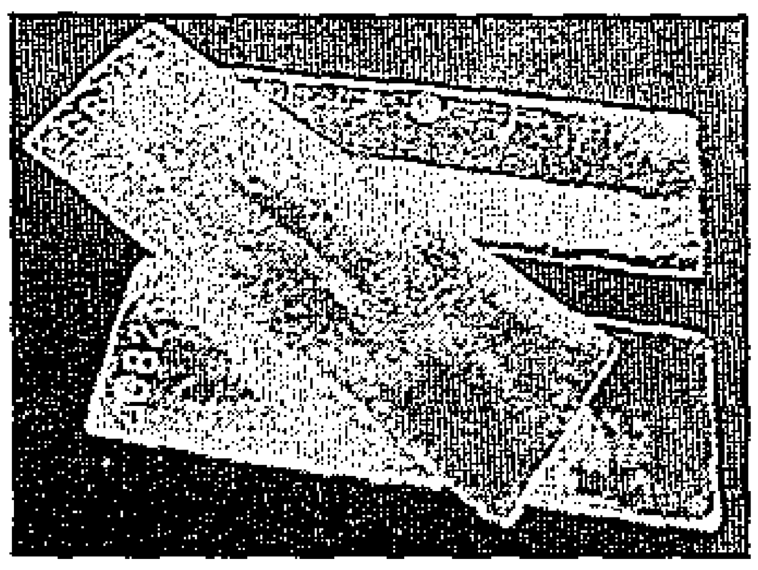
(180)

CT(BR) 20/6/95

Beneficiation of the country's mineral resources has to be stepped up to counter reducing export earnings from gold.

Paul Jourdan, Industrial Strategy Project researcher, said that with gold resources dwindling it was important that South Africa added value to its mineral exports as alternative foreign exchange earners as well as to generate downstream production.

"Enormous employment opportunities" would be provided by downstream production, but the development of the sector was being undermined by high import tariffs on semi-finished and finished items and import parity



pricing was making fabricators internationally uncompetitive.

Jourdan however warned that there were a number of problems in beneficiation including:

- Inefficient use of electricity, even though supply was cheaper than in other countries;
- Years of apartheid training and education have resulted in a lack of skilled professional and managerial staff;
- The high cost of capital as a result of high inflation and interest rates;
- Corporate taxes were higher than most other countries;
- Investment incentives were inferior;
- South Africa was far from major markets with other competitors in closer proximity, although the country was equidistant to the three main markets of Europe, North America and the Far East.

Jourdan said that among other things, the government would have to offer rapid tax write-offs of capital expenditure.

**CO-AUTHOR** *Dave Lewis is a senior research officer at the Development Policy Research Unit at UCT and special adviser to the Minister of Labour*

# The path to 'global competitiveness'

(180) BD 22/6/95

Renee Grawitzky

THE creation of a globally competitive economy required a high level of co-ordination between industrial sectors which was currently lacking in the SA economy, a co-author of a non-partisan report on SA's international competitiveness, David Green, said yesterday.

The report, produced by the Monitor company, was initially commissioned by the now defunct National Economic Forum and was presented to the Cabinet in March for discussion. The findings were released by Trade and Industry Minister Trevor Manuel in April.

Green said a greater degree of efficiency would be created if sectors became more co-ordinated, and this could be achieved through centralisation.

He said the debate on centralisation or decentralisation should focus not on whether either route should be adopted but rather on accepting that certain issues were best discussed at a specific level to benefit the country as a whole.

Labour and business needed a "shared understanding of competitiveness" which was not just about economic efficiency but about creating an economy of sustained growth and reasonable living standards.

The creation of strong and conditioned industries, the development of a world class strategic capability, strong and integrated skills, machinery and work organisation, high inter-firm rivalry and capable and efficient bureaucracy constituted the five imperatives for competitiveness.

Some sectors were highly competitive internationally — mining, paper and pulp, and petroleum, certain consumer goods such as food, and certain services such as advertising. However, overall, "from an industrial point of view, the SA economy was Third World".

Creation of a new industrial paradigm in SA required:

- development of policies which understood how competitiveness was created in an economy and not ones which detracted from international competitiveness. High levels of protection created inefficiencies;
- companies had to begin paying attention to customer needs and develop a willingness to tailor their operations to the needs of the market;
- companies needed to become more specialised in terms of products and move away from broad production lines; and
- commitment to education and training.

# Manufacturing production growth levels off

(180) ARET 22/6/95

MANUFACTURING production levelled off slightly in the first four months of this year after the up trend in the second half of 1994, according to the Central Statistical Service. Figures released today show growth in the volume of manufacturing production of 0,4 percent in April, and over the year of 10 percent. But manufacturing production has still not reached its 1990 levels. Clothing, textiles, glass and glass products, machinery and equipment and motor vehicles recorded growth in volumes over the year to April. But production volumes were down in food, tobacco products, printing and publishing and basic non-ferrous metal industries. Sales of manufactured products rose by only 0,1 percent — R31,7 million — in April, in spite of strong increases in sales of clothing, plastics and machinery. The figures are not strictly comparable, since the Transkei, Bophutatswana, Venda and the Ciskei have been included onlysince January this year. But the regions contribute only 1,9 percent of the total. — Business Editor.

MANUFACTURING (180)

# Cosatu requiem?

FM 23/6/95

**The sorry** state of SA's manufacturing sector is well known and the findings of a two-year study released this week by Cape Town University's Industrial Strategy Project (ISP) add virtually nothing new to the debate.

Nevertheless, the research needs to be taken seriously. Some aspects are already shaping government's economic policy and a number of the researchers involved in the project have been appointed to senior government posts.



7



The recently proposed restructuring of two of the sectors investigated — clothing and textiles and motor vehicles and components — show signs of ISP influence (*Business* and *Fox* June 16).

But the business sector will be forgiven for questioning the motives of a study initiated by Cosatu and will no doubt disagree with many of the ISP's reasons for poor performance.

The ISP evolved from the Economic Trends Research Group convened by Cosatu in 1986. The group's essential aim was to counter criticism that Cosatu's support for sanctions was undermining the economy. Not surprisingly it found that sanctions were a minor aspect of the problems facing SA's economy.

The group concluded that the Eighties was a "lost decade" in economic terms. The manufacturing sector had been "conspicuous" by its inability to create jobs and to produce goods that satisfied the different needs to domestic and foreign markets.

The ISP was formed in 1990 to seek solutions to the problems identified by the group. The results of its research into 15 manufacturing sectors were published this week in a document: "Improving Manufacturing Performance in South Africa." It was presented at a briefing in Cape Town this week attended by Trade & Industry Minister Trevor Manuel who commented that the work filled a gap in the field of economic research.

Criticism was constructive (if not original) and accompanied by proposals for corrective action and restructuring. If the ISP can overcome the inevitable suspicion that it is merely Cosatu's research arm and establish common ground with business, new deals beneficial to workers, bosses and the country are the most likely result. ■

PPI (180) (~~3440~~) FM 23/6/95

# Local is expensive

**Most of** April's jump in producer inflation — to 11,5% (year-on-year) from 10,9% in March — can be put down to volatile items such as food prices and prices of oil imports, which are outside the realm of monetary policy.

Of more concern is the rate of increase in domestic manufacturing costs, which reflects the overall cost-push factors in the domestic economy.

The domestic manufacturing component accounts for 58,3% of the total index. It rose 1,4% in the month, or 11,4% over 12 months. That compares unfavourably with the 0,4% (5,6% over 12 months) of the imported component of manufacturing, which makes up 15,8% of the index.

Sanlam senior economist Pieter Calitz points out local prices have been rising faster than imported prices since 1986 — when the last sharp depreciation of the commercial rand occurred — a trend which accelerated recently. The ratio of local to imported price rises is now the highest in 25 years (see graph).

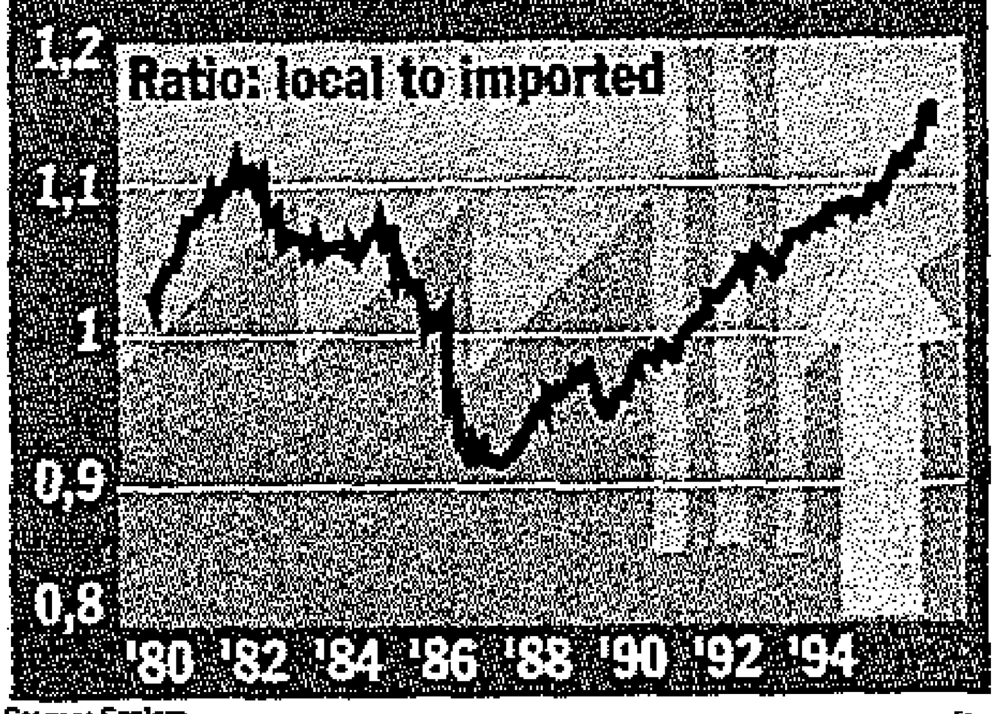
What this means is that local productivity is sharply out of line with that of our trading partners. Until productivity improves, or until there is a major depreciation in the rand, local manufacturers will continue to get their inputs from foreign suppliers, increasing the strain on the balance of payments.

The drought seems to account for the greater part of domestic food price increases.

Under agriculture, grain prices rose 5,7% (8,2% over 12 months) and vegetables & dried beans 21,6% (23,3%), while meat prices fell 1% (though still up 18,6% over 12 months) due to increased slaughtering as a result of the drought. Good rain in the interior during April should mean a slowdown in the rate of increase in the May figure.

Higher crude oil prices again accounted for most of the increase in the imported component of the producer price index (up 1,4% in the month, 10,5% over 12 months).

PPI: LOCAL MANUFACTURING COSTS ON THE UP




Source: Sanlam

ECONOMY & FINANCE

The item other mining & quarrying climbed 2,9% (30,2% year-on-year), in line with sharp increases in world oil prices. North Sea Brent Crude went up from around US$16,50/barrel in mid-March to around $18/barrel by mid-April. ■

INDUSTRIAL POLICY

# No pain, no gain

(180) FM 23/6/95

## Sensible long-term policy proposals have given way to compromise

**Trevor Manuel** is no Jonah Lomu. The giant All Black winger knows where he wants to go and will trample all in his path to reach there. SA's Trade & Industry Minister also knows his goals but, unlike Lomu, is worried about hurting those in the way.

That's certainly the impression coming out of the two industrial strategy documents approved by government last week — one for the motor industry and the other for clothing and textiles. What started out as genuine attempts to revitalise industries distorted by protection and to create world-competitive sectors, have been softened along the way and turned into minimum-pain programmes.

Driven, to a degree, by the need to meet the trading requirements of Gatt, the proposals appear to some to offer the minimum needed to comply. Brave statements about creating competitive industries have been obscured by expediency.

When Derek Keys, the former Minister of Finance and of Trade & Industry, created a task group in October 1992 to devise a new long-term policy for the motor industry, he apparently envisioned something that would turn the industry on its head. That's certainly how Derek Riley, who was task group chairman, saw it. He and his group were confronted by an industry made inefficient by years of protection and successive government-imposed local content programmes.

Put simply, there were — and are — too many vehicle manufacturers making too many models for the size of the market. Economies of scale, both for the manufacturers and for the components companies that supplied them, were negligible. Nor was there much pressure to improve: not when the industry was protected from foreign competition by tariff barriers of over 100% on built-up vehicles.

Also, the continued reliance on imported components exposed the industry to dangerous cost penalties as the rand continued its slide against foreign currencies. For consumers, the bottom line was vehicle prices that escalated beyond the rate of inflation. New vehicles were becoming unaffordable: this was reflected in falling sales and the marginalisation of private buyers in a market dominated by fleet and company sales.

The task group produced two reports: one on cars and light commercial vehicles, and the second on medium and heavy commercials. The latter was less sensitive. In terms of both sales and employment, it is a minor part of the industry, and the economic effects of reduced protection are likely to be limited. So while car makers face a final import protection tariff of 40% by the year 2002, the truck sector will be down to 20% two years earlier. For local manufacturers of truck engines, transmissions, tyres and axles, it will be 15%.

The attitude of this sector is summed up by MD of Atlantis Diesel Engines (ADE) Ron Shires, who says his company has been diversifying for years in the knowledge that eventually it would no longer be able to rely on its traditional core business.

The report on cars and light commercial vehicles immediately touched some nerves. It recommended gradually reduced protection tariffs that would hit a base of 45%. As important, other proposals included onerous duty penalties on manufacturers failing to build minimum volumes of individual models, and minimum averages across their total product range.

The intention was to force manufacturers to reduce model proliferation. If it also resulted in one or two companies being forced out of the market, then so be it; in fact, so much the better. Riley, in fact, thought these proposals didn't go far enough and described them as "too cosy."

The report, effectively, was a majority view among the industry's warring factions. The depth of disagreement became clear when vehicle manufacturers, through the National Association of Automobile Manufacturers (Naamsa), appended their own comments to the report, disagreeing with many of its findings.

As industry analyst Tony Twine, from Econometrix, notes, by the time the Board on Tariffs & Trade (BTT) produced its first set of proposals based on the task group report, they were more a reflection of the Naamsa document.

Many of the task group recommendations survived. But casualties included the penalties for failing to meet minimum-volume targets, never to be seen again. The BTT took the view that the 45% tariff protection target was too high, and cut it to 30% — only to raise it to 40% in its next report.

Little changed between then and last week, when Manuel accepted the BTT's latest recommendations for the motor industry. The only rider is that a working group has been given the chance to smooth some of the plan's rough edges before its scheduled implementation on September 1.

But the plan contains positive elements. Protection for vehicles and components will diminish, exports are encouraged, and there will be a degree of local model rationalisation; indeed, the process has already started and companies are starting to import low-volume models previously built here. The growing number of foreign makes being seen on the SA market is a sure sign that the market is opening up.

Delta Motor Corp MD Willie van Wyk, whose company builds Opel and Isuzu vehicles, says past local content programmes have isolated the SA motor industry from the global market and created an inefficient industry. The new policy will help correct this "in a regulated manner."

VW MD Heinrich Holtmann says the new programme will put pressure on all sectors of the industry to become more productive in order to compete on world markets. On the other hand, he is worried that the small vehicle incentive, offering duty rebates to makers of small cars, may disappear after three years.

Already gone, though, are some of the toughest actions from the original task group report: a sure sign that the final programme plan is motivated by different objectives than those originally visualised by Keys and Riley.

As Riley explains it, his mandate was to encourage local vehicle manufacturing, and not just assembly. Rather than an industry which bolted together components from around the world, the aim was to create an industry in which as much as possible was manufactured locally. That meant a strong components sector enjoying long, cost-effective production runs. That, in turn, meant fewer vehicle models in greater numbers.

Of course, a hardline programme could have unpleasant social and political results. Australia, which adopted a tougher ap-

ST (BT) 25/6/95 (180)

# Unionists call for boardroom seats


DAVID LEWIS: Co-director of the ISP

By KEVIN DAVIE

THE Cabinet or Parliament should impose broadly representative boards on major institutions such as Old Mutual, Sanlam and other major corporations, an influential think-tank proposes.

The Industrial Strategy Project, a four-year study for Cosatu, this week released a report on policies its says will improve manufacturing performance.

The ISP, co-directed by UCT academic David Lewis, has played an influential role: eight of its 17 researchers are now reportedly in senior government positions.

It released nine studies on sectors such as building materials, textiles, clothing, commodity plastics, motor vehicles and pulp and paper, plus a book, *Improving Manufacturing Performance in SA.*

Industry Minister Trevor Manuel attended the release, saying the research filled a gap but that some of the views, such as those on competition policy, were "too soft".

The ISP says Old Mutual and Sanlam, with controlling interests in important SA corporations, are nominally controlled by their policyholders, but actually by their managers.

"Unless the mutuals are able to devise a process for securing a more broadly based representation on their boards, it may be necessary to reserve a number of board seats or appointments to the supervisory board to Cabinet or Parliament . . . This could be extended to other corporations as well." The ISP says the unions are obvious potential board participants.

It criticises the use of pyramids for control. "The cost of extending a relatively minuscule share of corporate power to a handful of black business leaders is the maintenance of a device that supports widespread control by a handful of white share-owners."

The ISP says oligopolistic collusion and single-firm dominance, rather than intense competition, is the norm in concentrated SA markets.

"The conglomerates hoard blue-chip stock and encourage their operating subsidiaries to engage in the anti-competitive behaviour often associated with concentrated markets."

The ISP says corporate disclosure is exceedingly lax. "A requirement that obliged companies to report market share, expenditure on new product development, export performamce, jobs created and lost, expenditue on training, environmental impact and social responsibility expenditure, would empower communities beyond the JSE."

The Small Business Development Corporation, the Council for Scientific and Industrial Research and the Industrial Development Corporation are highly centralised and incapable of supporting small business.

**THE WEEK AHEAD** by Mungo Soggot

# Producer inflation forecast for May between 11% and 11,4%

(180) BD 10/7/95

AFTER a shock jump in producer inflation to 11,5% in April, economists are expecting a slightly more relaxing May number between 11% and 11,4%.

The tight forecast range for the figure, due on Thursday, would mean a month-on-month increase in the PPI of about 1%. In April, the PPI leapt 1,7% after substantial increases in both domestic and imported producer inflation.

One economist said that technical, statistical factors would keep the year on year figure down: it would come off a relatively high base from last May when there was a 1,3% month-on-month increase. Old Mutual's Johan Els said May was a month in which fewer of the basket of price movements which make up the PPI were measured than in April.

Investec fixed income analyst Annelise Peers — who predicted 11,2% — said the bond market would react only if it came in below 11%.

Another economist said that with the rand stable and a static oil price there should not be too much trouble from the imported component of the PPI, which accounted for 20% of the total index.

Economists said it was heartening that food prices — especially meat — which had played havoc with inflation, were stabilising.

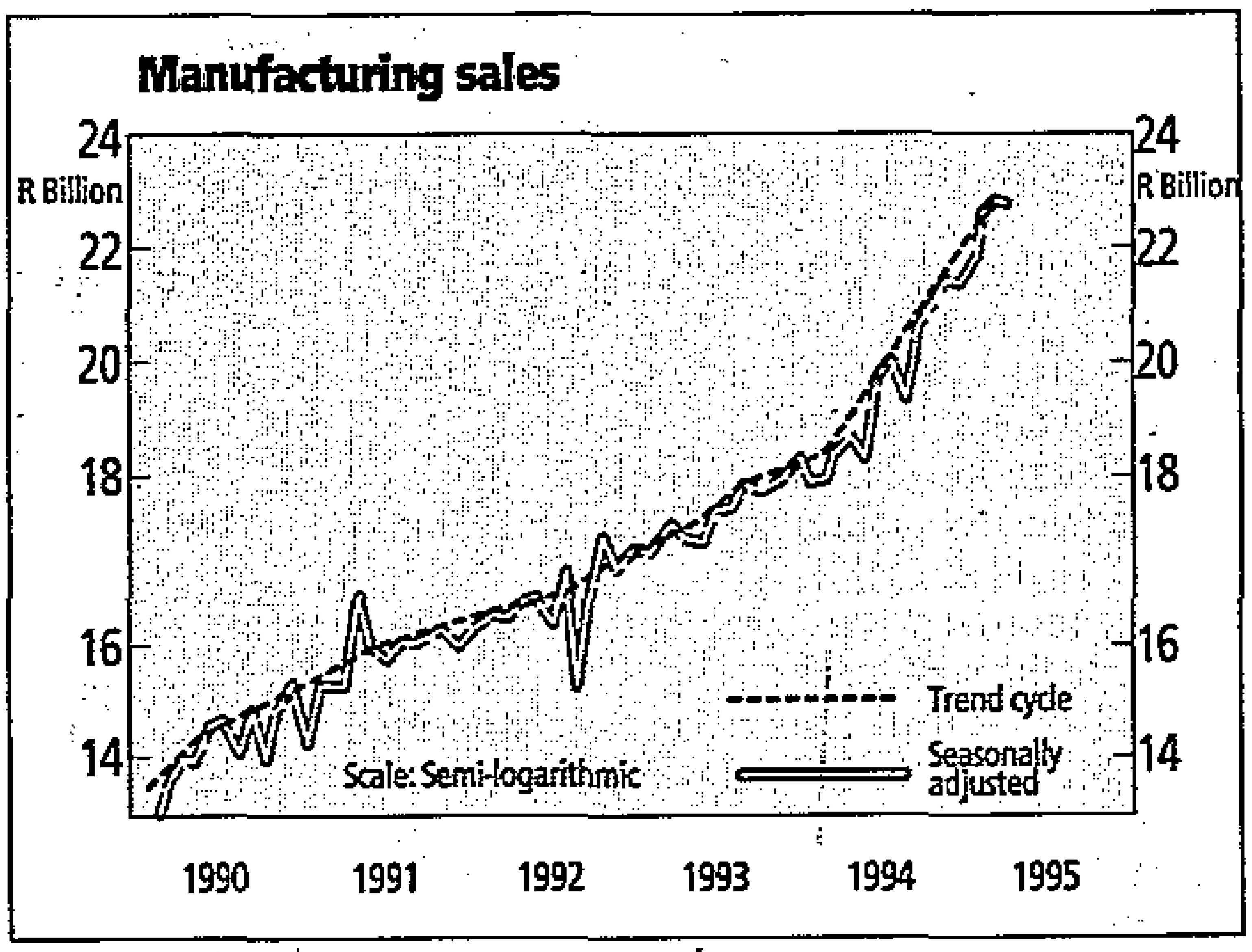
Many economists said they would be keeping a close eye on imported manufacturing inflation which has been dropping while local manufacturing inflation has been rising. In April imported manufacturing inflation was 5,6% and local manufacturing inflation 11,4%.

Increasingly cheap imports would add to SA's hefty import bill which had already helped stretch the deficit on the current account of the balance of payments to a level which would never have been predicted a year ago. Economists are predicting a deficit of between R8bn and R12bn this year. One economist quipped that her husband had recently asked her what to do with his bonus and she had replied: "Spend it on imports."

Looking ahead, senior Sanlam economist Pieter Calitz said he did not fear runaway inflation in SA in the next couple of years, particularly with Reserve Bank governor Chris Stals's finger so clearly on the pulse. He feared, however, that another hike in Bank rates this year could damage SA's growth prospects.

Calitz said he was predicting average producer inflation for the year of just above 11% and consumer inflation of 10,5%.

He said that whereas the lag period between consumer and producer inflation in a downturn could be a few months, in an upturn like the present it took much less time for changes in producer inflation to hit consumer inflation. As the baskets of prices which made up the CPI and the PPI were different the two did not necessarily follow each other, but in the long term movements in the PPI always found their way to the CPI.




# Manufacturing soars

(180) Star 12/7/95

■ BY DEREK TOMMEY

Sales of manufactured goods soared in April to a record R23,0-billion, up 21,8% or R4,1-billion over last years figure, seasonally adjusted, according to figures complied by the Central Statistical Services. However, several sectors show even sharper increases in sales.

The CSS figures show that manufacturing output in the first four months of this year was the highest since 1990. The index for the four month period was 94,5. This compares with 91,2 for the same four months a year ago and 88,2 for 1993. In 1990 the index for this period was 97,1 and in 1989 it was 99,7. The CSS comments that manufacturing production levelled off slightly this year after the upward trend in the second half of last year.

Output in the three months ended April grew by only 1,6% over the previous three months.

However, in view of the huge growth in production compared with a year ago, it would appear that a shortage of capacity rather than a lack orders has probably been a major factor in the levelling out of production, which suggests that a surge in investment in new capacity would now seem to be on the cards.

COMPANIES NEWS GOVERNMENT
CAPE ECONOMICS

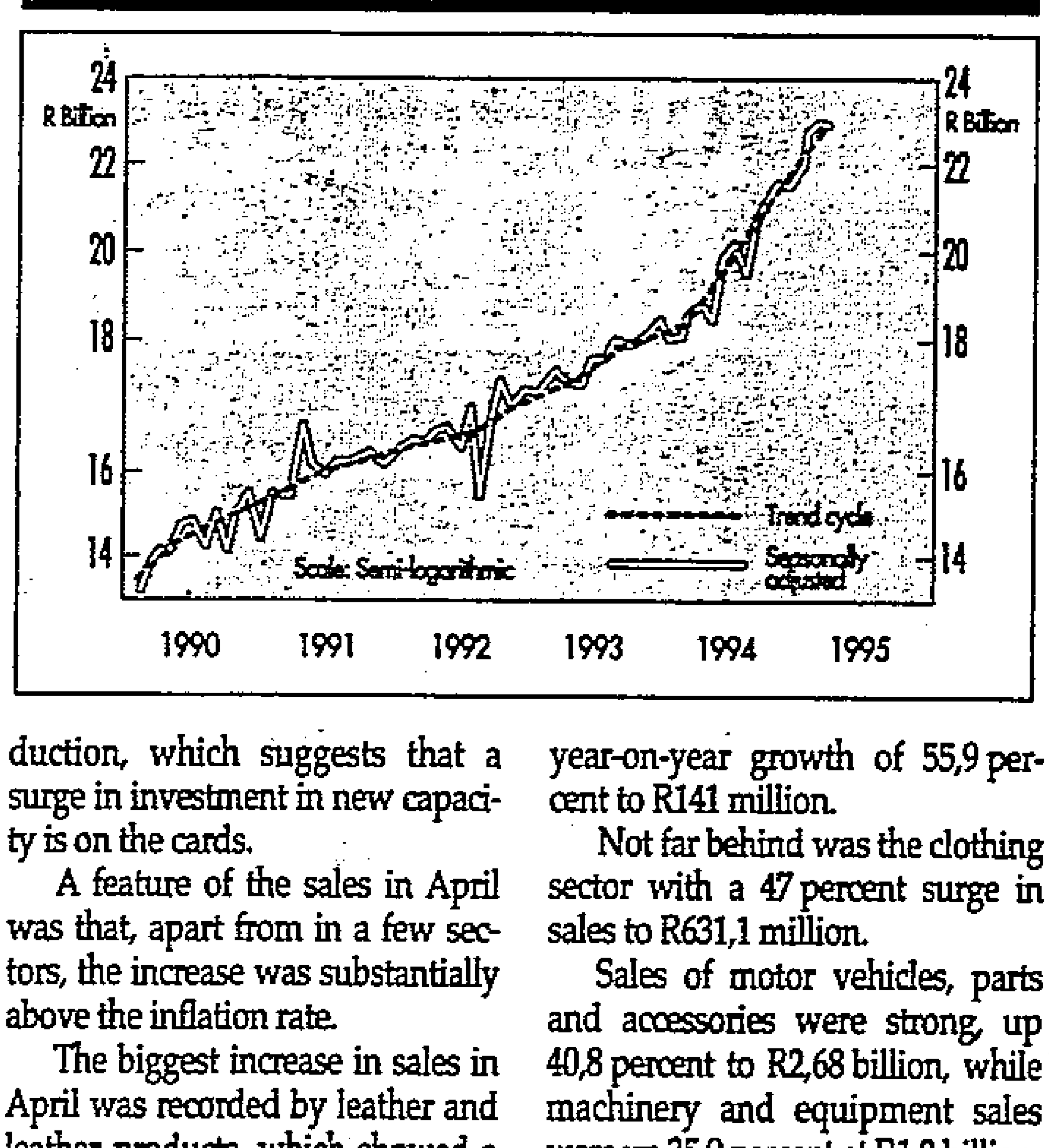
# Manufacturing boom as sales soar to a record R23bn

CT(BR) 12/7/95

(180)

By Derek Tommey

Staff Writer




Sales of manufactured goods soared in April to a record R23 billion, up 21,8 percent or R4,1 billion over last year's figure, seasonally adjusted, according to figures complied by the Central Statistical Services (CSS).

The figures show that manufacturing output in the first four months of this year was the highest since 1990. The index for the four-month period was 94,5. This compares with 91,2 a year ago and 88,2 for 1993. In 1990 the index was 97,1.

The CSS comments that manufacturing production levelled off slightly this year after the upward trend in the second half of last year.

Output in the three months ending April grew by 1,6 percent over the previous three months.

However, it appears that a shortage of capacity rather than a lack of orders was probably a major factor in the levelling out of production, which suggests that a surge in investment in new capacity is on the cards.

A feature of the sales in April was that, apart from in a few sectors, the increase was substantially above the inflation rate.

The biggest increase in sales in April was recorded by leather and leather products, which showed a year-on-year growth of 55,9 percent to R141 million.

Not far behind was the clothing sector with a 47 percent surge in sales to R631,1 million.

Sales of motor vehicles, parts and accessories were strong, up 40,8 percent to R2,68 billion, while machinery and equipment sales were up 35,9 percent at R1,2 billion.

Other sectors to show increases greater than the average of 21,8 percent were glass products (28,7 percent), iron and steel (28,4), paper and paper products (28,3), pottery (27,5), footwear (27,3), plastic products (26,6), metal products excluding machinery (25,7), textiles (25,3), "other" manufacturing (24,3), electrical machinery (23,9) and non-ferrous metals (23,2).

Sectors below average sales were "other non-metallic minerals" (20,5 percent), industrial chemicals (19,8), petrol and coal products (19,4), alcoholic beverages (15,8), rubber products (15,4), wood products excluding furniture (15,2), printing and publishing (13,1), chemical products (12,1) and tobacco (5,7).

Sectors which had lower sales were transport equipment, excluding motor vehicles, with an 8,4 percent drop to R114,8 million and professional and scientific equipment with a 10,4 percent decline to R63,8 million.

# Companies lagging behind global competitors, says expert

(180) 13/7/95 BD

Samantha Sharpe

MANY SA companies are too slow in adjusting to the demands of global competition when compared with their offshore counterparts, says management consultant Tony Manning.

He feels the key to matching the increased value and lower costs and prices offered by international competitors is a willingness to enter alliances to tap their skills.

"SA business has been isolated from the world for too long. Executives have spent too much time trying to resolve conflicts with their workers, and not enough time improving quality, productivity and service."

These businesses would have to learn from overseas companies which used a host of distribution methods and were prepared to invest heavily in training and technology.

"Almost every manager talks about the need for change, but most are changing too little, too late," says Manning. "They deny the need for radical change, with the argument that change for the sake of change is a bad thing. They justify their slowness by saying change takes time and must be carefully planned."

Yet they ignored the speed with which major foreign firms such as General Motors, Philips and IBM had overhauled themselves.

"These huge organisations, with hundreds of thousands of employees, saw the writing on the wall. In no time at all they transformed themselves from dinosaurs into agile cats. They're lean, fit and flexible."

Manning warns that SA firms continue to use obsolete strategies and shy away from the tough steps necessary to lower their costs.

"To have a chance of success, (the companies) must accept the need for radical change, abandon yesterday's strategic concepts and dramatically accelerate their efforts to improve," says Manning.

MORE JOBS FOR UNSKILLED WORKERS

# Rise in manufacturer confidence in W Cape

(180)

CT 13/9/95

**MANUFACTURERS** in the Western Cape are the most confident in the country, with most expecting to make new investments in the next year. **AUDREY D'ANGELO** reports.

WESTERN CAPE manufacturers are among the most optimistic in the country and job prospects for unskilled workers in the region are improving, the SA Chamber of Business (Sacob) manufacturing confidence index shows.

The Western Cape and Port Elizabeth were the only centres to buck the trend of falling manufacturer confidence in SA as a whole.

In the Western Cape 89% of manufacturers expected to sell more in the coming 12 months and 58% to employ more unskilled workers. Only 69% had expected sales to rise when the last survey was carried out in May.

In Gauteng the ratio of manufacturers expecting to sell more has dropped to 74% from 82% the previous month; 51% expect to take on more unskilled workers.

In the Western Cape 70% of manufacturers expected to invest in new capacity (against a national average of 67%) and 87% expected to spend more on maintenance.

Sacob economist Mr Keith Lockwood said the mixed picture was probably due to the different industrial activities in the regions and their varying sensitivities to economic and political events.

It was "interesting" that manufacturers seemed to be more willing to employ unskilled workers: "This tends to reinforce the view that, from the employer's perspective, the real costs of employment consist of more than just remuneration — a fact which policy-makers will have to bear in mind."

## Concern

Mr Lockwood also pointed out that for the third month in succession most manufacturers thought prospects for sales and production had deteriorated. This provided "some evidence ... of the growing concern that the economic upturn may have levelled off".

# PPI takes a welcome dip in May

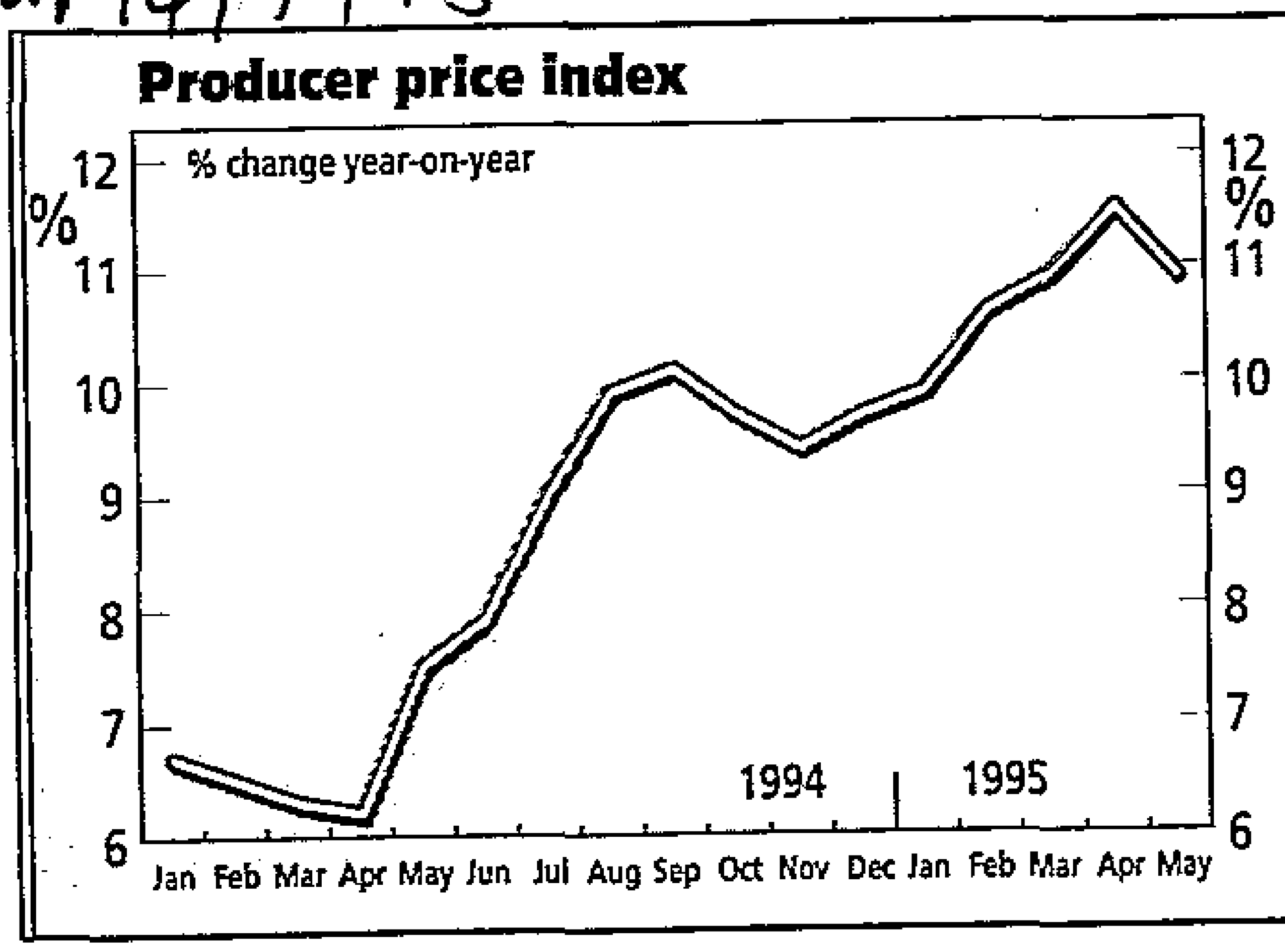
(180) Star 14/7/95

BY CLAIRE GEBHARDT
ECONOMICS EDITOR

South Africa's production price index (PPI) took a welcome dip to an annual rate of 10,9% in May from 11,5% in April when it reached it's highest level in almost four years, Central Statistical Services figures showed yesterday..

The lower figure came in the wake of a sharp drop in food prices but was also attributed to purely statistical reason – this time last year food prices, particularly meat, surged because of the drought and disease was also rife in the poultry industry.

Economists said food price comparisons for the next few months would be made against a high base a year ago which would lead to a decline in the year-on-year food inflation rate – however, the inflation outlook was still cause for concern.




The average consumer price inflation for 1995 was forecast to be of the order of 10,5% while the PPI would be "a lot higher".

A much higher average of over 11% would show up in headline figures only in 1996.

Latest figures from CSS indicated that, on a monthly basis, the increase in the PPI was 0,7%. Year-on-year the index eased 0,6%. The local component of the PPI rose 0,8% month-on-month and 11,4% year-on year. The imported component rose 0,4% month-on-month to 9,1% year-on-year.

Standard Bank said food at the manufactured level fell largely as a result of monthly declines of 3% for fresh meat and 1,3% for meat products – these two categories made up over half of the manufactured food index and accounted for 7,2% of the PPI as a whole.

Economextrix said that the May PPI, excluding food at both manufacturing and agricultural levels, rose by a substantial 1,1% on a month-on-month basis, taking the non-food PPI inflation rate up to 11,7% from 11,5% in April. This was sharply and disturbingly up from 4,9% in April last year.

Also disturbing was that the prices of locally produced goods kept increasing faster than that of imported goods.

# 'Alarming' manufacturing survey results

BD 21/7/95 (180)

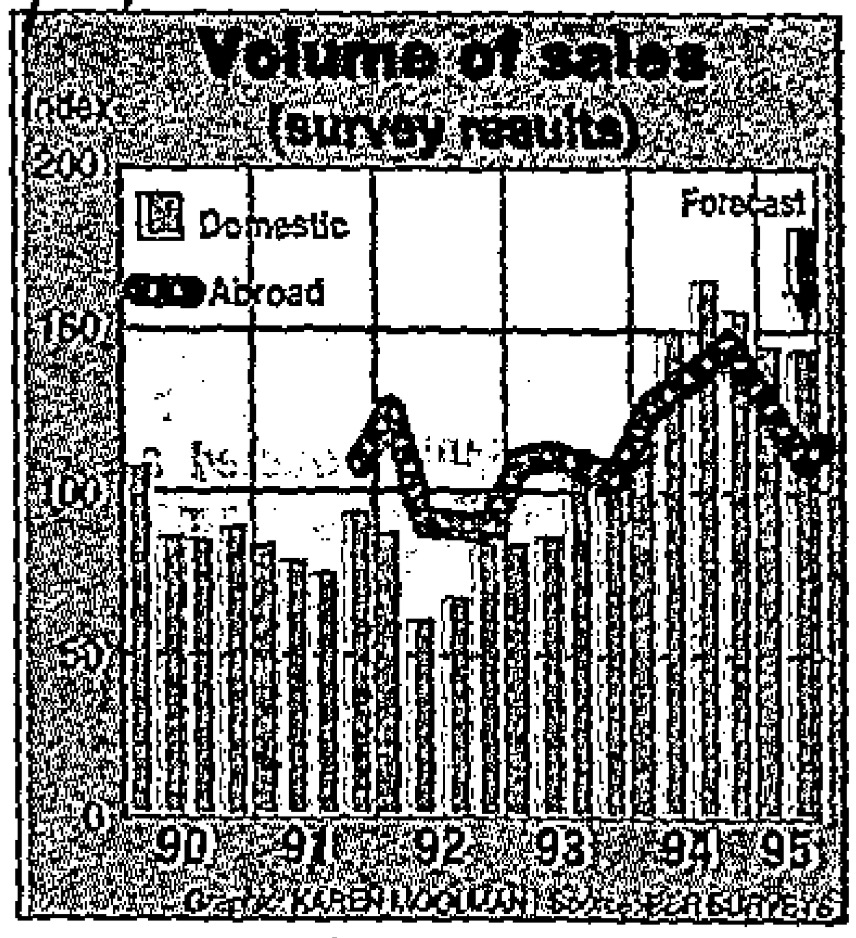
**Edward West**

CAPE TOWN — A second quarter survey of manufacturing sector activity has yielded "alarming results" with sales volumes well down on earlier expectations and little hope of improvement in the third half, according to the Stellenbosch-based Economic Research Bureau.

In its latest nationwide survey of the manufacturing sector, the bureau said domestic demand had nevertheless remained keen and the manufacturing survey results could pave the way for higher inflation and an increase in imports.

The volume of second quarter sales was well down on earlier expectations and survey respondents did not expect an acceleration in the third quarter. The demand for exports weakened more than domestic demand which was bad news for the trade account, the bureau said.

Fewer orders were received in the second quarter relative to the first three months and a further decline was expected in the third quarter. The longer-term outlook was also bleak with a predicted third quarter decline in the ratio of unfilled orders relative to sales.




"No wonder only 39% of the respondents reported better general business conditions in the second quarter compared with 55% who did so in the first quarter.

"Fewer than than 35% expect to report better conditions in the third quarter," the bureau said.

Due to slackening in the tempo of activity, virtually no new jobs were created and 5% of the respondents planned third quarter retrenchments.

Because of the poor conditions factory workers worked fewer hours in the second quarter than was expected, a tendency expected to be repeated in the third quarter.

These trends pushed the average total cost a unit of production higher. The survey results implied that the manufacturers had to accept lower selling prices in an attempt to increase volumes, the bureau said.

The respondents singled the general political climate out as the main cause responsible for the slower growth in sales and production.

In spite of the slowdown in activity, the confidence index fell by only five percentage points to a level of 67 — measured on a scale of 0-100 — and most of the manufacturers expected growth to continue in the next 12 months, but at a much slower pace than reported in the previous survey.

# Demand for manufactured exports falls

Star 21/9/95 (180)

BY AUDREY D'ANGELO
CAPE BUSINESS EDITOR

Demand for manufactured exports has fallen, the tempo of production has slowed, jobs have become scarcer and retrenchments are predicted, according to the latest survey carried out by the Stellenbosch Bureau for Economic Research.

The report warned that shorter working hours and fewer orders would mean rising unit costs and higher inflation.

However, manufacturing confidence had declined by only five percentage points to 67 on a scale from zero to 100.

Bureau director Ockie Stuart said: "The net majority expect growth to continue in the next 12 months, but at a slower pace than previously."

He said the bureau's recent consumer survey implied that imports would continue to rise, but the combination with falling exports was "bad news for the trade account".

The report said the volume of second quarter sales was well down on previous expectations and no rise was expected.

"The longer-term outlook is also bleak with a decline in the ratio of unfilled orders relative to sales for the third quarter.

# Factories go into overdrive

(180) Star 28/7/95

BY DEREK TOMMEY

South Africa's factories went into overdrive in May when their output soared by 3,4% to show a 19,6% growth on a year ago, figures issued by Central Statistical Services show.

The manufacturing index, seasonally adjusted, (1990 = 100) rose to a new peak of 106,4 from 102,9 in April and 89,0 in May, last year.

The value of production in May rose R1,33-billion to around R22,8-billion from R18,5-billion a year ago.

The motor vehicle industry led the boom with output rocketing by 14,5% in May to show a year-on-year increase of 52,4%. Sales of motor vehicles jumped in May by R415-million. The output of basic non-ferrous metal products also grew strongly, rising by 6,2% in physical terms (R156-million in sales) to show a year on year increase of 17,0%.

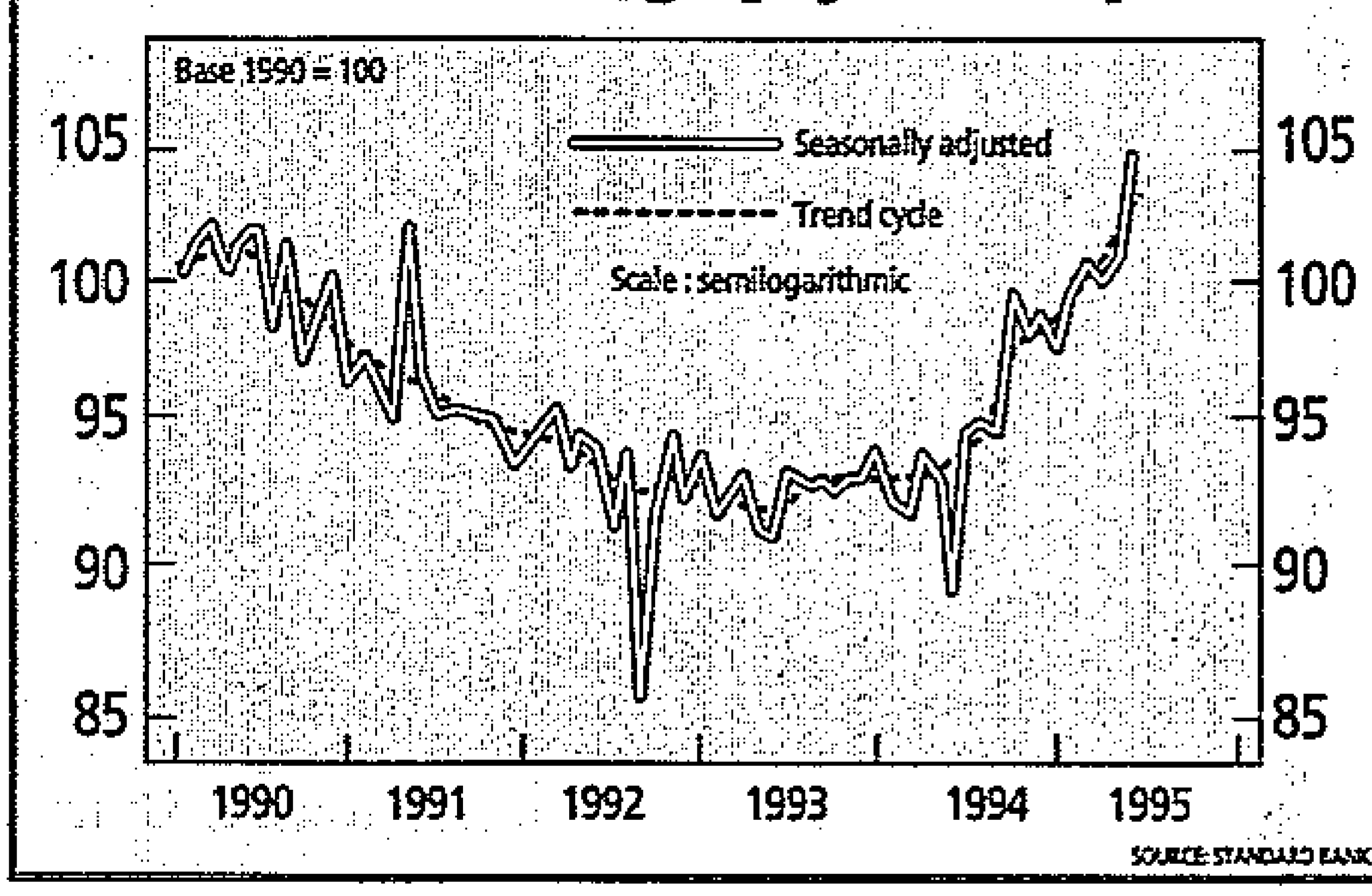
Output of iron and steel products showed a marginal increase in volume terms, but rose R114-million in money terms. The year-on-year rise in sales was 17,6%.

Other areas of strong growth compared with a year ago were: clothing where output rose 28,7%, leather goods 22,0%, footwear 28%, wood and wood products 28,7%, paper and paper products 28,1%, rubber products 30,0%, plastic products 23,9%, pottery 47%, machinery and equipment 35,1%, electrical machinery 32,9% and glass and glass products 25,5%.

Less buoyancy was shown by the food sector where output in May was running only 8,6% ahead of last year. The beverages industry also experienced sluggish growth with a 5,5% increase while the production in the tobacco industry dropped 4,6%. The output of petroleum products and of oil was 10,3% higher than a year ago, but the output of chemical products rose 12,6% and industrial chemicals 19,5%.

However, there were still 11 sectors where the physical volume of production had still to reach the level running in 1990. These were food, beverages, tobacco, footwear, furniture, rubber products, pottery, transport equipment excluding motor vehicles, and "other" manufacturing industries.

**Manufacturing : physical output**

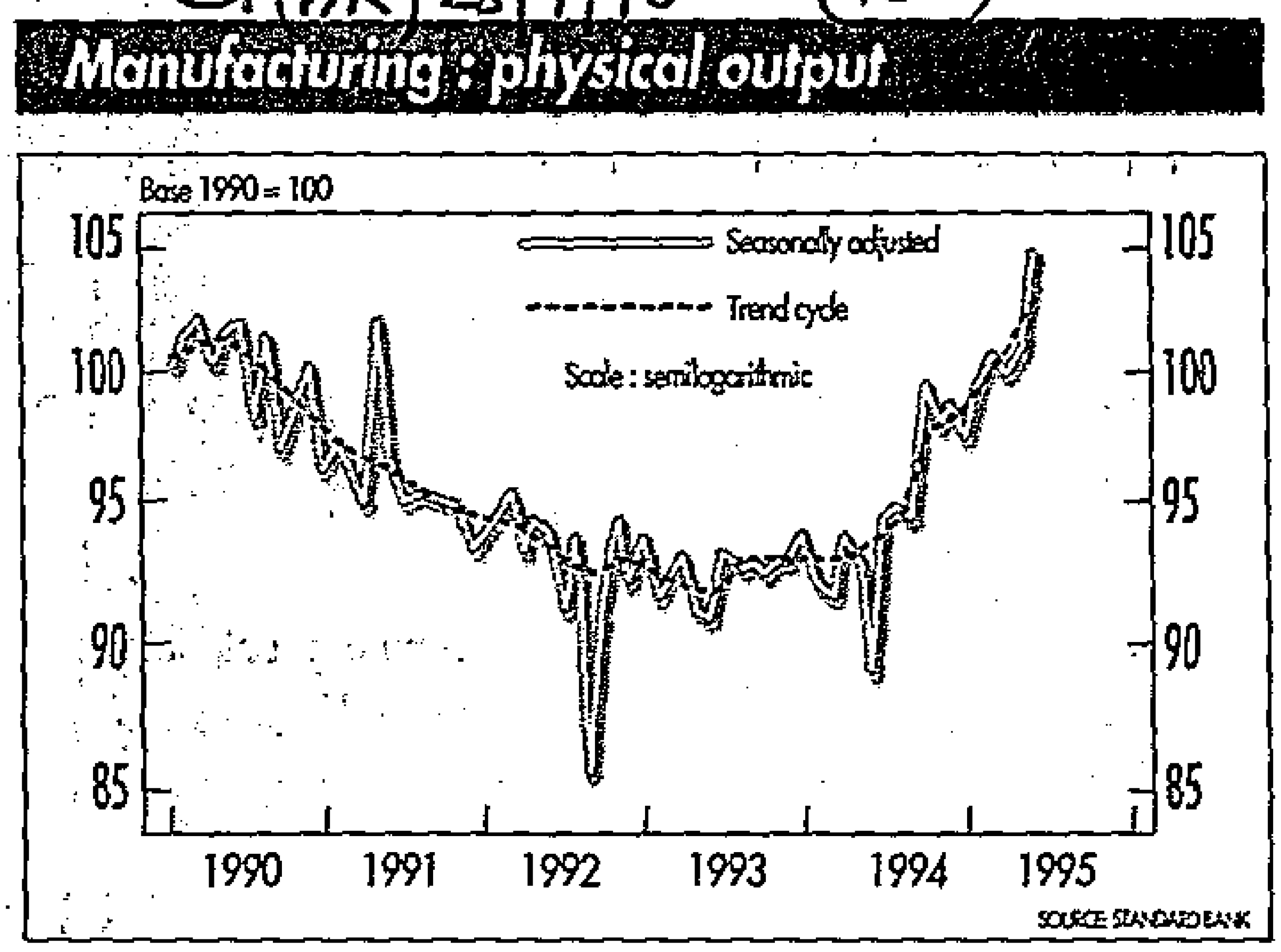


# Production volumes surge ahead

CT(MR) 28/7/95 (180)

By Derek Tommey

Staff Writer




South Africa's factories went into overdrive in May when their output rose 3,4 percent to show a 19,6 percent growth on a year ago, figures issued by Central Statistical Services show.

The manufacturing index, seasonally adjusted, (1990 = 100) rose to a new peak of 106,4 from 102,9 in April and 89,0 in May, last year. The value of production in May rose R1,33 billion to about R22,8 billion from R18,5 billion a year ago.

The motor vehicle industry led the boom with output rising 14,5 percent in May to show a year-on-year increase of 52,4 percent. Sales of motor vehicles jumped in May by R415 million. The output of basic non-ferrous metal products also grew strongly, rising 6,2 percent in physical terms (R156 million in sales) to show a year on year increase of 17,0 percent.

Output of iron and steel products showed a marginal increase in volume terms, but rose R114 million in money terms. The year-on-year rise in sales was 17,6 percent.

Other areas of strong growth compared with a year ago were: clothing where output rose 28,7 percent, wood and wood products 28,7 percent, paper and paper products 28,1 percent, and machinery and equipment 35,1 percent.

Less buoyancy was shown by the food sector where output in May was running only 8,6 percent ahead of last year. The tobacco industry dropped 4,6 percent.

The output of petroleum and oil products was 10,3 percent higher than a year ago, and the output of chemical products rose 12,6 percent.

In spite of the recent surge in manufacturing output, there were still 11 sectors in May where the physical volume of production had yet to reach the 1990 level.

# Manufacturing steams ahead 'but could slump'

Mungo Soggot (180) BD 28/7/95

THE manufacturing sector's strong performance continued in the three months to May when production steamed ahead 2,7% over the previous three months, Central Statistical Service figures released yesterday showed.

The CSS said 18 out of the 28 major manufacturing groups had reported an increase in physical volumes produced during the period, but it appeared there would be a "significant slump" in June.

Boner and Freemantle economist Gad Ariovich said the figures confirmed evidence that apart from shoddy mining and agriculture performances, the economy was performing well.

However, the CSS's warning for June pointed to a slowdown in the third quarter. "It seems the economy is cooling down and the business mood is becoming less optimistic."

The figures showed that physical manufacturing volumes were up 20% year on year, although economists noted that the increase came off a low base from last year — just after the elections.

Econometrix economist Tony Twine said the performance in the three months to May augured well for manufacturing's contribution to GDP growth in the second quarter. The sector comprises 25% of GDP.

However, manufacturing's contribution to GDP was just for "final goods" — not all manufacturing was reflected in these figures. Twine expected the manufacturing showing in the second quarter GDP figures to be "less sparkling".

Figures showed a pick-up in output from petroleum and coal products had contributed 0,55 of a percentage point to the period's 2,7% increase, so it appeared the sector would "use some of its own production".

The value of manufactured goods sold increased by R1,3bn in May over April after seasonal adjustments.

# Production increases, then slumps

ARG 29/7/95 (180)

Business Editor

MANUFACTURING production slumped in June after a revival in May, according to the Central Statistical Service (CSS).

CSS figures released this week showed seasonally adjusted physical production for the three months to May was up 2,7 percent on the previous three months.

Major movers included petrol and coal products, paper, industrial chemicals, metal products and clothing. Manufacturers attributed the increase in volumes to stronger domestic and foreign demand and to a greater number of working days in May.

But the CSS added that information at its disposal showed that there was "a significant slump" again in June.

On a base of 100 in 1990, seasonally adjusted production in manufacturing slid to a low of 89,0 in May 1994, before climbing back to 104,5 in May this year.

Total sales of manufactured goods (not adjusted for inflation) rose 32 percent from R18 bn in May 1994 to nearly R24 bn in May this year. Sales of motor vehicles and parts climbed 64 percent to R3,18 bn, overtaking food as the biggest single category in terms of rand value.

Food sales rose 20 percent to R3,06 bn.

In the capital goods sector, sales of basic iron and steel products rose 20 percent over the year; machinery and equipment was up 34 percent, while electrical machinery increased 39 percent.

# 'Scrap duty on craft material'

(180)

POLITICAL STAFF

CT 1/8/95

IMPORT duty on craft-related raw material should be removed to help price South African craft more competitively, particularly export and tourist items, the Arts and Culture Task Group (Actag) has urged.

Actag revealed yesterday that beads, a key element of South Africa's growing craft industry, attracted a 25% import surcharge and another five percent in tax.

It said most craftpeople did not comply with tax rules as these were seen to obstruct growth.

"Either craft should become a zero-rated activity, or the VAT threshold for craft should be raised.

"Weakening the control of cartels and monopolies over domestic supplies of raw materials, for example leather, should be beneficial to the growth and development of the craft industry."

# Manufacturing at record output levels

(180) 4/8/95

■ BY DEREK TOMMEY Star

The South African manufacturing sector was operating at 82,9 percent of capacity at the end of February, the Central Statistical Service reported. This is the highest figure for capacity utilisation since 1990, and compares with a figure of just over 78% at the beginning of last year.

The metals sectors had two of the three highest plant utilisation figures. The basic non-ferrous sector was operating at 92,4% of capacity and the basic iron and steel industry at 91,3%.

These are exceptionally high percentages. But the start-up of the Columbus Stainless Steel plant extensions and Iscor's plans to produce basic stainless steel at its Pretoria site should ease the iron and steel industry's problems.

The even higher percentage utilisation in the non-ferrous industry, which is believed to refer mainly to ferrochrome producers, suggests they must have been considering new investment and plant expansion for some time. However, the ferrochrome producers are unlikely to be rushed as a new furnace costs R60 million or more.

The clothing industry was also operating at a high utilisation level of 91,9%. But being less capital intensive than most other industries, expansion of production facilities should not be so difficult nor so costly.

High plant utilisation was reported by the footwear sector (89,8%), products of petroleum and coal (89%), printing (87,2%), wood (87,1%), scientific equipment (86,2%), leather (85,2%), industrial chemicals (85,1%), furniture (84,5%), tobacco (84,1%), motor vehicles (83,4%) and textiles (83%).

Other utilisation figures were non-metal products (81,8%), plastics (81,6%), metal products (81,5%), rubber (79,5%), food (78,5%), machinery and equipment (77,4%), other chemical products (7,9%), electrical machinery (75,8%), transport equipment (74,6%) and beverages (74,5%).

# Manufacturing at higher output levels

CT(BR) 4/8/95 (180)

By Derek Tommey

The South African manufacturing sector was operating at 82,9 percent of capacity at the end of February, the Central Statistical Service reported. This is the highest figure for capacity utilisation since 1990, and compares with a figure of just over 78 percent at the beginning of last year.

The metals sectors had two of the three highest plant utilisation figures. The basic non-ferrous sector was operating at 92,4 percent of capacity and the basic iron and steel industry at 91,3 percent.

These are exceptionally high percentages. But the start-up of the Columbus Stainless Steel plant extensions and Iscor's plans to produce basic stainless steel at its Pretoria site should ease the iron and steel industry's problems.

The even higher percentage utilisation in the non-ferrous industry, which is believed to refer mainly to ferrochrome producers, suggests they must have been considering new investment and plant expansion for some time. However, the ferrochrome producers are unlikely to be rushed as a new furnace costs R60 million or more.

The clothing industry was also operating at a high utilisation level of 91,9 percent. But being less capital intensive than most other industries, expansion of production facilities should not be so difficult nor so costly.

High plant utilisation was reported by the footwear sector (89,8 percent), products of petroleum and coal (89 percent), printing (87,2 percent), wood (87,1 percent), scientific equipment (86,2 percent), leather (85,2 percent), industrial chemicals (85,1 percent), furniture (84,5 percent), tobacco (84,1 percent), motor vehicles (83,4 percent) and textiles (83 percent).

Other utilisation figures were non-metal products (81,8 percent), plastics (81,6 percent), metal products (81,5 percent), rubber (79,5 percent), food (78,5 percent), machinery and equipment (77,4 percent), other chemical products (7,9 percent), electrical machinery (75,8 percent), transport equipment (74,6 percent) and beverages (74,5 percent).

# Manufacturers' hopes dimming

(180) BD 8/8/95

**Mungo Soggot**

DOUBTS about the strength of the upturn and tight monetary policy had sapped confidence from the manufacturing sector in July, the SA Chamber of Business said yesterday.

The chamber said the latest interest rate hike had probably dealt a particularly strong blow to the spirits of durable goods manufacturers while, in general, unease about the strength of the upturn was growing.

Sacob's July survey of the sector showed the fourth consecutive monthly decline in outlook for the next 12 months: 74% of those polled expected sales to increase in the coming year compared with 79% the previous month and 86% in March.

This bleaker sales outlook had cut to 60% the number of respondents expecting to use more of their production capacity over the next 12 months, compared with 69% in June. Similarly, fewer respondents expected to employ more unskilled employees over the next 12 months, although slightly more than the previous month expected to employ more skilled employees.

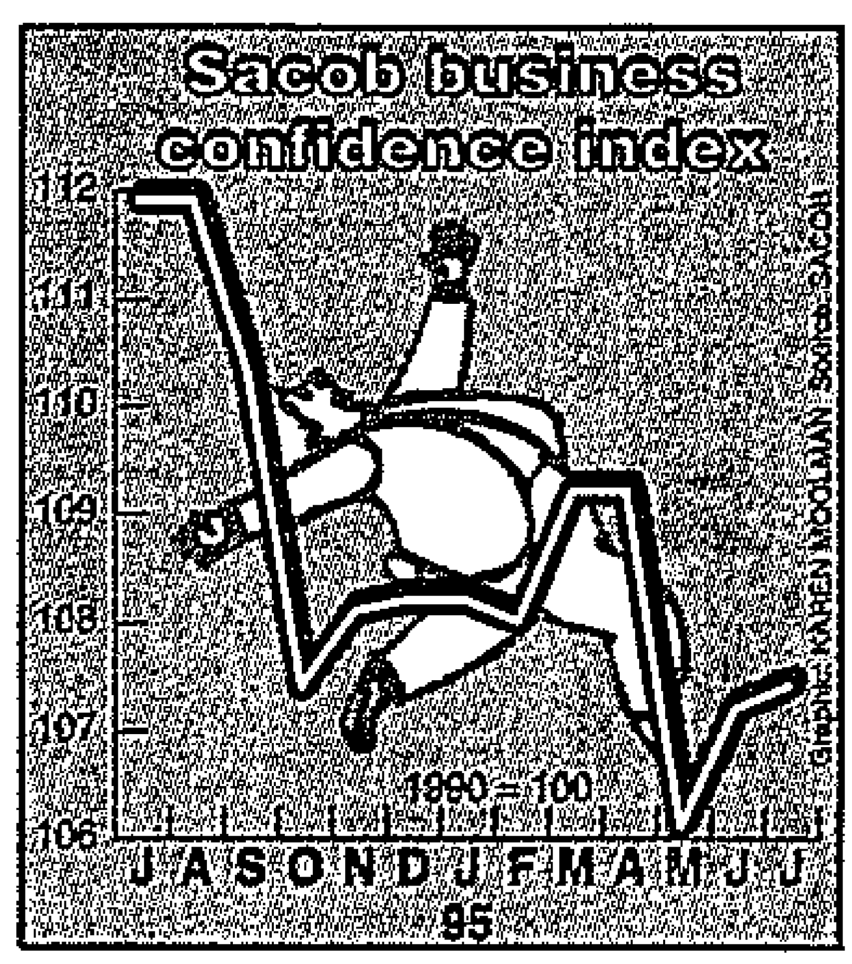
On a more upbeat note, 69% (67%) were betting on investing in new capacity, although only 68% planned to spend on updating existing plant, compared with June's 71%.

The survey follows the latest Central Statistical Service release on physical volumes generated by the sector, which said that although May production was almost 20% up on last year, it appeared there would be a significant slump in June.

Despite the gloomier manufacturing sector, Sacob's business confidence index — made up of 13 key economic variables — showed overall business confidence had picked up slightly last month. The BCI had risen to 107,4 from 107,2 in June.

It appeared economic activity would improve in the next few months and that 3% growth was attainable. Tighter monetary policy appeared to be biting as the rapid growth in credit extension to the private sector slowed. Sacob expected average inflation for the year to be below 10%.

The gap between relatively buoyant manufacturing sales, up 20% on a year ago, and a drabber retail performance expected to be down 1,7% in July on a year ago, suggested most of the increased manufacturing output was feeding fixed investment growth.



# Support for local goods is strong

CT(PR) 14/8/95 (180)

By Ronny Tshabalala

A recent poll by Markinor Research has shown that there is a high level of local confidence in South African manufactured goods.

This is setting a good climate for the introduction of an intensive Buy South African marketing initiative which can help make South African products a preferred choice against stiff overseas competition.

"A wave of support is sweeping the country" said Mari Harris, the account director of Markinor.

"The timing is right for the launch of a marketing drive supporting local products."

The survey was conducted across all population groups in the nine provinces during May among a sample of 1 020 adult respondents.

More than half, 54 percent, of those interviewed in the survey said they would buy locally manufactured clothes, material and household textiles.

The poll showed only a marginal 2 percent difference in support for electrical goods such as video recorders, televisions and washing machines manufactured in Japan, (36 percent) over those manufactured in South Africa (34 percent).

German goods were ranked a poor third, while American goods were the choice of a surprisingly low 8 percent.

"With confidence in local goods high, the time is ripe for local manufacturers to utilise this opportunity to make a meaningful contribution to the country's (reconstruction and development programme)," said Harris.

**LIGHTING THE WAY** *Nine independent light manufacturers have merged to form a new national company, Independent Lighting Manufacturers. The merging companies are Century Lighting (Vereeniging); Dilco Namibia (Windhoek); Olsen Industries; Taurus Sales and Service (Port Elizabeth); Thornlite (Gauteng); DK Agencies (East London); Macoy Marketing (Bloemfontein); Swannlite (Durban) and Thorn-Tech (Cape Town). Pictured at the ILM launch are, from left, Elaine Holmes, Llew Oelofsen, Jan van Vuuren (chairman) and Michael Larcombe (managing director).*

**THE WEEK AHEAD** by Mungo Soggot

# Labour and drought hit GDP figure

(180) BD 14/8/95

ONE of the first things the new chief of the Central Statistical Service, Mark Orkin, could do is to examine the way it presents its quarterly GDP figures. The quarter-on-quarter seasonally adjusted annualised growth figure — the one watched by the markets — annoys most economists who believe it distorts the true picture.

Tomorrow morning they will be annoyed again — this time with the second quarter growth figure. Most of those polled were reluctant to be quoted on what the figure would show. Predictions ranged between 0,5% and 2%, while year-on-year growth predictions ranged between just under 3% and 3,5%.

All of them said a disastrous showing from the gold mining sector and the drought-hit agriculture sector would stunt the overall figure, while manufacturing should boast another sound performance.

In the first quarter, annualised growth shrunk to 1,5% from 6,4% in the previous quarter. The figure was low because it came off such a high base from the previous quarter, which economists said exaggerated the situation. Year on year growth was 3,5%.

One economist predicted annualised growth in the second quarter of between 1,1% and 1,9%. This implied a 3% to 3,2% year-on-year growth range.

Davis Borkum Hare chief economist Jos Gerson said the large number of public holidays and labour problems in the mining sector would probably dent the economy's performance in the second quarter. He estimated a year-on-year figure of 3%.

Agriculture would not necessarily put in another dismal performance and could present a pleasant surprise, depending on the effects of the drought and the particular crops harvested.

The manufacturing sector would probably perform reasonably, although it would also have been hit by the lower number of working days.

In general, there were telltale signs that demand was beginning to taper off — which was good news for inflation — while the supply side could be showing signs of picking up. But the supply gap was unlikely to start narrowing noticeably before the third or fourth quarter. Gerson said the GDP and gross domestic expenditure figures were fairly meaningless, considering the lack of transparency with which they were compiled and the size of the "opaque residual category".

"The margin for error in the revisions alone is enormous. Corporate earnings are a far more important indicator than GDP and it is absurd to use the latter to predict the former."

Econometrix economist Tony Twine said the economy appeared to have slowed in the second quarter. What was heartening was that the growth appeared to be being capped by sustained fiscal discipline, which had resulted in a real decline in government consumption expenditure.

Most economists were expecting growth for the year to end up at about 3%. Standard Bank group economist Nico Czypionka said last week it was encouraging that the upturn was being underpinned by fixed investment spending and not a consumer binge which could be nipped in the bud by tight monetary policy.

One economist said she expected SA's growth to track the global recovery and apart from its current breather, climb steadily until the 1999 election, averaging between 3% and 3,5% a year.

Investec fixed income analyst Annelise Peers said tomorrow's figure could be the key factor which determined whether the capital market would undergo a serious rerating after rates fell 45 points last week. If the figure was as bad as expected it could encourage portfolio investment in bonds. If it was better, it would probably encourage managers to stay with equities.

Another analyst said last week's bull run followed a protracted period in which bonds had been consistently underrated — a tendency fuelled by fears of inflation. June's very positive consumer inflation figure, which saw the first month-on-month drop in the CPI for 25 years, had helped warm up the bulls.

Peers said tomorrow's producer inflation figures for June would probably help sustain this positive inflationary outlook. She predicted 10,3%.

In May producer inflation was 10,9% after a 0,7% month-on-month increase in the PPI. Forecasts ranged between 10,3% and 10,7%. Pressure from the imported component of the PPI would be muted, while food prices could show another actual decline.

One economist, who expected a month-on-month range of between 0,2% and 0,4% which would bring the year-on-year figure to 10,4%-10,6%, said it was a month in which few of the prices which made up the PPI were measured. This would help keep the figure low.

in time, our cotton farmers are in a fortunate position because there is a bit of a run on cotton prices, but we recognised that it was the kind of industry artificially introduced in South Africa which cannot be sustained against all odds. We are in constant contact with representatives of cotton farmers in South Africa.

**Competitiveness of SA industries: monitor study** (180)

*4. Sen Dr G MARAIS asked the Minister of Trade and Industry: Hansard 17/8/95

(1) Whether a monitor study has been undertaken in regard to the competitiveness of South African industries; if so, what are the relevant details;

(2) whether his Department intends taking any action in this regard; if not, why not; if so, what action;

(3) whether the (a) National Economic, Development and Labour Council (NEDLAC) and (b) Industrial Development Investment Centre in the Department of Trade and Industry is to play any role in this regard; if not, what is the position in this regard; if so, what role?

S266E

The MINISTER OF TRADE AND INDUSTRY: Mr President, clearly Senator Marais is working. I wonder whether he worked as hard when he held the portfolio in Trade and Industry. [Interjections.]

(1) There was no monitor study, as suggested by the question. What was done was a study by an international consultancy, the Monitor Group—it is a different thing, I do not know of a monitor study—which assessed the country's strengths and weaknesses using Michael Porter's Cluster Model. The study revealed that the existing structure of the South African economy was consistent with that of a country with relatively high levels of tariff protection—we will not say whose fault that is—and one that had been adversely affected by international sanctions, both of which restricted access to international markets. In other words the market in South Africa had been hindered by a number of exogenous factors.

These factors created an industrial sector characterised by broad production ranges in companies and relatively shallow industrial clusters with relatively small production runs. These findings suggested that in order to attain full international competitiveness, one of the objectives of the Reconstruction and Development Programme, there was a need for substantial restructuring of industry in South Africa. The report highlights a number of factors that are useful and that can be considered for future economic policy formulation. A number of initiatives which address some of the basic economic deficiencies have already been implemented (though not necessarily as a result of the Monitor report, which in certain instances confirmed other analyses of the economy). Examples are the relaxation of exchange control, the down-phasing of import duties and the further dismantling of import and export control to strengthen market forces operating in the economy.

(2) Yes. The Monitor study examined the South African economy at the end of the sanctions era and identified a number of distortions and structural deficiencies. The current actions of the Department of Trade and Industry and other Departments are aimed at addressing these issues, principally by the development of a range of supply-side support measures for new industry establishment, industry restructuring, and small business development, among others. The purpose of these measures is to improve the internal and external competitiveness of industry in South Africa and to raise the employment potential of the economy as a whole. It is expected that the envisaged new measures will be funded by internal reallocations of the Department of Trade and Industry budget, while there will also be greater responsibility placed on business to improve their own performance.

(3) (a) and (b) Yes. The envisaged supply-side measures are being developed in conjunction with NEDLAC. The Industrial Development and Investment Centre of the Department of Trade and Industry as well as a number of other Directorates in the Department of Trade and Industry on a continuous basis develop and administer industry development and support programmes. Indeed the Department of Trade and Industry in its entirety is devoted to supporting healthy business development as a key element in attaining the goals of the RDP. The creation of a business-development friendly environment and providing support for business development is the business of the DTI. The changed circumstances brought about by the reintegration of South Africa into the international business community both permits and necessitates the development of support measures that are in keeping with the changed circumstances South African business has to operate in. As stated, proposed measures are being developed in consultation with NEDLAC as well as other role-players, taking into account the findings contained in the Monitor report on the competitiveness of South African industry as well as other inputs.



**Proposed steel plant at Saldanha: retrenchment of workers**

*5. Sen Dr G W KOORNHOF asked the Minister of Trade and Industry:†

(1) Whether an investigation has been done to determine whether the development of the proposed Iscor steel plant at Saldanha may result in the retrenchment of workers at Iscor's steelworks at Vanderbijlpark; if not, why not; if so,

(2) whether his Department has consulted with Iscor in this respect; if not, why not; if so, what are the relevant details?

Hansard 17/8/95 S267E

The MINISTER OF TRADE AND INDUSTRY:

(1) No. Iscor is currently upgrading the Vanderbijlpark plant with the latest technology and as a result of this upgrading process, which will increase Iscor's international competitiveness, a number of jobs will be lost, sad as it may be. The Saldanha plant will create new employment opportunities in an area which desperately needs job creation and an injection of economic activity.

(2) No. As part of the re-integration of South Africa into the international business community, many South African companies are in the process of repositioning themselves to take advantage of new opportunities in international markets and to secure their positions in the local market in the face of increased competition from foreign suppliers re-entering or entering our markets. The adjustments as well as the necessary introduction of new technologies will in certain cases lead to retrenchments in particular areas of industry.

These processes are an inevitable part of the restructuring of the South African economy in the post-apartheid era if we are to survive and attain full international competitiveness. The decisions surrounding the restructuring of companies are essentially matters that fall within the domain of company managements and their boards who do not necessarily consult with Government on such matters, nor does Government as a general principle intervene in such company decisions. I should point out that we do take account of broader society needs, as I have indicated in my response to the question on the textile and clothing sector. We certain try and ensure that such companies are pressurised to retrain workers for rapid re-absorption elsewhere. Nevertheless, ongoing contact is maintained with our principal steel producer, Iscor, with a view to converting more of our iron ore to steel before export and to the creation of downstream jobs in the steel fabrication industry.

**Jobs created under National Public Works Programme**

*10. Sen W F MNISI asked the Minister of Public Works:

Whether any jobs have been created under the National Public Works Programme; if not, why not; if so, (a) how many, (b) what jobs, (c) how many more jobs does his Office intend creating under this programme, (d) what kinds of jobs will be created and (e) what process will be used to select persons for these jobs?

S272E

Hansard 17/8/95

CT 18/8/95

# Small rise in employment

(180)

PRETORIA: Employment in the manufacturing industry increased by 0,6% and in the construction industries by 1,8% from January to February this year, Central Statistical Services reported yesterday.

The manufacturing sector gained 8 552 workers between January and February and 6 394 more workers were employed in the construction sector.

Sapa, Special Correspondent

# Mbeki challenges SA to produce 'modern' goods

(180)

**BY JOVIAL RANTAO**
POLITICAL REPORTER

Deputy President Thabo Mbeki yesterday challenged South Africans to produce "modern and sophisticated manufactured goods", and to provide services that could "compete with the best in the world".

Addressing the first SA-Malaysian Business Forum at Sun City, Mbeki said overcoming the challenge required new investment systems, trained workers, good marketing, the easing of market entry for competitors and a willingness to take risks — especially in the context of the world economy's globalisation.

He said: "South Africans should free themselves from the tyranny of continuously declining commodity prices, break loose from the mesmerising glamour of diamonds, gold and platinum..."

Mbeki said there were two features of the SA economic reality which were both a challenge and an opportunity.

"One of these is the great gender-based imbalances in wealth, income and opportunities which exist in the country. Clearly, we could never claim that we have achieved a non-racial, non-s 'st and democratic society unl and until we have addressed 3 imbalance. That is the chall ge we face."

Mbeki added that given SA's assets and endowments, it was clear that the principal obstacle to the success of the country and its people was the system of apartheid "as well as a myopic and Eurocentric view, which saw SA merely as a provider of raw materials to the northern hemisphere".

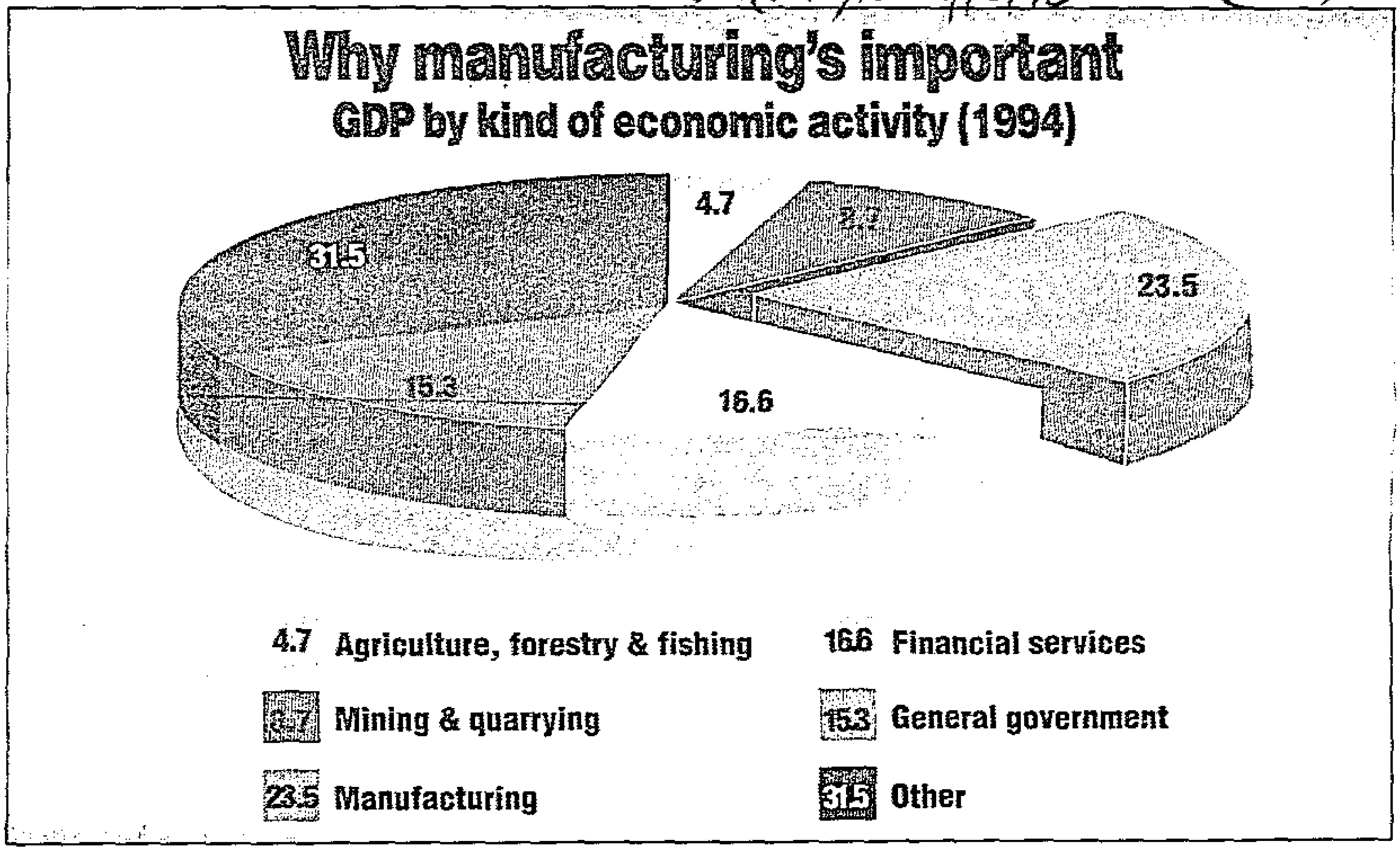
He encouraged the 260 visiting Malaysian businessmen to enter into joint ventures with local black business people.

Star 23/8/95

# Local firms try for World Class status

WM(MM)18-24/8/95 (180)

*Some South African manufacturers are going World Class, finds* **Anton Grütter**




Manufacturing contributed a hefty 23,5 percent to the economy in 1994 — more than any other single category

AT least some South African companies have taken up the challenge of being internationally competitive, a Japanese authority in the field of World Class Manufacturing (WCM) has found

Far from finding a devastated industry, Takeyuki Furuhashi from Chu-San-Ren, a Nagoya-based industry consultancy service, was impressed with the attitude of the people in some of the South African companies he visited.

He commented on how hard they were trying to solve problems, to establish an Africanised way of management, and to upgrade the level of our companies' competitiveness in the world market.

Indeed, a preoccupation with the notion of being "World Class" is evident among industrialists. South African industry is struggling to cope with increased competition as foreign companies enter our market and protective barriers are lifted. On the measures used by the World Competitiveness Report our economy features a lowly seventh-last out of 41 countries around the globe.

It was to try to contribute to the building of a healthier local industrial sector that the Manufacturing Roundtable at the University of Cape Town Graduate School of Business asked Furuhashi to conduct a series of workshops. In preparation, he conducted a fact-finding mission to several local manufacturers.

There is a crucial difference between the locally popular view of WCM and the way Japanese industrialists view it. Rather than seeing it as an end in itself — to be the world's best manufacturer of a particular kind — they see WCM as a never-ending journey of continuous improvement.

Rather than relying on protection or natural competitive advantage, a Japanese company on the world-class quest will start a process of improvement and rely on the benefits of improved quality, responsiveness to customer needs, and cost-effectiveness to carve out a niche in its market. Ultimately such a process can lead to that company becoming a world leader.

Also, the preferred starting point is on the factory shopfloor rather than in the offices of technical experts. In this way the people who actually produce can contribute to the improvement process.

These people need to be trained in the thinking and methods that have become famous for underpinning the success of Japanese industry.

The emphasis of these methods is invariably on simplicity and rapid feedback to the worker directly involved. Features like these make the approaches particularly appropriate for the democratisation of the South African workplace.

Indeed, evidence of this approach was found among some of the manufacturers visited. Each had a different variation on the theme depending on industry and circumstances, but the basic principle of incremental continuous improvement was to be seen among all of them.

At rapidly growing industrial electronics manufacturer Plessey Tellumat the focus is on rapid product changes and short delivery times to satisfy the demands of the company's particular market. Accordingly the shopfloor has been reorganised as flexible production lines that can be easily adapted to the manufacturing requirements of a new product.

At the South African Breweries plant in Chamdor the biggest challenge was to improve the quality of the round-the-clock, but largely invisible, process of fermenting beer. Employees at the plant were delegated to improvement teams, trained in group problem-solving techniques and given the equipment to do simple quality testing themselves while on shift.

The charts proudly displayed on the brewhouse walls attest to the unmistakable improvements in the chemical processes which occur during the brewing process. And they happen to start showing those improvements as the team's recommended changes took effect.

Diversified packaging manufacturer Nampak has launched a major initiative to familiarise people in their plants with WCM implementation approaches. Due to the wide variety of manufacturing processes employed by the different plants in the company, Nampak has taken the route of "transferring learning" to people at various levels in the company so that they can then implement improvement initiatives as appropriate for their particular plant.

True to the principle of avoiding the increase of head office experts, the Nampak College is a networking and mentoring concept which mushrooms when delegates are in formal training. When they are back in their factories working on improvement initiatives, the trainers switch to mentoring roles and continue the training process on the shopfloor.

In contrast, at the Chloorkop plant of National Chemical Products there is no high profile WCM programme. Some years ago the company embarked on an initiative to develop "creative dissatisfaction" among its employees. At one of the units in the plant it led to the teams working shifts on the chemical plant starting their own improvement initiative.

Having been exposed to the Japanese way of thinking from sourcing their production technology from Japan, they developed a method of recording deviations from standard best operating practice in the plant. Analysis and problem-solving by the team followed and has resulted in slow, but steady improvement. Now the company wants to roll this home-grown method out into other parts of their plant.

These companies have started their own unique way of improving their manufacturing performance. To be sure, they are only the few among many companies in South Africa that may not even have heard of WCM, much less taken the first step on the road of continuous improvement. But that there are South African companies that have taken the bit between their teeth augurs well.

As Furuhashi pointed out to us, the Japanese industrial resurgence started when they implemented their Reconstruction and Development Programme after World War II. Contrary to conventional wisdom, they too had to struggle to achieve broad consensus from the major interest groups in their society before they could implement their improvement programmes. But, once they got going, they did not stop until they were the world's leading manufacturers.

Anton Grütter is a research associate of the Manufacturing Roundtable at the University of Cape Town Graduate School of Business

# SA not competitive enough, says Stals

(186) Stan 29/8/95

**FROM SAPA**

The South African economy is not competitive enough to maintain an economic growth rate at a level high enough for its own needs, Chris Stals, the governor of the Reserve Bank, said yesterday.

Stals told a meeting of the Northern Transvaal Chamber of Industries in Pretoria that far-reaching structural reforms were needed to increase the country's current growth rate of about 3 to 4 percent a year.

One of the major problem areas was the labour market "where relatively high wages combine with relatively low productivity to create an extremely high average unit labour cost for every unit of production delivered by SA industries, mines or farmers".

Stals suggested that better living conditions, education, training and health care would contribute to the improvement of human resources. It was also necessary to lift the savings of the South African community to a higher level, particularly in the personal sector.

It was obvious, Stals said, that the country needed to make itself less vulnerable to balance of payments constraints by increasing exports.

# SA 'hampered by controls'

(180) CT(BR) 30/8/95

By Audrey D'Angelo

Cape Business Editor

Exchange control hampers South African manufacturers by preventing them from relocating unprofitable operations to cheap labour areas in Asia, says Doug de Jager, the executive chairman of the Lenco group.

De Jager said at the group's AGM yesterday that the high transport and raw material costs made it impossible for some industries in South Africa to compete with foreign manufacturers, particularly when exchange control kept the rand artificially high or when goods were "dumped".

It was not a question of productivity, the only answer for manufacturers in these industries was to relocate their operations to countries such as India and China as competitors on the Pacific Rim had done.

# Measures 'will benefit restructuring industries'

**John Dludlu**

INDUSTRY should not expect vast supply-side measures from the state as the proposed measures would be for a relatively short period to put firms on competitive path, trade and industry department industry and technology strategy chief director Alan Hirsch said yesterday.

The proposed measures, to be tabled at the National Economic, Development and Labour Council (Nedlac) for discussion, would target industries which were being restructured. The package would be a mixture of new and old measures, helping firms with training, human resources development, technology enhancement and investment, Hirsch said.

He denied claims that there were serious differences among key government departments on how the measures were to be financed. They would be financed from savings made from the controversial general export incentive scheme and the Industrial Development Corporation's finance facilities, he said.

The measures were tabled before Nedlac's trade and industry chamber more than a month ago. Discussion on them has been postponed by Nedlac's government team at least three times.

Of the delay in putting the proposals to labour and business partners in Nedlac, Hirsch said government representatives wanted to ensure the proposals had the support of the finance and trade and industry ministries.

"It would be irresponsible of us to unveil the document before the ministers have studied the proposals."

The Financial Mail reported yesterday that government had paid out industrial investment incentives worth R1,7bn in the past three years. A further R839m had been made available for this year.

Trade and Industry Minister Trevor Manuel has asked for a review of regional industrial development programme incentives. (180) BD 3/8/95

REGIONAL DEVELOPMENT

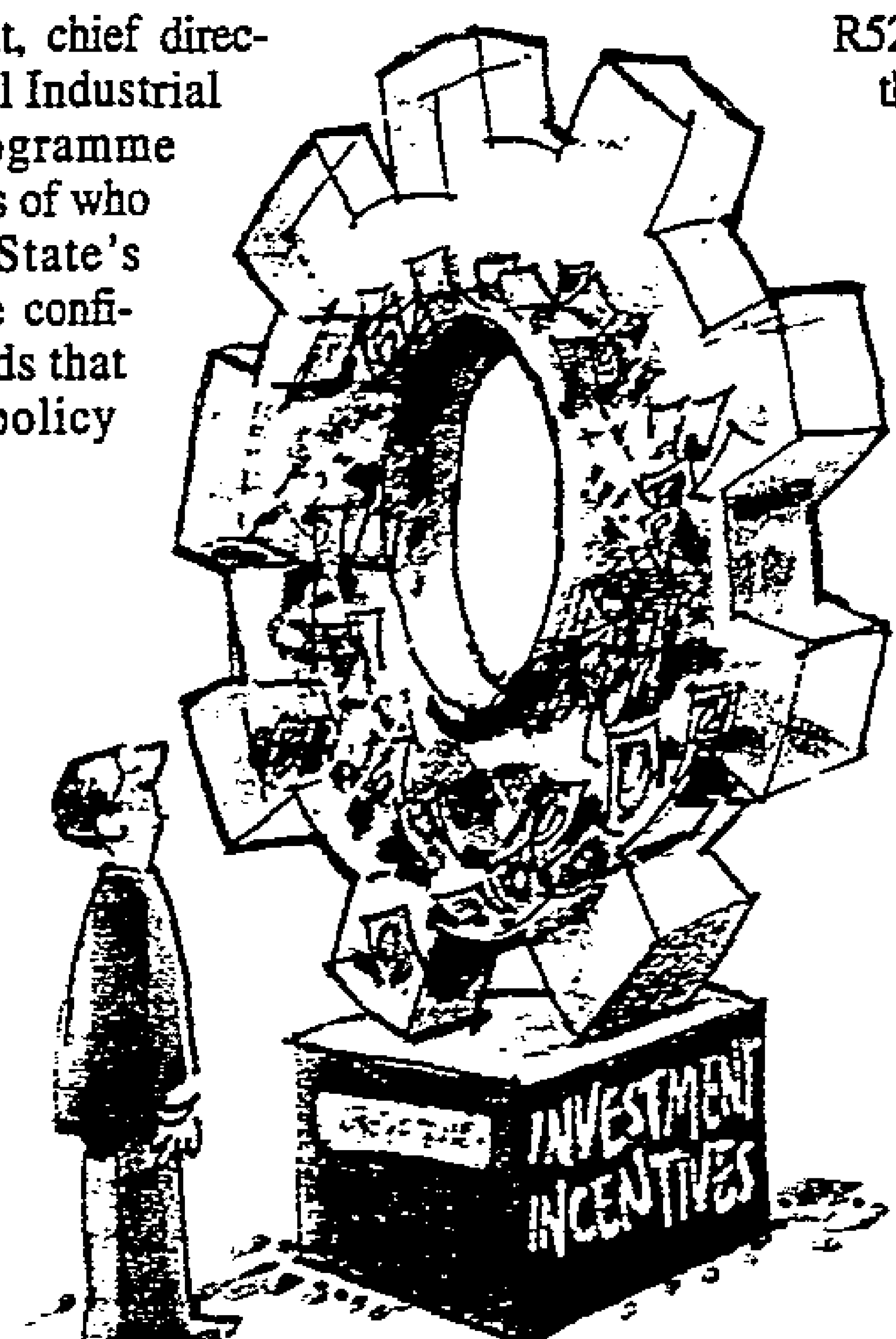
# Where's the incentive cash going?

FM 1/9/95 (180)

**Industrial investment** incentives worth R1,7bn have been paid out by government in the last three years — but no-one is saying where the money went. With another R839m available for this financial year, calls are growing for greater transparency about how the money is spent.

The National Economic, Development and Labour Council (Nedlac) is probing a possible new package of measures for industrial investment in SA.

Johann Reinhardt, chief director of the Regional Industrial Development Programme (RIDP), says details of who has received the State's huge incentives are confidential. But he adds that this closed-door policy may change.




Wolfgang Thomas, executive of Cape Town-based Wesgro, a private-sector investment body, says there are suspicions that large corporations benefit most from the RIDP incentives. If so, it would mirror the recent disclosure on general export incentive scheme (Geis) payments, which revealed that Iscor was the single biggest beneficiary, with R500m in incentive payments over the past three years.

Thomas says greater clarification is needed, especially as Nedlac has appointed developmental experts — funded by the Japanese Grant Fund — to investigate the current programme.

The Nedlac investigation will also look at new supply-side packages to assist both local and foreign investors.

"The Nedlac Trade & Industry Chamber is now waiting on government to indicate its fiscal priorities and preferences regarding a new supply-side package," says SA Chamber of Business (Sacob) economist Keith Lockwood. "Only when it shows its hand can serious debate commence, as there are many hundreds of alternative supply-side measures that could be discussed."

Carry-over payments under the old Schedule 3 decentralisation programme, abolished in 1991, totalled R1,3bn — R627m in 1992-1993, R477m in 1993-1994 and R199m in 1994-1995. During the same period, so-called Schedule 4 RIDP payments totalled R388m — increasing progressively from R41m, to R133m and then to R214m.

The 1995 figure of R839m is comprised of R312m under the old scheme, as carried out by the Board for Regional Industrial Development (Brid), and R527m budgeted for under the RIDP.

But questions are now also being raised as to the veracity of some of the RIDP statistics furnished by Brid. According to Reinhardt, local projects approved (and incentivised) by Brid over the past four years encouraged R15,1bn in private-sector investment. KwaZulu-Natal benefited most, with projects worth R5,8bn approved; next was the Eastern Cape (R3,96bn), Western Cape (almost R3bn), Mpumalanga (R990m) and North-West Province (R544m).

Reinhardt says the Brid figures are accurate, based on the assets of applicant firms and backed by audited balance sheets.

But, with the RIDP now being scrutinised by Nedlac as instructed by Trade & Industry Minister Trevor Manuel, the big question remaining is if its funding is being effectively spent to promote industrial development. With luck, Nedlac's investigation will come up with some transparent answers. ■

# Economist mocks SA's emerging market label

CT (BR) 4/9/95 (180)

By Roy Cokayne

Pretoria Business Editor

Cyclical growth in the South African economy remains confined to a level of mediocrity that makes a mockery of the country's claims to be the latest emerging market, an Investec economist says.

"Dogged by structural constraints that prevent the economy from realising its underlying growth potential, comparisons between South Africa and other emerging markets have become increasingly odious in recent months, both in relation to the fundamentals of growth as well as to comparative macroeconomic stability," says Carole Mason, the group economist of Investec, in its latest quarterly Focus On The Economy.

She said she was concerned about the apparent insouciance of the domestic authorities.

"Their ongoing indulgence in a reverie that direct foreign investments will inevitably come South Africa's way independently of any active means on their part to attract it is both arrogant and misplaced.

"If South Africa is ever to entertain ideas of replicating the economic performance of other emerging markets in both Asia and Latin America, aggressive supply side reforms — such as, privatisation, meaningful reduction in the budget deficit, the introduction of a competitive and incentive orientated tax regime, rapid moves towards capital account liberalisation and the active promotion of exports — are the baseline prerequisites which international investors have come to expect."

Mason said the economy could only expect to move into a higher growth trajectory, from which more active and visible redistribution would be possible, when the country began to receive long-term capital flows on a sustained basis.

She said emerging markets had once again begun to find favour with international investors.

The shock effects of Mexico's experience have begun to wear off and the recent decline in American interest rates suggest the need to obtain higher returns elsewhere.

"South Africa must now aggressively seize the opportunity to seduce long-term capital and prove that its relative attractiveness is not just a flash in the pan phenomenon," she says.

Mason said although recent economic evidence had been mixed, it would be premature to call into question the durability of the present upswing.

However, she said concern should be expressed about the expected magnitude of growth this year.

"At an anticipated 2,8 percent in 1995 and some 3,5 percent next year, the largely humdrum nature of the cyclical upswing once again makes it clear that South Africa will be no further down the road towards meaningful redistribution this year than it was last year, with little prospect of 1996 proving dramatically different.

"Indeed, should the need for further monetary policy tightening become apparent in the months ahead, the economic cake will simply not be able to accommodate increased demands and redistribution will be confined to crumbs, not slices."

Mason said although the domestic economy undoubtedly suffered a loss of momentum in the opening months of this year and the outlook for the remainder of this and next year remained clouded by the possibility of further increases in interest rates, overall growth performance was expected to remain largely on track.

She said it would be helped by, among other things, the ongoing access to international capital and strengths in non-traditional sources of economic growth, such as tourism.

Mason said the fact that business confidence remained reasonably robust also augured well for the relative sustainability of the economic upswing.

# Time is right for 'buy South African' campaign

CT (BR) 5/9/95 (180)

By Françoise Botha

Staff Writer

Local confidence in South African manufactured goods is running high, boosting the likelihood of the introduction of an intensive "buy South African" marketing drive, according to a Gallup poll.

The survey, conducted by the Markinor research group across an almost equal distribution of the population in all nine provinces during May, showed that more than half (54 percent) of those interviewed would buy locally manufactured clothes, materials and household textiles.

Only 18 percent said that they would prefer to buy textile goods made in the United States.

Of the 510 respondents, 34 percent showed a preference for electrical goods made in South Africa, while only 36 percent showed support for goods made in Japan.

"This is not a big difference. It tells you that there is strong support for developing an electrical industry in South Africa," said Mari Harris, the accounts director at Markinor.

German electrical goods were rated third, getting 11 percent of the vote and American goods fourth at 8 percent.

The survey findings indicated that 35 percent of South Africans would purchase a locally manufactured car, while 30 percent indicated a preference for German cars.

Support for Japanese cars was found from 22 percent of those interviewed and American cars, only 8 percent.

"These figures show that a wave of support is sweeping the country.

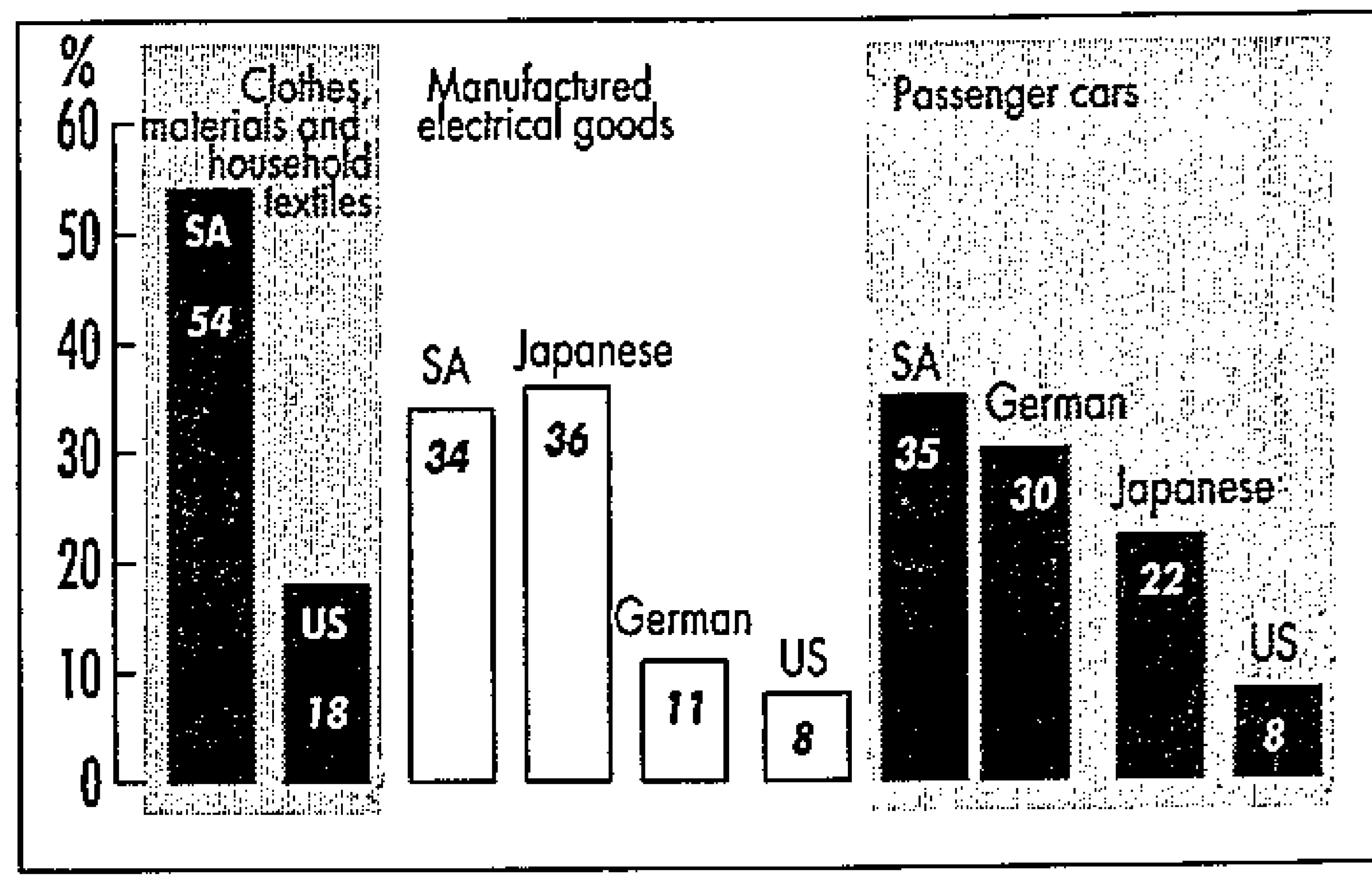
"The timing is right for the launch of a marketing drive supporting local products," Harris said.

Commenting on similar projects that had been launched in South Africa in the past, Johann Louw, the chief economist of Sanlam, said the problem was that a large percentage of imports were capital goods.

"It's hard to tell, but it may be that we can still import cheaper than we can produce locally, especially with the phasing out of import duties.

Speaking about the reconstruction and development programme, Harris said a government or private sector marketing initiative could play a major role in growing local markets and stimulating job creation.

**Confidence levels for South African goods**



# Uncompetitive SA slips in world survey

BD 6/9/95

**Mungo Soggot** (180)

SA HAS slipped seven places to 42nd in the annual competitiveness survey of 48 countries conducted by the Swiss-based International Institute for Management Development and the World Economic Forum.

SA scored badly on most criteria, coming 42nd in domestic economic strength, 43rd on internationalisation and rock bottom in the "people" category which looked at workforce attitudes, quality of life and unemployment. Management was ranked 35th and government 38th — a slight improvement from last year based on a positive perception of the transition.

However, the report said SA's fall was not entirely due to a poorer showing as five new countries, all ranked higher, had been included. SA had again managed to get "respectable" number 20 and number 19 spots in finance and infrastructure.

The US was again in top spot, followed by Singapore. Japan dropped one place to fourth and Hong Kong was third. Russia came last, but offered enormous potential.

World Competitiveness Project director Stephane Garelli said: "Asia continues to be the powerhouse of the world economy. East Asia has displayed staggering growth and has been almost untouched by the past economic recession. Japan, however, seems set to continue to suffer from a crisis which is at least as much social and political as economic."

Garelli said the revival of US competitiveness stemmed from three factors: its deregulation and privatisation programmes; leadership in new technologies; and strict control on labour costs. "The US model has a high social cost with the risk of destabilising certain sectors of society."

The report said SA's dismal people category showing emphasised the need for a "long-term outlook on certain ways of

Continued on Page 2

# SA slips (180)

Continued from Page 1

BD 6/9/95

boosting competitiveness". Economists said it reflected the massive sociopolitical constraints on productivity.

Investec group economist Carole Mason said it would take about a generation to address the major constraints hindering meaningful productivity gains.

Boner & Freemantle chief economist Gad Ariovich said what was pleasantly surprising was the relatively sound 28th place in the science and technology measure. But government was not acting fast enough to put through short-term measures to boost productivity. It should scrap exchange controls immediately and cut tax rates instead of resorting "to convenient political measures like the reconstruction and development programme. Scrapping exchange controls is one of the less bitter pills we are going to have to take." In the long term, the recipe for improved productivity was [illegible]cation, education and education".

Ed Hern Rudolph chief economist Nick Barnardt said SA's poor 42nd ranking on internationalisation was probably out of date as the political transaction had led to much progress on this front.

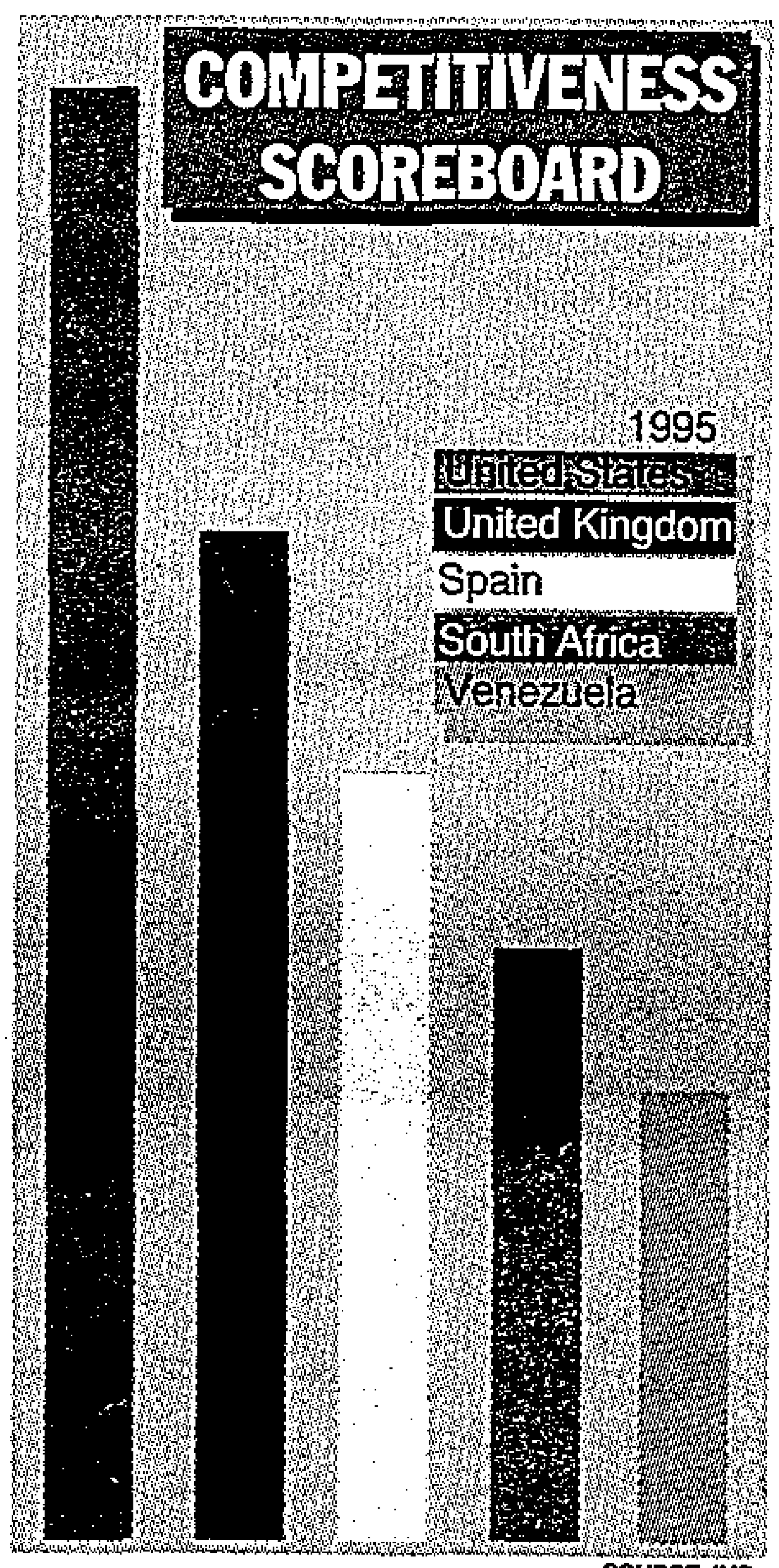
WORLD COMPETITIVENESS (780)

# Swimming among sharks

FM 8/9/95

**SA has turned** in a dismal performance in terms of its international competitiveness — it has slipped seven positions to 42nd in the 1995 World Competitiveness Report's rankings.

Once again the US leads the field as the world's most competitive economy. But Japan, in third place for several years, has yielded that position to rival Hong Kong



SOURCE: IMD

and has fallen to fourth place.

With the change in government, business leaders had expected a better showing from SA. But consultant Paul Hatty who compiles the local data for the International Institute for Management Development in Switzerland, says the new government's policies are not being implemented fast enough to make a difference. Besides, he says, most of the data reflects the situation which pertained in 1994.

This is the third year in succession that SA's rating has fallen. One explanation is that five new countries — Egypt, Iceland, Israel, Jordan and Peru (all rated higher than SA) — entered the rankings for the first time this year.

Still, SA's poor showing in the people resources category (it was ranked last, behind even Russia) and government (slightly up on last year at 38th) is cause for concern.

Says Hatty: "It just shows how totally uncompetitive as a country we really are. That's not to say that there aren't some niches where we can still be competitive. But, overall, we are not a very competitive economy."

The chances of changing SA's rating in the short term are slim. But, nevertheless, executives remain generally optimistic. Asked where they would rank SA in the year 2030, most put SA in 15th place.

Which merely goes to show that there's plenty of room for improvement.

❑ Prof Stephane Garelli, director of the World Competitiveness Report, will be in SA in November to present his report's findings. His first presentation will take place at the Business School in Cape Town on November 1. A second workshop will be held the next day at Unisa and a breakfast presentation is being planned in Johannesburg on Friday, November 3. Sponsors are IBM, the National Productivity Institute and the *FM*. For further information contact Felecia Burns tel (012) 341-1470 or fax (012) 441-866. ■

# French Africa turning to SA

By Audrey D'Angelo

Cape Business Editor

CT(BR) 14/9/95

Countries in French-speaking Africa which formerly bought from France and other European countries are realising South African products are more competitively priced and this country can offer technology more suited to their needs, says Sadikou Ayo Alao, president of Gerrdes Afrique, an international research group focusing on democracy and economic development in Africa.

He said his own country, the Republic of Benin, offered opportunities for investment in factories where local raw materials such as cotton could be processed to serve the markets of West Africa including Nigeria. (180)

Although poverty levels in these countries were high there were wealthy people who could afford consumer goods.

Tax incentives were available to investors providing jobs.

Alao said Gerrdes Afrique could offer advice and information on investment in Africa. Its headquarters were in Cotonou, capital of Benin, and it was represented in 32 African countries.

# 'Revisit production patterns'

(180) BD 19/9/95

Michael Moon

PATTERNS of production in the manufacturing sector needed to be re-examined to achieve sustainability, Deputy Environment Affairs Minister Bantu Holomisa said yesterday.

Opening the Institute of Purchasing congress in Midrand, he said current processes involved the intensive use of inputs such as energy and water with little regulation.

SA consumed about twice as much energy to produce each unit of national output than the US, and four times as much as Japan.

Long-term supply contracts between energy companies and uncompetitive industries, together with preferential rate given, would have to be re-examined.

Regarding water consumption, low prices and the absence of appropriate regulations or incentives meant manufacturers generally reused or recycled very little water utilised in production processes, said Holomisa.

Another challenge facing industry was to enhance packaging and recycling capability to try to eliminate problems of waste disposal, pollution and inefficiency. Penalties were needed to persuade companies guilty of pollution to take remedial action.

But South Africans should be made to understand that economic activity meant the exploitation of natural resources to produce goods and services and this produced waste which was deposited back into the environment.

SA's biggest challenge was to reassess and, if necessary, redirect investment priorities to ensure institutional mechanisms worked together to meet basic human needs.

The reconstruction and development programme emphasised that economic activity should focus specifically on eradication of poverty, which would in turn lead to a decrease in environmental degradation.

Unsustainable patterns of consumption by the more privileged sectors of society also had to be addressed.

Economic activity should change, from seeking to achieve high growth at all costs, towards achieving rational exploitation of national assets.

the group, in its recommen South Africa

# Manufacturing shows strong growth

CT(BR) 19/9/95 (180)

BY DEREK TOMMEY

MINING EDITOR

The manufacturing sector is experiencing strong growth. The Central Statistical Service's figures show that the volume of manufactured goods produced in July was 9,7 percent higher than a year ago and if the contribution of the former TBVC states was included, the growth in output would jump to 11,8 percent.

This is part of a steady trend that has developed in this sector. In the three months to the end of July, the physical volume of output was 12,0 percent ahead of last year.

An analysis of the different manufacturing divisions indicates that the growth is being fuelled by a sharp rise in the demand for motor vehicles, export demand and the local boom in new capital investment.

The biggest growth in output was experienced by the motor vehicle sector, where the value of output, compared with last year, rose R467 million or 19,4 percent to R2,88 billion.

But hard on its heels was the basic iron and steel sector with a rise of R462 million or 38,1 percent in production to R1,67 billion.

Other sectors showing substantial higher production included paper products (33,9 percent), non-metallic minerals, excluding glass, bricks and cement (22,4 percent), rubber products (22,4 percent), and industrial chemicals (24,5 percent).

# Job creation lags upsurge in economy

(~~173~~)

BY DEREK TOMMEY

CT(BR) 19/9/95

The upsurge in the economy is failing to generate a significant increase in jobs in the manufacturing and construction sectors, figures issued by Central Statistical Service show.

The manufacturing sector hired an additional 9 154 workers in the first three months of this year bringing to 1 419 131 the number of people employed in the sector.

Employment in the construction sector also increased, with the number rising by 10 524 to 365 638.

But employment in the electricity sector dropped by 123 to 39 637, and between December and February there was a net loss of 10 646 jobs in mining, the number employed there falling to 589 973.

The service report indicates that the number of jobs in the four sectors rose 1 018 to 2 416 598 in the first two months of this year.

However, since early 1990 the manufacturing sector has shed more than 120 000 jobs.

CT(BR) 19/9/95

# 'Port conditions must improve'

BY JON BEVERLEY (~~264~~)(74)

SPECIAL WRITER

CT(BR) 19/9/95

South African harbours can look forward to becoming an important transhipment base for ocean cargoes, Stephen Matthews, the supplements editor of Lloyd's Ship Manager said in Durban yesterday.

He was speaking at an international conference on shipping challenges and opportunities in South Africa.

Matthews said South Africa possessed several geographical advantages to allow it to become a regional hub for Africa and an international hub for services linking continents in the southern hemisphere.

But he warned that port conditions would be a key factor in turning these advantages into a viable development.

He was speaking against the background of the congestion in Durban and Cape Town when imports surged and labour troubles were encountered.

He said any review of the long-term development of ports should take the transhipment potential into consideration.

He said that if the major shipping lines started to use South African ports there would be a significant increase in traffic. Last year, Mediterranean Shipping transhipped 46 500 containers through South Africa, a large increase on 1993.

A feeder service from a central hub would be able to cope with the difficulties and delays found in the smaller ports.

He said it was generally recognised that while the ports had taken short-term measures it was "recognised that congestion will continue to be a problem until major new investment in facilities takes place".

# SA industry is still an 'infant'

(180)

Sello Motlhabakwe

BD 27/9/95

SA's industrial development was still in its infancy despite the supposed boost it had received from foreign investment, Colliers RMS industrial manager Peter Parfitt said.

It was evident, he said, that foreign companies at this stage still viewed SA as a new market for their goods and not as a place in which to invest and add value.

This opinion was based on the fact that the companies from abroad were signing up for industrial space and acquiring warehousing accommodation. They were not yet establishing manufacturing operations, he said.

A 4 000m² warehouse was of less value to SA than, say, a large manufacturing plant, and the staff it needed. "Capital investment is critical to our future," he said.

# SA to gear up for global challenge

(180)

John Dludlu

BD 29/9/95

SA HAD to broaden its manufacturing base and upgrade its technology, to meet the challenges of the global economy, Trade and Industry Minister Trevor Manuel said yesterday.

Manuel was addressing a UK/SA government-to-government symposium at Midrand's Gallagher Estate.

An integral part of the reconstruction process, he said, was that national firms needed to reorganise their production processes and to develop their human resources.

"This is the task that we have given ourselves. If we are to meet the challenges of the global economy, SA must become competitive and ... to become more competitive we have to concentrate on technology upgrades and work at reorganisation."

Manuel said this goal had — to an extent — been achieved through joint ventures with British firms and through increased SA investment by British industrialists.

He illustrated these links with the recent plans by National Westminster, a leading UK bank, to link up with two SA firms to create a new force in SA's financial sector.

"Rolls Royce and Land Rover are not waiting for better days. They have entered the SA industrial sector and have either already created niches for themselves or are in the process of doing so."

The involvement of British firms in the SA economy had shown a great deal of "heartening" confidence by UK investors "in our goods and services ..."

Turning to talks with the European Union, he thanked the UK for supporting SA's case to get better market access to Europe.

He told the conference that SA's objective at the talks would be to call for the removal of all existing discrimination experienced by SA exporters in new markets, due to SA's exclusion from the normal trading system.

Speaking at the same function, visiting British Trade Minister Anthony Nelson said that several countries adopted a "quixotic" approach to inward investment — they sent mixed signals, and had mixed feelings about inward investment.

The requirements for the flow of inward investment included a free market approach, liberalisation of markets and the creation of a good environment for investors.

On British aid of £100m, he said that the priorities regarding where the money needed to be spent still had to be worked out.

Small business centre promotion chief director Alistair Ruiters said that the government's programme of action on small business development included black advancement, expanding the credit guarantee scheme, establishing export support strategies as well as the accreditation of training for small businesses.

# Promotion to buy locally made goods

(180) Star 3/10/95

BY PATRICK WADULA

An extensive campaign has been launched to promote support for locally manufactured goods and services among SA consumers.

Bayathenga 2000, meaning "They are buying," is an initiative brought about to get every South African involved, said chief executive officer Brian Sandberg, during the launch in Sandton recently.

The country's support for the consumption of imported goods had stagnated the economy and affected the ability of many South Africans to provide for themselves, he explained.

"More sophisticated economies and enterprises are tapping into our markets in search of increasing their own market shares," Sandberg said.

Through a massive subscription campaign and profit generating projects, Bayathenga 2000 hopes to involve as many as 100 000 SA businesses by the year 2000.

The campaign's objectives include stimulating national pride in all forms of SA enterprises.

Membership is open to any individual, organisation or enterprise, whether or not involved with production of goods and services.

Bayathenga will assist non-profit organisations and emerging businesses with annual membership fees by securing sponsorship through larger organisations.

# SA's manufacturers need a strategy against global industrial competition

(180) BD 5/10/95

Amanda Vermeulen

AN AREA of growing importance in the SA economy is manufacturing.

Trends emerging beyond the country's borders include developing a manufacturing capability which will allow local companies to dominate their markets.

Consultant Terry Hill said recently at a function dealing with issues pertaining to manufacturing that the emergence of industrial competition in the 1980s had intensified in the 1990s.

There were a number of interesting parallels between the British scenario and SA today.

Prior to the 1970s, the UK industry had been protected from competitive pressures thanks to its socioeconomic ties to the Commonwealth and its industrial heritage.

The UK's relatively unprepared system had left it vulnerable to increasing global competition, consequently the industry was significantly outperformed.

A key lesson arising from the UK example, he said, was the need for a well developed and thought out strategy.

Hill said many local companies still failed to develop a strategy which was coherent and well understood by all facets of business.

"The challenge for SA is to absorb the lessons learned by the UK, and develop its strategies to handle global competition" he said.

The problem experienced by the UK industry had been its failure to recognise the complexity and size of the global competitive threat.

"Added to this was the increase in global capacity, a scarcity of relevant skills among top management, and an obsession with short-term results," he said.

SA companies would have to learn to deal with these issues, Hill said.

"Companies have to develop structured strategies which will contribute to an internationally competitive business," Hill said.

**JOBS**

# Employment comes second as the economy goes back to work

ST(BT)8/10/95 (180)

**Higher productivity and improved competitiveness, rather than employing more people, have emerged as the top priorities of companies seeking to take advantage of a resurging economy, writes ZILLA EFRAT**

THE country's economic recovery is not creating employment because many companies are striving to boost their international competitiveness as import duties and surcharges tumble.

"As the economy picks up, companies are generally not increasing their staff levels as they normally do," says Martin Westcott, managing director of PE Corporate Services.

He says retrenchment levels remain high and a survey conducted by his company recently found that 16% of participants expect to retrench more people over the next 12 months.

The survey of about 800 companies employing around 1,5-million people found that national staff turnover levels — the percentage of staff leaving companies each year — in the 12 months to June was running at 8%, up from 7% in 1994 and 6% in 1993.

Retrenchment and dismissals account for 15% of these turnover figures.

Areas showing the highest levels of turnover were clerical and secretarial staff, followed by labourers and operatives and then artisan and skilled staff.

Neil Macdonald, managing director of Chart Career Transition, a career counselling service, says there has been a rise in retrenchments at middle and senior management levels as companies increasingly move to become more competitive by slashing staff levels and improving productivity levels.

This is in line with an attempt to compete against the flood of imports available at highly competitive prices because of reduced tariff protection and lower import duties.

"A great many high performing and well qualified executives are having their services terminated because of factors that are well outside of their control," says Mr Macdonald.

"Their employers may have benefited from protectionism — like the motor and textile industries — and must now go all out to become competitive with the ultimate aim of producing better priced, good quality products.

"They are introducing flatter structures by removing layers of middle management and this is leading to a reduction in the number of jobs available.

"It follows that business is asking top executives on high salaries to leave. For a senior executive used to being on the command side of the desk, finding alternative employment is frightening."

He says larger companies are increasingly using the services of career transition consultants to help their outgoing employees seek alternative employment. This is because they recognise they have a responsibility to provide more than a good retrenchment package.

Mr Westcott says many companies are using existing staff levels to produce more as the recovery takes hold. Companies are also looking critically at what people are doing and are often outsourcing certain functions.

PE Corporate Services has found that, despite the retrenchments, the percentage of organisations experiencing a shortage of certain skills in the 12 months to September was 34%.

The figure has steadily risen from 8% in the 12 months to April 1994, 14% in the year to September 1994 and 24% in the 12 months to April 1995.

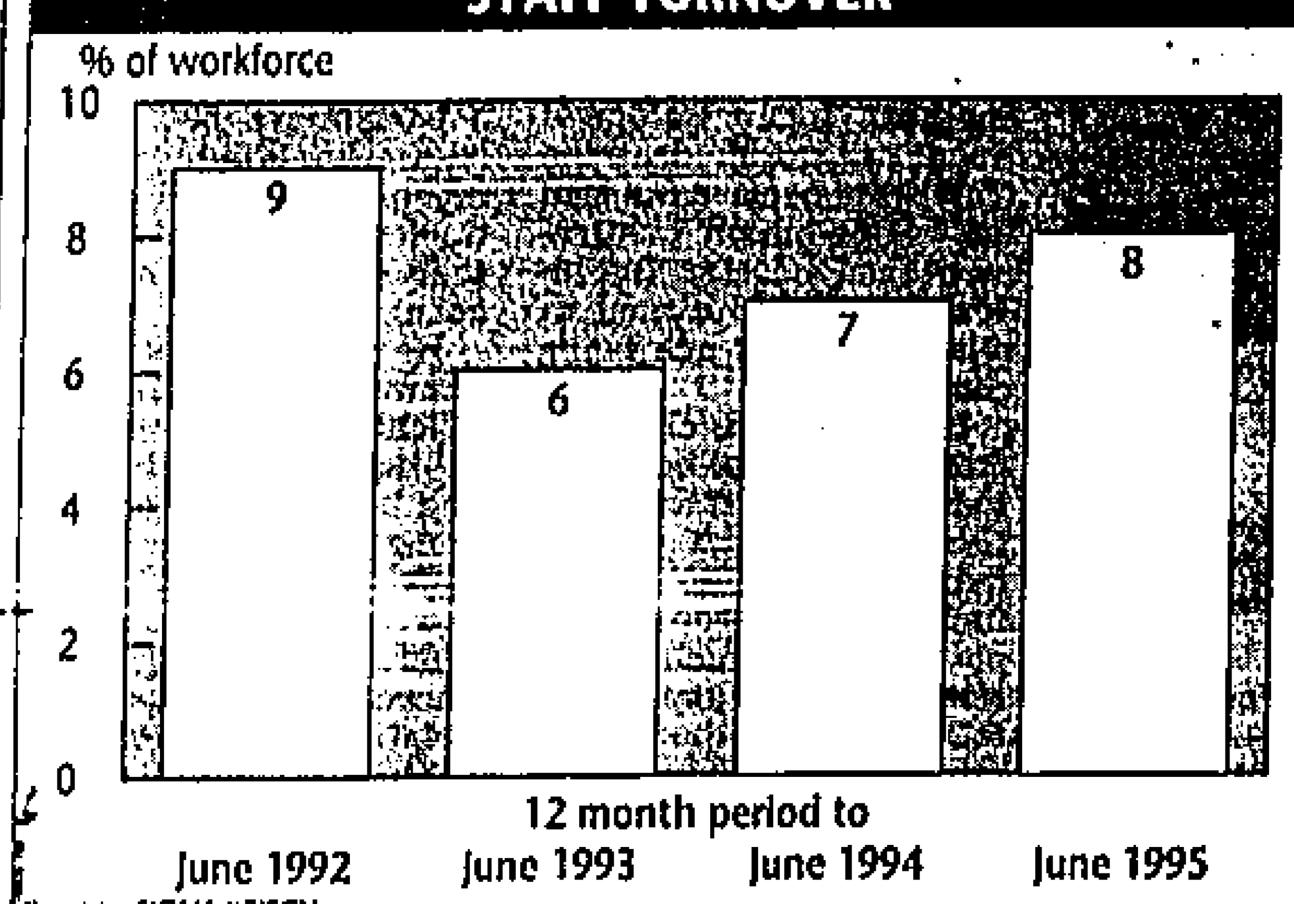
Mr Westcott attributes the rise in skills shortages to emigration, a lack of skills training during the recession and higher demand for certain skills as the economy improves.

The most acute shortages at present are to be found in the areas of specialist and professional staff, financial and general management skills and information technology skills.

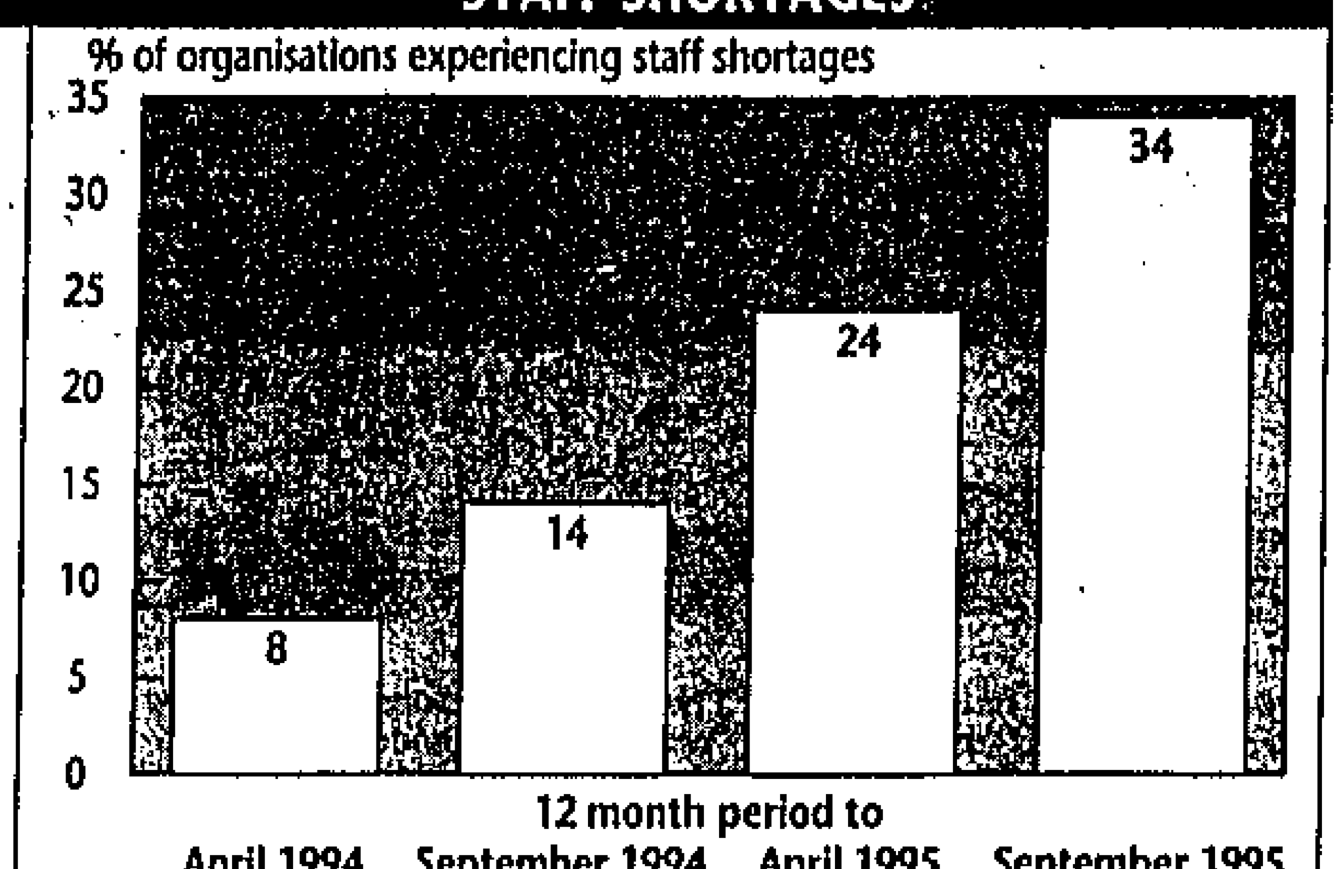
"As volumes pick up, companies which have downsized are increasingly turning to the temporary market to help them cope with an increased volume of work in peak periods," says Roland Brittan, managing director of Accountants-On-Call.

"The reason for this shift in thinking is that managers are reticent to increase their operating costs by re-employing or growing their staff base."

He says the use of temporary staff is up 75% compared with three years ago. The short- and medium-term division of Accountants-On-Call, which specialises in the temporary placement of financial and accounting personnel, has doubled and redoubled its turnover since April 1994.



Graphic: FIONA KRISCH



Source: P-E CORPORATE SERVICES

WORKING BRIEF: Martin Westcott of PE Corporate Services

# Improve input prices, says Manuel

(180) CT (BR) 9/10/95

BY FRANÇOISE BOTHA
STAFF WRITER

Industries needed to improve on input prices if they were to compete on international markets, said Minister of Trade and Industry Trevor Manuel in a call to manufacturers over the weekend.

Speaking at the opening of Consani's new stainless steel tank production facility in Cape Town, Manuel said there would be little point in having remarkable beneficiation facilities if producers depended on import-parity pricing.

"This might kill a venture before it even begins," he said.

He urged producers to face the challenge of turning South Africa into a high-wage, high-consumption, labour-absorbing and value-adding economy, and said that a rethink of dated methodologies was called for.

"We need new approaches to human resources development, work organisation, technology and issues of competitiveness."

Commenting on the approach used by Consani to gain access to international markets and become the world's largest manufacturer of tank containers with a 30 percent market share, Manuel said it was encouraging that some firms had taken the correct steps to gain comparative advantage.

These steps included fewer job grades, profit-sharing schemes and multiple shifts to extend capacity.

Manuel said these would be a requirement for achieving 6 percent sustainable growth and the creation of 500 000 new jobs each year.

# Improve input prices, says Manuel

(180) Star 9/10/95

**BY FRANCOISE BOTHA**

Industries needed to improve on input prices if they were to compete on international markets, said Minister of Trade and Industry Trevor Manuel in a call to manufacturers at the weekend.

Speaking at the opening of Consani's new stainless steel tank production facility in Cape Town, Manuel said there would be little point in having remarkable beneficiation facilities if producers depended on import-parity pricing.

"This might kill a venture before it even begins," he said.

He urged producers to face the challenge of turning South Africa into a high-wage, high-consumption, labour-absorbing and value-adding economy, and said a rethink of dated methodologies was called for.

"We need new approaches to human resources development, work organisation, technology and issues of competitiveness," he said.

Commenting on the approach used by Consani to gain access to international markets and become the world's largest manufacturer of tank containers with a 30 percent market share, Manuel said it was encouraging that some firms had taken the correct steps to gain comparative advantage.

# Falling PPI bodes well for economy

CT(BR) 13/10/95 (180)

From Sapa

August's year-on-year rate of increase in the producer price index — it tumbled dramatically to 7,8 from July's 9,0 percent — offers yet another positive augury for the South African economy following the 22-year low in September's consumer price index.

The Central Statistical Service reported that there was no month-on-month change in the producer price index when measured on a seasonally adjusted basis.

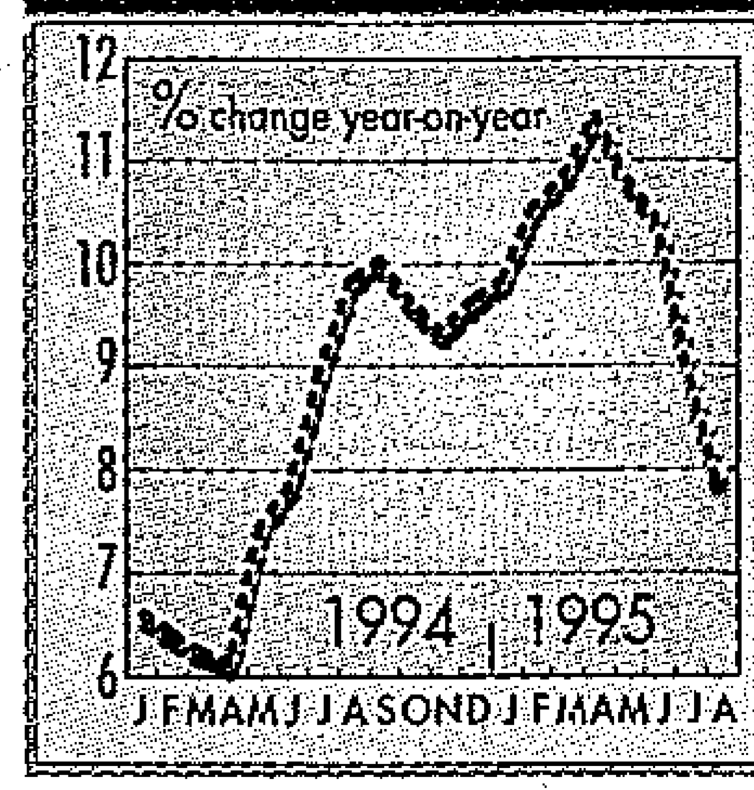
The decline in August follows a sharp 1,5 percentage point reduction on the 10,5 percent rise recorded on an annualised basis in June and April's 11,5 percent increase.

The PPI increase for imported commodities for South African consumption declined further to 5,8 percent, annualised in August from 6,4 percent annualised in July.

A seasonally adjusted 0,1 percent increase was recorded between July and August in the import component.

The PPI increase for locally produced commodities for local

**Producer price index**




consumption also fell to 8,1 percent, annualised in August from 9,5 percent annualised in July. A seasonally adjusted fall of 0,1 percent was recorded between July and August.

August producer inflation is at its lowest since May last year.

Last year, the overall PPI for South African consumption averaged 8,2 percent and in 1993, 6,6 percent.

Standard Bank's Nico Czypionka comments: "While food prices were a factor in keeping the rate of increase in producer inflation low, price pressures generally seem muted."

# THE COMPETITIVENESS OF NATIONS

(180)

FM 13/10/95

**Stephane Garelli,** an international expert on the competitiveness of nations, arrives next month to tell businessmen what it will take to make SA more competitive globally.

A professor at the Institute of Management Development in Switzerland, Garelli wrote the *World Competitiveness Report.* His latest effort, released last month, rates SA 42nd out of 48 countries.

He will hold workshops on the subject at the University of Cape Town's Graduate School of Business on November 1 and at Unisa in Pretoria the next day. He will summarise his findings on SA at a breakfast briefing in Johannesburg on November 3.

To attend, call Felecia Burns on (012) 341-1470 or fax (012) 441-866.

Next week, economics professor Ahmet Aykac will discuss the main global issues which businessmen face as they enter the next century. He will talk at Crown Plaza Holiday Inn, Rivonia, on October 18 and at a business breakfast at the Cape Sun on October 20.

Book through Rosemary Renton: tel (011) 783-8926 or fax (011) 783-7608.

The *FM* is co-sponsoring both events.

# Manuel warns 'pampered' companies

Trade and Industry Minister Trevor Manuel warned South African business yesterday that many "pampered and protected industries" would not survive into the next century.

Addressing the South African Chamber of Business' (Sacob) annual convention in Port Elizabeth, Manuel said with the global business trend moving toward fewer dominant companies, uncompetitive firms could be marginalised.

Manuel said the domestic economy was shaped by isolation and protection, and as a result was uncompetitive. "Too many of our firms are so sluggish, bland and so mediocre."

He said the government was engaged in the restructuring of South African industries in a bid to improve competitiveness, and would focus on marginal sectors, and those sectors with a static competitive advantage.

(180) Star 18/10/95

# Warning to 'pampered, protected' industries

(180) ARG 18/10/95

The Argus Correspondent

PORT ELIZABETH. — Pampered and protected industries which fail to re-position themselves strategically and shy away from competition — locally or internationally — will not make it into the next century, Trade and Industry minister Trevor Manuel has warned.

Mr Manuel, speaking on Prices, Wages and Competition at the SA Chamber of Business convention being held here, said a South African-built luxury car cost slightly more than a fully assembled, imported comparable luxury car which carried a 65 percent import tariff.

"Clearly there is something seriously amiss with pricing. As the tariff on autos decreases to the Gatt (General Agreement on Tariffs an Trade) binding of 40 percent, there is going to be a crisis."

He said this was characteristic of prices across the spectrum.

"The inefficiencies in South African industry which developed behind high tariff walls have thrown South African prices out of kilter when compared to the rest of the world. There is a need for urgent corrective action," he said.

Referring to competition, Mr Manuel said the global economy was a rough neighbourhood.

"While we are talking in South Africa of competition and competitiveness, the phrases 'super-competition' and 'global shake-out' have entered the lexicon of international business.

"The trend is for fewer firms to dominate key industrial and service sectors."

Wages were the most vexing issue in South Africa at present, he said.

Management salaries were pitched at Wall Street levels, ostensibly to offset the risk of professional mobility — and this had become the benchmark.

"It is this benchmark that is also used by unions in their wage neotiations. The most recent negotiations were aimed precisely at closing the wage gap.

"The global trend has been towards flattening the structure of companies and deleting a large chunk of job grades."

He said wages at the low end were being negotiated upwards towards the benchmark.

"At the moment, a general, entry-level worker in, say, a supermarket chain earns more than a graduate nurse with a few years' experience and an astounding 50 (percent) more than a policeman or woman.

"And we wonder why there are strikes in the public sector or a reluctance by the police to risk life-and-limb."

The wage conundrum restricted choices severely in industrialisation, Mr Manuel said.

A study had shown there were serious weaknesses in the economy and the way business was done in South Africa.

Firms failed to select particular items and produce them to economies of scale.

The study also found poor work organisation characterised by strict hierarchies, little confidence among workers at all levels, and a lack of innovation with low expenditure on research and development.

Mr Manuel called on industry to stimulate sustainable growth and development.

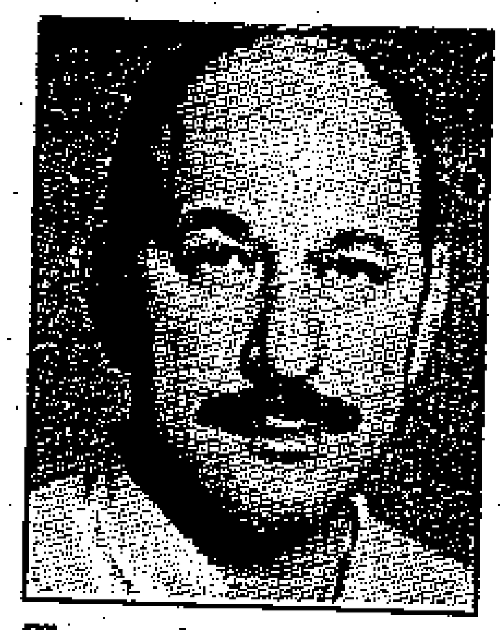
# Manuel warns 'pampered' SA firms of foreign threat

CT(BR) 18/10/95 (180)

FROM SAPA

Trade and Industry Minister Trevor Manuel warned South African business yesterday that many "pampered and protected industries" would not survive into the next century.

Addressing the South African Chamber of Business' (Sacob) annual convention in Port Elizabeth, Manuel said that with the global business trend moving toward fewer dominant companies in key industries, uncompetitive firms could be marginalised.



*Trevor Manuel*

Manuel said the domestic economy was shaped by isolation and protection, and as a result — was uncompetitive. "Too many of our firms are so sluggish, so bland and so mediocre."

He said the government was engaged in the restructuring of South African industries in a bid to improve competitiveness, and would focus on marginal sectors, and those sectors with a static competitive advantage.

Manuel said greater emphasis would be placed on promoting small, medium and micro enterprises, which in most successful countries, had become the "dynamos and generators of employment".

Cosatu general secretary Sam Shilowa told the Sacob delegates that the government and business had to address the entire salary structure, including that for nurses and teachers.

☐ See Page 17

(180)

BD 18/10/95

Textiles, cars may benefit first

# Loan scheme to give SA firms an edge

John Dludlu

THE Industrial Development Corporation unveiled a new financial package yesterday aimed at helping SA firms beef up their global competitiveness, the first significant supply-side measure to accompany progressive tariff reduction.

The corporation said the package of low interest rate finance — to be known as the world player scheme — was available to manufacturers whose nominal ad valorem import tariff would decrease by at least 10% from 1995 to 1999.

It is expected textile and car components manufacturers will be among the first industries to use the scheme.

A corporation spokesman said the scheme would be financed from corporation profits. During the 1996 financial year, it hoped to approve loans worth about R150m, representing investment worth R400m. In 1997 the figure would rise to R350m, representing an investment of more than R1bn.

The scheme, which forms part of government's long-awaited set of supply-side measures, would enable companies to modernise their existing plants and machinery, expand current industries and establish new ventures to improve international competitiveness of existing production capacity.

The low interest rate would apply for the first three years. "Applicants have a choice between a current fixed rate of 11,5% a year or a variable rate, currently 12,5% a year."

After three years the then prevailing normal corporation variable rate — now at 17,5% a year — would apply for the remainder of the loan period.

The scheme, which comes into effect immediately, provides a maximum R40m a project. Conditions for finance include net productivity improvement and international competitiveness resulting from its interventions.

Labour spokesman and SA Clothing and Textile Workers' Union deputy general secretary Ebrahim Patel welcomed the announcement last night. However, he said the package could not substitute the need for a coherent

Continued on Page 2

## Loan scheme (180)

Continued from Page 1

BD 18/10/95

package of supply-side measures, which looked beyond technological advancement, but covered work organisation and addressed the "glaring gaps" in training production workers.

While technology enhancement to improve productivity often came with pain, there were ways of carrying it out with limited negative impact. These ways, he said, included expanding exports and domestic markets by regaining the local market share lost as a result of inefficiency.

Textile Federation executive director Brian Brink said his organisation had not been briefed on the scheme's details and would study the document carefully before commenting.

Government is expected to table its proposals on supply-side measures for discussion at the National Economic, Development and Labour Council next week. The delay in unveiling the measures, drawn up with the corporation, has caused concern among the labour and business constituencies at Nedlac.

Government spokesmen have said supply-side measures will be financed from a combination of mechanisms, including corporation facilities and savings made from the general export incentive scheme.

A series of seminars will be held in Durban, Johannesburg and Cape Town by the corporation to discuss the scheme. Other topics include the promotion of job opportunities, exports, the encouragement of additional shifts and international financing.

# Business welcomes IDC scheme

(180) (BD)

BY STAFF WRITER

CT (BR) 19/10/95

Business has been taken by surprise by the Industrial Development Corporation's new, low-interest World Player finance scheme aimed at boosting the international competitiveness of local companies.

Announced yesterday, the scheme has been pitted as an integral part of the supply side measures presently being contemplated by the government and welcomed as the first sign that the government is sympathetic to the problems of companies faced with shrinking export incentives and diminishing import tariffs.

Because details of the scheme have not been widely circulated, most companies were reluctant to give detailed comment.

However, they said they were encouraged by what appeared to be the first concrete evidence of much-needed supply side measures that could give companies a leg up. With more sophisticated technology in reach, local companies could look to becoming more price and quality competitive on world markets.

John Bryce, a spokesman for the Durban Chamber of Commerce, speculated that the overall loan amount was probably more to the advantage of medium-sized businesses than massive corporates, whose capital requirements could run into billions.

However, according to Chris Good of T&N Holdings, an automotive component manufacturer, the crucial issue was the option of borrowing at attractive interest rates.

According to the corporation, manufacturers can access low-cost loans for the modernisation of existing plant and equipment, the expansion of existing industries and establishment of new ventures to improve competitiveness, or to create a new production capacity.

Applicants will have a choice of a fixed rate of 11,5 percent a year or a variable rate of 12,5 percent a year.

The low interest rate will apply for the first three years, after which the prevailing corporation variable rate (currently 17,5 percent a year) will apply.

The corporation will outline the scheme seminars in Durban on October 23, Cape Town on October 24 and Johannesburg on October 25. Further details are available at fax number (011) 884 6157.

# Manufacturers, labour welcome IDC's R150m loans boost plan

BD 19/10/95 (180) (30)

John Dludlu

SA's vehicle and clothing industries yesterday welcomed plans by the Industrial Development Corporation for a new scheme to assist the country's manufacturers become more competitive.

Sandton-based parastatal IDC said this week it would provide low interest rate loans worth R150m, to help industrialists modernise their plants and machinery, reorganise their work methods and boost their productive capacity. The scheme forms part of government's package of supply-side measures.

Pretoria-based SA National Association of Automobile Manufacturers welcomed the measures, as did the National Clothing Federation.

The IDC plan has already been welcomed by labour, represented by the SA Clothing and Textile Workers' Union.

Labour said it should not be seen as a replacement for a more comprehensive plan of supply-side measures by the state on restructured industries.

# A proud workforce would help SA become globally competitive

CT(BR) 24/10/95 (180)

By Gary Eisenberg

## MY TURN

It is a moot point to state that South African businesses are generally uncompetitive in the global marketplace. The latest World Competitiveness Report indicates that South Africa has slipped down 6 places over the past year to 42nd out of 48 countries.

I am a member of the legal fraternity and to some extent empathise with the view that lawyers are most unhelpful when they attempt to assist in repairing frailties in the human condition.

However, when the law is not an ass, its practitioners have the advantage of being able to understand problems clearly. So with a legal mind I ask a basic question: Why does South African business, especially its manufacturing sector, struggle to become globally competitive?

For the past 70 years South Africa has invested its high earnings from mineral sales into sophisticated infrastructure and high-technology industries, at an unnaturally high cost level subsidised by those earnings, with almost total disregard for the productivity performance of the labour force, or for that matter without much regard for the labour force, period.

Our workforce suffers from a serious education deficit. In the early 1990s South Africa's economically active population had almost half the number of years of schooling (about 6) as their compatriots in Hong Kong. It is also interesting to note that business expenditure in research and development was only 0,32 percent of GDP in 1990, declining 27 percent from 1983 to 1990.

Added to this conundrum is the fact that the capital infrastructure of our manufacturing sector is ageing at a faster pace than innovation, and while the continued devaluation of the rand theoretically makes exports cheaper, with increasing interest rates it is becoming more expensive to replace machinery with state-of-the-art equipment, most of which is imported.

Now that tariff levels are falling, prices for many of South Africa's major mineral exports are suppressed due to global oversupply, export incentives have almost dried up, and international trade competition in high technology manufactured goods is intense, South African companies are scurrying for cover. The unclothed emperor now realises that he is naked, and he is furious.

Managers throw most of the blame for poor productivity performance at the door of the disruptive labour unions and labour adamantly insists that irrespective of productivity performance, all workers are by right entitled to "liveable wages". So a spiral of political conflict begins to strangle efforts to discover the truth about South Africa's lack of competitiveness.

Some years ago, Harvard professor of Business Administration, Andrall Pearson, listed the "seven deadly sins" responsible for the demise of many of America's corporations: inconsistent product quality; slow response to the marketplace; lack of innovative, competitive products; uncompetitive cost structure; inadequate employee involvement; unresponsive customer service; and inefficient resource allocation.

Pearson concludes that "purgatory is the sorry state today of too many of our formerly proud American corporations. The seven deadly sins that are undermining them need to be attacked as a fundamental disease. Rather than scurrying to deal with separate symptoms, a transformed work environment is the way to salvation."

Does this characterisation not ring a South African bell? Except, of course, that Pearson speaks about the fate of sick American giants, while I am addressing the fate of South Africa's anaemic babies.

A study last year by the Global Manufacturing Futures Survey concluded that poor on-time deliveries is one of the most serious threats to manufacturing competitiveness in South Africa. The study says that "South Africa's customers will only get consistently reliable deliveries of cost competitive products when South Africa pulls together.

This is not just a management problem." When South Africa's marketplace is being globalised by force, it is mockingly insensitive to say that the weaknesses in the crumbling dyke wall are "not just a management problem".

*Pearson is right when he says management should lead the way*

I believe Pearson is right when he says that the seven deadly sins "are all basically management induced and management directed". I think Pearson is right because he vests management with the responsibility of leading the way. And in South Africa, lest we forget, managers, white managers, have generally never been able to set an example to the employee on the factory floor, although I can think of a few outstanding examples to the contrary. How can exploitative relationships ever nurture pride and satisfaction from hard work in the victim, black or white, male of female?

Owners and managers of industries must begin to inculcate into their employees a sense of pride and belonging; these qualities breed competitiveness in people. Who would not be proud to be associated with a company attempting to be the world's best?

Unresponsive customer service is a crippling malaise in our society which eats into the bones of South Africa's manufacturing sector, as it does into the retail and tourism sectors. Unreliable deliveries of wood to furniture factories and insipid service at 5-star hotels are symptomatic of the same illness; a pervasive bout of the "death-wish". Surely, individual companies cannot afford to wait until South Africa pulls together.

In South Africa the customer is a hostage to indifference simply because indifference itself is characteristic of a nation so used to lingering in isolation. Now commercial intercourse with the rest of the world is foisted upon us and we feel pained by it. But the brutalisation of sensitivities must shock the timid into action.

In a speech on competitiveness in 1992, the head of the National Productivity Institute, Jan Visser, put it this way: "On the third day of the Six Day War, General Dayan in response to a question from an American journalist, said that Israel was going to win the war. 'How do you know that?' the journalist asked. Dayan replied, 'We do not have an alternative.' There is simply no alternative for South Africa to become a winning nation."

□ *Eisenberg is a legal consultant on international trade, based in Cape Town*

# IDC world player scheme just the start — GM

Nicola Jenvey

DURBAN — The Industrial Development Corporation (IDC) world player scheme announced last week was the first in a range of supply-side measures to boost SA's global competitiveness, and other measures would be announced shortly, IDC GM Jan de Bruyn said yesterday.

He told an IDC financing schemes seminar the IDC and trade and industry department were investigating what further supply-side schemes could be introduced.

The IDC had "jumped the gun a bit" in announcing the world player scheme, but it was hoped that more schemes could be made available once investigations were completed.

Dealing with the promotion of black empowerment, De Bruyn said the IDC was "attempting to address getting previously disadvantaged communities into the mainstream economy", but there were a number of problems.

(180) BD 24/10/95

# SA 'lacks human investment'

(180) BD 24/10/95

Renee Grawitzky

National Economic Development and Labour Council executive director Jayendra Naidoo addresses delegates at the 39th annual convention of the Institute for Personnel Management. Picture: CATHY PINNOCK

TO OPERATE in a competitive global economy, SA could not build its economy on industries which were in decline, such as mining or agriculture, where no power could be exercised over the prices being commanded by such commodities, Trade and Industry Minister Trevor Manuel said yesterday.

Speaking at the 39th annual convention of the Institute for Personnel Management, Manuel said personnel managers had to break with the habits of the past where goods were bought, sold and produced out of habit with little strategic or innovative thinking.

He said the success of economies such as Germany and Japan was based on the investment in human resources where "training from the cradle to the grave gave these countries the edge".

Manuel said there was also a sharp distinction the economies of Southeast Asia and that of SA, which "has no resource endowment", with the difference being the investment in people.

He said the World Competitiveness Report rated SA 48th out of 48 countries tested for investment in human resource development. Ultimately people and production were linked to the search for competitiveness.

National Economic Development and Labour Council (Nedlac) executive director Jayendra Naidoo, speaking on building a social partnership for jobs, growth and equity, said the economy had to be transformed, but warned that the ultimate test was the challenge from those not represented in Nedlac — such as the unemployed — who were disenfranchised through exclusion from the economy.

To undo the apartheid legacy and cope with global economic developments, the major social partners had to co-operate, Naidoo said. In line with this Nedlac had produced a working document on a framework for social partnership. In order to achieve growth, reduce unemployment and inflation, the constituencies had to act within an agreed national framework with consideration being given to a "contract for jobs, growth and equity".

# Researchers warn retrenchments loom

## □ *Manufacturers expecting shorter hours*

ARG 25/10/95 (180)

ALIDE DASNOIS
**Business Editor**

RETRENCHMENTS of factory workers are looming, the Stellenbosch Bureau for Economic Research warns in its latest survey of the manufacturing industry.

In the third quarter of the year, a small majority of manufacturers took on extra employees, according to the survey results published today. But a small majority also reported fewer hours worked per worker.

Manufacturers are expecting even shorter working days in the final quarter, as economic conditions deteriorate. As a result, a net majority of 14 percent of companies expect to retrench factory workers, the bureau says.

The survey was conducted in September, involving 347 manufacturers.

In general, the results suggest a slowdown in the pace of manufacturing in the third quarter.

Sales, on domestic and foreign markets, grew more slowly in the third quarter. Orders were lower than expected.

The Bureau found that total costs per unit of production rose faster than expected in the third quarter — though manufacturers are expecting the rate of increase to slow in the final quarter. Contributing to the cost hike were labour costs — with 66 percent of respondents to the survey reporting an increase — and raw material costs.

A large net majority of manufacturers expect selling prices on the domestic market to continue to rise in the last quarter.

Blocks to expansion reported by survey participants, in order of importance, were: The level of interest rates, the political climate, insufficient demand, a shortage of skilled labour, a shortage of raw materials and to a lesser extent a shortage of semi-skilled and unskilled labour.

Over the longer term, a majority of manufacturers expect business conditions to improve over the next 12 months. A majority of 35 percent planned to invest more in fixed assets over the year to come, with most planning to expand production and not only to replace equipment.

But more than three quarters said they would invest more in fixed assets if they were not worried about the political climate, tax and interest rates, and 74 percent were concerned about insufficient demand over the next year.

The Bureau concludes that although the pace of manufacturing activity seems to be levelling off, the prospects for long term growth are still good.

ARG 26/10/95

# Delivery delays (180) slated

PRETORIA. — The inability of South African manufacturers to deliver their products on time is the largest hindrance facing the country in terms of international competition, Trade and Industry Minister Trevor Manuel says.

"It is clear South Africa's economic well-being depends on our ability to compete internationally at an economic level," Mr Manuel told delegates to the Afrikaanse Handelsinstituut annual congress.

He blamed management for not investing sufficiently in the labour force and said education and training were inadequate.

The development of small business could play a vital role in giving the South African economy a much needed boost, Mr Manuel added.

"In Taiwan, the small business sector was the link with which the success story of their economic growth was written. It did not just happen, but was the result of strategic intervention," he said.

"The South African government does not want to intervene in the economy out of misplaced paternalism... We want to intervene because sustained economic growth can be supported by policy." — Reuter.

# Manuel slams tardy SA manufacturers

(180) CT (BR) 26/10/95

By Roy Cokayne

Pretoria Business Editor

The inability of South African manufacturers to deliver products on time was the country's biggest hindrance in terms of international competition, Trevor Manuel, the minister of trade and industry, told delegates at the Afrikaanse Handelsinstituut annual congress in Pretoria yesterday.

He said the workforce was in dire need of education and training, and management did not invest sufficiently in it.

Apart from the negative effects of isolation, the economy was going lame from an over-concentration of economic activity, he said.

Marinus Daling, the chairman of Sanlam, told the congress that even if South Africa's economy grew at a rate of between 6 and 7 percent, unemployment would only be reduced to normal levels by 2020.

However, he said he believed this vision should be accepted by the country because it involved economic growth to support an ideal.

"Our problem is that we always overestimate what can be achieved in the short term, but tend to underestimate the ability of the economy to resolve problems in the longer term and therefore do nothing."

Daling said South Africa would not correct the situation by making minor adjustments to the economy.

A few aspects demanded urgent attention, including tax reduction and the Budget deficit. The tax burden, presently amounting to 25 percent of GDP, was too high while the Budget deficit of 5,8 percent of GDP was also unacceptable.

Reuter reports that Johann Rupert, the chairman of the Rembrandt Group, told the congress the government should not interfere with the business sector.

He said he agreed with the assessment of former British prime minister, Margaret Thatcher, that the golden triangle — government, business and organised labour — could not negotiate together.

Roelf Meyer, the minister of provincial affairs and constitutional development, said South Africa had no choice but to follow the route of the golden triangle.

"The gap between the haves and the have-nots is so great here. We can only get together through proper interaction."

# 'Buy South African' drive starts

CT (BR) 30/10/95 (180)

By Shirley Jones

Durban — Bayathenga 2000, a national private-sector initiative aimed at promoting South African goods and services both nationally and internationally, was launched in Johannesburg last week.

Spearheaded by KwaZulu Natal business leaders, the project which is essentially a buy South African campaign has drawn a positive response from Trevor Manuel, the minister of trade and industry.

Bayathenga, a Zulu word meaning "they are buying", is based on a massive subscription campaign and will be followed by a major retail campaign early next year.

Membership is open to all South African organisations and companies. Bayathenga will also assist non-profit organisations and emerging businesses with annual membership fees by securing sponsorship through larger organisations.

As members, businesses will be entitled to use a Bayathenga logo on goods with a minimum of a 60 percent South African content.

The logo will be available as stickers, labels and swing tickets. Corporate patrons can extend this by using it on letterheads, advertising and packaging.

At the launch, Brian Sanderson, the chief executive and business consultant of Bayathenga, said continued South African consumer support for imported goods had led to a degree of economic stagnation.

The private sector now had a vehicle for increasing employment, achieving fuller production levels and becoming more competitive.

"We must believe in our ourselves and support domestic enterprise. If we don't, we cannot expect the global village to shop here," he said.

Sanderson said that similar projects in Britain, the United States, Australia, India, Ireland and Indonesia had proved capable of stimulating economic growth and job creation.

# Average pay dips in manufacturing

(180)

Greta Steyn

BD 31/10/95

WORKERS in the manufacturing industry earned on average 0,6% less in real terms in the first quarter of this year compared with the same period last year, according to Central Statistical Service (CSS) figures released yesterday.

The figures — they are the latest official employment and wage data available — showed that the fall in average real wages was accompanied by a small rise in employment in the manufacturing industry.

The marginal improvement in employment lagged far behind the real growth in the output of the sector — a situation which economists said suggested productivity was improving.

The CSS figures showed there was an increase of 1,3% in the number of jobs in the manufacturing industry compared with the first quarter last year to the same period this year.

The industry now accounts for almost 1,42-million jobs, a far cry from the levels of more than 1,53-million reached at the end of the previous upswing in 1988.

The manufacturing industry continued to shed jobs for most of the upswing, but the situation started turning around in the third quarter of last year.

By contrast, the financial services sector was a net creator of jobs, and has also seen larger average wage increases. The latest statistics show workers in the banking, insurance, real estate and business services sectors experienced a real increase of 4,4% in average salaries and wages between the first quarters of last year and this year. Despite the strong jobs growth in the sector, it employs less than 200 000 people.

Overall, workers in the non-primary sectors of the economy (excluding mining and agriculture) saw their salaries more or less keep pace with inflation.

Bureau for Economic Research economist George Kershoff said the BER expected every 1% rise in GDP to yield an increase of only about 0,4% in overall employment. That had been the case last year and, if repeated this year, would mean an overall rise of about 1,2% in employment.

He said it seemed the rising trend in manufacturing employment would not continue to the fourth quarter of this year.

A BER survey among manufacturers showed most people expected a decline in jobs in the last quarter from a year ago.

An IDC survey of the manufacturing industry for the first six months of the year noted a a 6,3% rise in output in the six months to June, compared with last year.

# SA, India have potential for high growth

BD 2/11/95 (180)

CAPE TOWN — SA and India could become the world's two newest high-growth economies if they dealt with their poor international competitiveness, World Competitiveness Report director Stephane Garelli said.

"They have all the elements to do something unique ... the point is they have to do it," Garelli told a seminar at the University of Cape Town Graduate School of Business.

SA's strength lay in its wide range of resources while India, despite its poverty, had a core of very wealthy people, a good civil service and well qualified engineers.

In the latest World Competitiveness Report released in September, India fell from 34 to 39 out of 48 and SA slipped seven places from its previous ranking to 42.

Lausanne-based Garelli said rules for increased competitiveness included a stable legislative environment which was "not necessarily pro-business, but predictable". — Reuter.

...of the share prices.


**COMPETITIVE EDGE** *Mof Terreblanche, the new president of the Afrikaanse Handelsinstituut, outside the institute's building. The AHI is committed to improving South Africa's position in the global economy*

# New AHI president identifies global competitiveness as the key

(180) (BR) CT(BR) 3/11/95

By Roy Cokayne

Pretoria — International competitiveness has been earmarked by Mof Terreblanche, the new president of the Afrikaanse Handelsinstituut (AHI), as the key to economic upliftment and the major focus of the organisation during his presidency.

He said a strategy was needed to set the economy firmly on the path of continuous growth and development.

"It is the AHI's conviction that the linchpin of such a strategy is the strengthening of the competitiveness of South African business," he said.

But he stressed the AHI could not achieve this goal alone and it would work through Business South Africa and Nedlac in an attempt to influence its sister organisations and member companies to try and work together to achieve this goal.

Terreblanche said the government, labour and business needed to work as a team and, like the Japanese, develop trust in each other.

"There must be a common aim and a national drive to get these different components involved and to get something on the road," he said.

Although business did not regard labour as the enemy, Terreblanche said there was a need to involve the development organisations to get the correct balance because "there is no point in being bullied by labour".

The AHI has compiled a document on competitiveness which AHI economist Johan Rossouw described as a benchmark to measure whatever proposals were put to them.

"International competitiveness is the only way for South Africa to be placed in a position to achieve long-term robust economic growth which will relieve the burden on the country's unemployed and, in the long term, improve the life of all South Africans," he said.

Jacob de Villiers, the AHI executive director, said South Africa's economic performance was moving in the right direction but was not achieving its full potential because people were striving for their own benefit and not for what was in the best interests of the country.

"We believe a common mindset, commitment and goal is the only way forward," he said.

Terreblanche said South African business had not been exposed in any real sense to foreign competition, which would intensify following the liberalisation of world trade.

He said to equip domestic undertakings to face the competitive onslaught, it would be necessary to strengthen the market orientation of the economic system.

Investment and entrepreneurial initiative thrived on minimum government intervention, limited to functions conducive to the market mechanism, which meant not only less government, but more efficient government.

*'A common mindset, commitment and goal is the only way forward'*

"This implies thorough reform of the public sector by way of rationalisation, deregulation and privatisation.

"It goes without saying that if unit costs of production can be reduced to achieve more competitive prices, increased turnover and improved earnings will result.

"South Africa's production costs are too high because, among other things, there is an adverse ratio between productivity and remuneration. This is partly why South Africa cannot compete in foreign markets.

"If more competitive influences were brought to bear on the input side of the production equation, lower production costs would result while stiffer competition on the output side will encourage the use of more cost effective technology," he said.

Terreblanche said companies had to invest in product development with the emphasis on innovation as strongly differentiated products of high quality might escape price competition.

He said a major prerequisite for product leadership through innovation was a flexible, dynamic labour market.

However, he said labour productivity hinged on education and training.

Terreblanche said a number of economic incentives could be considered to stimulate growth and development but "the best medicine" was certainty.

"In order to plan, investors and business people need to know what is going to happen in the political economy. They also want to be part of the decision-making process so that adverse policy adjustment might be averted," he said.

Terreblanche said business itself had certain broad responsibilities and business practices had to be sound since corruption and fraud undermined the whole economic system.

In addition, given the levels of poverty in the country because of unemployment, Terreblanche said it was necessary to remove all structural impediments to job creation while business should assist through a job creating growth strategy.

With regard to the possible amalgamation of the AHI with other business or employer organisations, Terreblanche said a committee had been appointed by the AHI to look into the relevance and future of the AHI.

But he said there had been improved co-operation between the AHI and other business organisations in recent years and it served no purpose to attempt to force any amalgamation.

"We are a non-profit driven company that works for the interests of its members. At the end of the day our members must decided what we must do. We definitely see the AHI as part of the new South Africa. We are not exclusively Afrikaans. We are fighters for a more friendly environment, not only for Afrikaans business but for all business," he said.

# In human capital SA ranks bottom

ARG 4/11/95

(180)

**MAUREEN MARUD**
Business Reporter

SOUTH Africa's global competitiveness ranks last out of 48 countries when it comes to human resources.

This country's overall place in terms of world competitiveness was 42nd, according to the 1995 World Competitiveness Report, jointly published every year by the World Economic Forum and the International Institute for Management Development in Lausanne, Switzerland.

The report was summarised in Cape Town by Paul Hatty, who runs the SA Partner Institute, supplier of data to the report since South Africa began to be included in it four years ago. The report has been published since 1980.

Mr Hatty said rankings were based on eight factors of competitiveness.

"This country ranked worst in the people factor, last in the world behind Russia and India."

Under the people heading, this country ranked last in availability of skilled labour — "we are just not putting the effort, funds and resources into training skilled labour."

The level of compulsory education attained by the majority of people was inferior to that of foreign competition, as was economic literacy among the population.

Still on the people front, South Africa ranked last in the development of aids as a source of concern for the future of the economy, and in worker motivation. "Employees don't identify with company objectives."

The percentage of household income going to the lowest 20 percent of households was by far the worst in the world at 1,9 percent.

Other areas under the people factor where South Africa ranked low were in the brain drain, the percentage of the population employed (19 percent), the adequacy of the education system to meet the needs of a competitive society, and the pupil/teacher ratio, which at the secondary school level was second worst: 28 to 1.

Computer literacy among employees was third worst in the world.

In terms of alcohol and drug abuse posing a serious problem at the work place, South Africa was again among the worst.

"The values of society don't support competitiveness. People in our country lack energy and enthusiasm," Mr Hatty said.

"We have to start addressing these liabilities if we are going to become internationally competitive."

The eight factors of competitiveness were

- Domestic economic strength at a macro level;
- Internationalisation, or the extent to which a country participated in international trade and investment;
- The extent to which government policies were conducive to competitiveness;
- The performance of financial markets and quality of financial services;
- Infrastructure, or the extent to which resources and systems were adequate to serve the basic needs of business;
- Management, or the extent to which enterprises were managed in an innovative, profitable and responsible manner;
- Science and technology, or scientific and technological capacity together with the success of basic and applied research;
- People, or the availability and qualifications and commitment of human resources.

South Africa went from 37th place to 36th in the domestic economic strength factor.

Regarding internationalisation, South Africa slipped from 38th position to 43rd.

Assets in this factor included export market diversification, where South Africa was ranked first in the world.

"This is probably a legacy of apartheid and the sanctions," Mr Hatty said.

"South African businesses had to go out there and find new markets for the exports they needed because traditional markets were closed. The result is that we have the greatest export market diversification in the world."

Liabilities in this factor included restraints to cross border ventures. Here South Africa was ranked last.

This country was also at the bottom end of the rankings when it came to teaching foreign languages at school, partnerships with foreign firms, and exports of goods and services.

South Africa had among the highest restrictions on partnerships with foreign firms. This was related to Reserve Bank restraints.

This country ranked 38th overall in the government factor. This ranking had declined consistently over four years.

Positives in the government factor included taxes on gasoline, where South Africa ranked seventh.

Negatives were market dominance by a few enterprises (48th), central government budget deficit (44th), serious crime (33rd), and a general feeling of security (43rd).

In the finance factor South Africa's ranking had improved from 21st place to 20th.

"Good ratings were found in the stock market's performance, public trust in bankers, sophistication of the financial market; legal regulation of financial institutions and public confidence in financial intermediaries."

Poor ratings in the finance factor included access to foreign markets and the country's credit rating.

In infrastructure, South Africa went from 20 to 18 in 1995. This factor scored best out of all eight in South Africa's case with an overall ranking of 19 out of 48.

A major negative in infrastructure was the country's lack of hydro-electric power.

On the management front, South Africa's ranking had gone down two places to 35th in 1995 and was now behind the Philippines but ahead of Turkey.

Weaknesses in management included the quality of industrial relations and lack of intercultural understanding.

South Africa's third highest rating was in science and technology, which was 28th in 1995.

# SA badly needs efficiency boost

(180) ARG 4/11/95

## Poor rating in report causes concern at SA's low competitive level

MAUREEN MARUD
Business Reporter

SOUTH Africa urgently needs a national strategy to reverse its decline in global competitiveness, says industrial engineer Paul Hatty, who also heads an organisation that supplies data about this country to the World Competitiveness Report.

The strategy will have to be at the level of government, business and labour, the Johannesburg-based head of the SA Partner Institute said in Cape Town this week when he summarised South Africa's poor ranking — 42nd out of 48 countries — in the international report.

"We are not able to swim as fast as the others. The sharks are closing in and opportunities are moving away from us. We are losing ground in the ability to be competitive."

For the last four years South Africa has been included in the evaluation of competitiveness published annually since 1980 by the World Economic Forum and the International Institute for Management Development in Lausanne, Switzerland.

The World Competitiveness Report, which uses 380 criteria to compare the competitiveness of countries, is the most well-known publication on the subject. It is used worldwide by business and government.

South Africa's competitiveness this year was down seven places from 1994. Six of those places were taken by countries assessed for the first time this year.

"Israel, Iceland, Egypt, Peru, China and Jordan were introduced in 1995 and were all found to be more competitive than South Africa. Only Russia, the seventh country introduced this year, was found to be less competitive than South Africa," Mr Hatty said.

Those countries that performed worse than South Africa in 1995 were Greece, Mexico, Poland, Hungary, Venezuela and Russia.

■ More reports, page 5

"If only 41 countries were taken into account (as in 1994), then South Africa went down from 35th to 36th position."

South Africa was ranked worst in the world in the people factor and the country's abilities to develop human resources, he said.

While it took only two years to reverse an economic deficit, and 10 years to reverse a technology deficit, it took 20 years to correct a deficit in skills and training.

Altered national strategies could achieve significant changes in a country's ability to be competitive, as was proved by Australia, Denmark, New Zealand and Norway, all of which changed strategies and policies and in the process improved their rankings.

South Africa could not rely solely on its natural resources for wealth. It had to develop its own internationally competitive resources, Mr Hatty said.

"Competitiveness isn't about cheap labour, but educated labour."

Many of the negative criteria were relics of the past. Those that could be rapidly changed needed to be turned into competitive advantages, while the country worked at correcting longer-term criteria, like education.

"Constraints on investment overseas can be changed very quickly."

Government, business, labour and the community had roles to play in improving the country's competitiveness, he said.

"It is going to require total commitment and involvement."

Some countries had successfully introduced a competitiveness council or advisory board, he said.

"Should South Africa introduce its own council to ensure policies and strategies are introduced with the purpose of improving our international competitiveness, or is Nedlac the solution?"

Summarising the drop in ranking, Mr Hatty said the World Competitiveness Report was an assumption based on both hard data on economic performance obtained from international organisations, together with insights derived from a questionnaire answered by business executives world wide.

The Report was based on eight factors of competitiveness, he said.

These were:

- Domestic economic strength at a macro level;
- Internationalisation, or the extent to which a country participated in international trade and investment;
- The extent to which government policies were conducive to competitiveness;
- The performance of financial markets and quality of financial services;
- Infrastructure, or the extent to which resources and systems were adequate to serve the basic needs of business;
- Management, or the extent to which enterprises were managed in an innovative, profitable and responsible manner;
- Science and technology, or scientific and technological capacity together with the success of basic and applied research
- People, or the availability and qualifications and commitment of human resources.

# 'Education vital to SA's competitiveness'

Star (BR) 7/11/95 (180) (65)

By Roy Cokayne

Pretoria — The shortage of skills and poor spread of education, and the insufficient presence on international markets are two of the biggest problems facing South Africa in becoming internationally competitive, says Stephane Garelli, the director of the World Competitiveness Report.

Garelli, a professor at the International Institute for Management Development in Lausanne, Switzerland, said India, Brazil and South Africa were three of the wealthiest countries in the world and that it was only a question of transforming these assets and allowing them to become meaningful to them.

He was speaking at the science policy meeting of the CSIR's Foundation for Research and Development held in Pretoria recently.

Garelli said countries were not only competing with products and services but technology, research and development.

He stressed the importance of a country ensuring that its primary and secondary education were adhered to.

He said it was quicker to fix a technology problem than problems created by a bad education system.

To speed up the process it was important to couple both technology and education "to avoid waiting for 20 years before a good education policy became a reality".

Garelli said in many countries people complained about the cost of education but education was an investment rather than a cost.

Technology would enable companies to be more competitive on a daily basis, especially since the world was entering the network society with possibilities of worldwide connections.

This would be good for commerce and would create numerous opportunities.

Garelli said the more a country worked on its domestic competitiveness, the better its chances were to compete internationally.

The role of government was to define the basic options, set the framework and stand back.

The United States had been awarded 116 Nobel prizes in exact sciences since 1960 compared with the four that were awarded to Japan, Garelli said.

Although Japan did not invent many things the country had achieved excellence in the implementation process, which was the basis for its competitiveness.

# 'Education vital to SA's competitiveness'

Star (BR) 7/11/95 (180) (58)

By Roy Cokayne

Pretoria — The shortage of skills and poor spread of education, and the insufficient presence on international markets are two of the biggest problems facing South Africa in becoming internationally competitive, says Stephane Garelli, the director of the World Competitiveness Report.

Garelli, a professor at the International Institute for Management Development in Lausanne, Switzerland, said India, Brazil and South Africa were three of the wealthiest countries in the world and that it was only a question of transforming these assets and allowing them to become meaningful to them.

He was speaking at the science policy meeting of the CSIR's Foundation for Research and Development held in Pretoria recently.

Garelli said countries were not only competing with products and services but technology, research and development.

He stressed the importance of a country ensuring that its primary and secondary education were adhered to.

He said it was quicker to fix a technology problem than problems created by a bad education system.

To speed up the process it was important to couple both technology and education "to avoid waiting for 20 years before a good education policy became a reality".

Garelli said in many countries people complained about the cost of education but education was an investment rather than a cost.

Technology would enable companies to be more competitive on a daily basis, especially since the world was entering the network society with possibilities of worldwide connections.

This would be good for commerce and would create numerous opportunities.

Garelli said the more a country worked on its domestic competitiveness, the better its chances were to compete internationally.

The role of government was to define the basic options, set the framework and stand back.

The United States had been awarded 116 Nobel prizes in exact sciences since 1960 compared with the four that were awarded to Japan, Garelli said.

Although Japan did not invent many things the country had achieved excellence in the implementation process, which was the basis for its competitiveness.

# 'Education vital to SA's competitiveness'

(180)(~~358~~) CT 7/11/95

BY ROY COKAYNE

Pretoria — The shortage of skills and poor spread of education, and the insufficient presence on international markets are two of the biggest problems facing South Africa in becoming internationally competitive, says Stephane Garelli, the director of the World Competitiveness Report.

Garelli, a professor at the International Institute for Management Development in Lausanne, Switzerland, said India, Brazil and South Africa were three of the wealthiest countries in the world and that it was only a question of transforming these assets and allowing them to become meaningful to them.

He was speaking at the science policy meeting of the CSIR's Foundation for Research and Development held in Pretoria recently.

Garelli said countries were not only competing with products and services but technology, research and development.

He stressed the importance of a country ensuring that its primary and secondary education were adhered to.

He said it was quicker to fix a technology problem than problems created by a bad education system.

To speed up the process it was important to couple both technology and education "to avoid waiting for 20 years before a good education policy became a reality".

Garelli said in many countries people complained about the cost of education but education was an investment rather than a cost.

Technology would enable companies to be more competitive on a daily basis, especially since the world was entering the network society with possibilities of worldwide connections.

This would be good for commerce and would create numerous opportunities.

Garelli said the more a country worked on its domestic competitiveness, the better its chances were to compete internationally.

The role of government was to define the basic options, set the framework and stand back.

The United States had been awarded 116 Nobel prizes in exact sciences since 1960 compared with the four that were awarded to Japan, Garelli said.

Although Japan did not invent many things the country had achieved excellence in the implementation process, which was the basis for its competitiveness.

# Financial aid planned

(180)

Sello Motlhabakwe

20 10/11/95

THE Mpumalanga government planned to give financial incentives to manufacturers to encourage raw material beneficiation, economic affairs MEC James Mabena said yesterday.

The province's aid would be in addition to that of the Industrial Development Corporation and trade and industry department.

Speaking at the opening of the province's economic development conference, premier Mathews Phosa said that Mpumalanga was losing income and job creation opportunities because its resources were exported to other provinces.

Mabena said the business delegation attending the conference had expressed concern at the lack of an integrated and well structured transport network. The delegation was particularly interested in the development of a link with the Maputo harbour.

Delegates were told there were many downstream manufacturing opportunities available to small operators in processing fuel and propylene products. Wool and citrus producers had pointed to numerous opportunities for downstream beneficiation of their products.

Mabena said two studies on development strategies for the Highveld and Lowveld areas were presented to the Mpumalanga government by the business sector. They would be used to give potential foreign investors detailed information.

# 'SA must raise production'

(180) Star 13/11/95

By Roy Cokayne

Pretoria — Time is fast running out for South Africa to increase the production capacity of the economy for increased competitiveness, says At Engelbrecht, an economic adviser to the Northern Transvaal Chamber of Industries (NTCI).

"Careful analysis of the present state of affairs in the South African economy demonstrates clearly that the country's production capacity can hardly accommodate a sustainable growth rate much higher than the rate at which the population increases," Engelbrecht says in the latest NTCI Economic Outlook.

He said South Africa, when taking into account the need to improve the socio-economic conditions of the underprivileged, was faced with a dilemma which underscored the need for appropriate strategies focused on strengthening the potential for growth.

South Africa would have to come to terms with the underlying obstacles hampering economic growth to break the vicious circle of low growth and high unemployment, he said.

"The only viable route to follow is to accept and tolerate the disciplines of tested and sound macro economic policies, supported by labour and business, to streamline production processes to the extent needed to become a successful and competitive role player in world market and by creating an investor-friendly environment."

Engelbrecht said one of the main features of the economic upswing up to now had been the strong growth in total real gross domestic fixed investment. In the first six months of this year it lost some impetus but still increased at a fairly high rate, attaining a ratio to GDP of 16,5 percent, he said.

But Engelbrecht said this indicated that a relatively small portion of total national disposable income was being used for fixed investment purposes while more than 80 percent of income was directed to consumption expenditure.

# 'SA must raise production'

(SEF) (180)

By Roy Cokayne

CT (BR) 13/11/95

Pretoria — Time is fast running out for South Africa to increase the production capacity of the economy for increased competitiveness, says At Engelbrecht, an economic adviser to the Northern Transvaal Chamber of Industries (NTCI).

"Careful analysis of the present state of affairs in the South African economy demonstrates clearly that the country's production capacity can hardly accommodate a sustainable growth rate much higher than the rate at which the population increases," Engelbrecht says in the latest NTCI Economic Outlook.

He said South Africa, when taking into account the need to improve the socio-economic conditions of the underprivileged, was faced with a dilemma which underscored the need for appropriate strategies focused on strengthening the potential for growth.

South Africa would have to come to terms with the underlying obstacles hampering economic growth to break the vicious circle of low growth and high unemployment, he said.

"The only viable route to follow is to accept and tolerate the disciplines of tested and sound macro economic policies, supported by labour and business, to streamline production processes to the extent needed to become a successful and competitive role player in world market and by creating an investor-friendly environment."

Engelbrecht said one of the main features of the economic upswing up to now had been the strong growth in total real gross domestic fixed investment. In the first six months of this year it lost some impetus but still increased at a fairly high rate, attaining a ratio to GDP of 16,5 percent, he said.

But Engelbrecht said this indicated that a relatively small portion of total national disposable income was being used for fixed investment purposes while more than 80 percent of income was directed to consumption expenditure.

# Sacob and CSIR link up to boost competitiveness

~~232~~ (180)

John Dludlu

BD 13/11/95

SACOB and the Council for Scientific and Industrial Research (CSIR) have signed an agreement to work together to enhance SA's competitiveness.

The two bodies said they would work together on projects intended to improve the competitiveness of SA firms locally and in global markets.

One such project was focused on the advantages of using information technology to benefit local corporations. It would be based at the CSIR's newly launched value-added Internet service, Worldnet Africa, which was a vehicle for SA firms to promote their products to Internet users.

The agreement provided that the two organisations would jointly identify mutual opportunities and pool their skills to support the SA business community.

Sacob director-general Raymond Parsons said the opening up of global markets and the technologies required to ensure competitiveness had made the two organisations natural partners.

The CSIR said the world's top 30 companies spent more on research and development than SA did as a nation.

"This is an indication of the challenge facing the CSIR, a challenge that we are meeting through networking alliances with the best technical and scientific organisations in the world."

COMPETITIVENESS REPORT

# Think or swim

(180)

FM 17/11/95

**SA is one** of the least competitive countries in the world. While local business leaders believe SA will shoot up the international competitive rankings over the next few decades the data shows just how far it has fallen behind.

Paul Hatty, SA associate editor of the *World Competitiveness Report*, has analysed the findings in the four years of SA's inclusion. The results appear in a report: *How good a swimmer is SA?*

He found, over the past four years, SA's ranking has declined in all but two out of eight categories measuring competitiveness.

But the downward trend is at least partly due to the entry of six new countries ahead of SA — including Israel, Iceland and Egypt — which caused SA to drop seven places from 35th in 1994, to 42nd out of 48 countries this year.

Were it not for the newcomers, SA's ranking would have improved in five out of eight categories — the most significant being government which would have climbed five places. In the event government fell one place to 38th.

**Hatty** ... *can SA swim?*

So although SA has improved on its own performance, in global terms it is slipping.

SA is ranked last in terms of its human resources, 43rd on its level of internationalisation, and 28th on science and technology. These categories have all shown a declining trend over the four years.

SA's domestic economic strength and management were static for the first two years but declined this year to 42nd and 35th respectively.

Only infrastructure has shown an upward trend over the four years, with a current ranking of 19. Close behind is SA's financial capability which improved this year to 20th position.

In all but one year, SA has been ranked rock bottom in terms of its human resources.

The report explains why.

It says SA values do not support competitiveness, people lack energy and enthusiasm, the education system does not meet the needs of a competitive economy and the level of compulsory education attained by most of the population is inferior to that of foreign competition.

While it takes only two years to reverse an economic deficit, the report estimates that it takes 10 years to reverse a technology deficit and 20 to reverse a deficit in skills and training.

Stephane Garelli, a professor at the International Institute for Management Development in Lausanne which compiles the competitiveness report, says competitiveness is not about having cheap labour, but educated labour — it is crucial that SA invest in education.

SA's internationalisation ranking (the extent to which a country participates in international trade and investment flows) is low because of restrictions on cross-border ventures with foreign partners, high levels of protectionism, low direct investment flows abroad, lack of supportive trade policies and investment protection schemes.

Management's weaknesses include the spheres of industrial relations and customer orientation.

SA government's rating is weakened by the level of official reserves excluding gold, the budget deficit, the level of serious crime, the extent of State control of enterprises, government health policy and market dominance by a few enterprises.

SA's science and technology ranking is depressed by a lack of qualified engineers, the unattractiveness of engineering sciences as a career and inadequate science teaching in schools.

Features of the domestic economy which are seen as liabilities include growth in private final consumption expenditure, real GDP growth and real GDP growth per capita. Assets include the growth in capital goods production.

The report's "executive opinion" — the views of top international and local businessmen — ranks SA 36th in 1995, indicating they are more positive about the country's competitiveness than the data signify. (According to the data we are ranked 42nd).

Although they do not yet see strong enough signs of improvement, they predict that SA will be ranked 15th by the year 2030.

If this dream is to be realised, all major players in SA will have to combine forces in a targeted onslaught against the country's noncompetitive bias. ■

'Tax holidays' mooted

# Govt unveils package to boost industry

BD 17/11/95 (180) (...)

John Dludlu

GOVERNMENT unveiled its long-awaited package of supply-side measures yesterday, calling for the introduction of tax-based incentives for investment and training to replace the current grant-based system.

The measures, aimed at bolstering SA's industrial competitiveness, were tabled for discussion at the National Economic, Development and Labour Council's trade and industry chamber.

The document covers incentives for training, work organisation, investment incentives, industrial development finance, technology enhancement, productivity improvement and small business development.

One of the key proposals is that tax holiday systems are seen as preferable for creating job opportunities.

"Tax holidays tend to favour more labour-intensive investments with relatively short lead times. But they may also have value for more capital-intensive schemes with longer gestation periods if they can be carried forward into future tax years," the paper says.

It notes that terminated 37E schemes — accelerated depreciation programmes — tended to be effective in encouraging investment in projects with long construction periods and lead times.

These projects had often led to huge increases in exports and foreign exchange earnings, alleviating the country's balance of payments constraints on growth.

The document, which has been welcomed by business at the chamber meeting, says the best option for SA could be to have both schemes — accelerated depreciation programmes and tax incentive schemes — with firms being given a choice.

It says the Katz commission into SA's tax system was against tax incentives, but acknowledged their use in SA was inevitable in the medium term.

A key concern seems to be that no special provision has been made for SA's troubled primary sectors such as the declining mining industry and the agricultural sector. This move is expected to cause unhappiness in the labour constituency. "I anticipate a rough ride," a Nedlac source said.

The document does not include costing details of the proposed measures, a fact attributed to the haste with which it was drafted. But the envisaged system of financing will using savings from the general export incentive scheme which will end in 1997.

"The intention is not to increase budgetary allocation for trade and industrial development, but rather to make proposals which ensure the pre-

Continued on Page 2

## Package

(180) (...)

Continued from Page 1

BD 17/11/95

sent contribution by the fiscus to such measures does not decline in real terms."

The intended supply-side measures form part of a shift from the present demand-side incentives which have been abolished by GATT.

In the part that deals with small business development, the government's flagship programme, the document says the export marketing assistance scheme has been modified to provide better assistance to small firms.

Changes now include granting more funds for smaller firms to assist with trade mission and exhibition costs.

Government's package follows last month's launch of low-interest rate loans by the Industrial Development Corporation to boost competitiveness.

Government has been under pressure from its labour and business partners in Nedlac for the delays in tabling the measures or at least a discussion document.

# Manufacturing adds glow to CSS data

(180)

Mungo Soggot BD 17/11/95

THE Central Statistical Service (CSS) had made a major revision to second-quarter GDP because manufacturing growth had been much more buoyant than initially estimated, CSS head Mark Orkin said yesterday.

Orkin was commenting on Wednesday's third-quarter GDP figures, which included a revision of the second quarter's growth to 2,2% from a previous 0,8%. The figures are seasonally adjusted, quarter-on-quarter annualised.

He said when the CSS took its first measure of second-quarter growth it had only April's data, which had suggested a levelling off in manufacturing growth was imminent.

But when the CSS revised its figures, it had access to both May's and June's manufacturing numbers, which showed that the solid growth had been sustained.

Orkin said that the economy had grown about 3% in the first nine months of the year compared with the same period last year, which suggested that growth for the year would reach the 3% which most economists had predicted.

Orkin said the revised figures were checked by the CSS and the Reserve Bank.

One economist pointed out that the revision was exaggerated because the figures were seasonally adjusted, quarter-on-quarter annualised. The year-on-year revision was far less dramatic — the figure was changed to 3,6% from a previous 3%.

# Survey finds SA's competitiveness drops as its competition grows

(180)

ST (BT) 19/11/95

By MARCIA KLEIN

DESPITE South Africa's emergence from isolation, it has slipped in the influential World Competitiveness report rankings to 42 out of 48 countries.

The report, which is used by businesses and government leaders worldwide, ranks countries on 380 criteria including not only economic performance but critical factors such as education, technology and social stability.

The US maintained its position as world leader. It was followed by Singapore, Hong Kong, Japan, Switzerland, Germany, the Netherlands, New Zealand, Denmark and Norway. The first two were way ahead of the pack.

This year the Czech Republic and Brazil overtook South Africa, while Mexico's economic crisis saw it drop below South Africa.

South Africa came in ahead of Greece, Poland and Hungary and behind Jordan, Turkey, the Philippines, China and Indonesia.

The most striking feature of this year's report was the US retaining the top position — previously occupied by Japan for seven consecutive years.

Stephane Garelli, of the Swiss International Institute of Management and Development and a director of the report, said the US had earned its position by building resilience in its domestic economy, enabling it to react quickly to changes. This was facilitated in part by government acknowledging that some things would be managed more efficiently by the private sector. Government was reduced to a minimum and there is no minister of industry in the US.

The US had regained leadership in new technology and had also made an effort to be cost-efficient. It was between 25% to 30% cheaper, in dollar terms, than European enterprises and was also able to control its cost of labour relative to productivity.

While South African labour was cheaper than in the US and Europe, and marginally cheaper than in South East Asia, it was not productive relative to its cost.

The significant move down was Japan's drop to fourth place from second last year.

Professor Garelli said this was due to its economic crisis and to a change in the political and social environments.

Japan was suffering a crisis of confidence, and it was moving from a collective to an individualistic set of values.

"There are no dramatic moves without dramatic events," he said. A good example was Mexico, which slipped in line with its economic crisis.

Paul Hatty, who was responsible for SA aspects of the report, said the analysis confirmed gut feelings about South Africa's strengths and weaknesses.

South Africa's well-developed infrastructure and financial sector were its best points, while its biggest downfall was its "people factor". This included the quality, depth and the structure of its population, for example the ratio of young to old and the number of people dependent on the country. It came in last after Russia, which came last on every other criterion in the report.

The ranking of the South African government increased by five positions.

There was a strong correlation between domestic and international competitiveness and South Africa ranked "way down" in this area.

SA business was the most constrained in its ability to invest overseas, due to the country's exchange controls.

On the positive side, South Africa had good prospects for growth, the possibility of a low inflation rate and little chance of recession in the short term.

But it faced some challenges, like a worsening exchange rate, less potential to use foreign skills, a lack of foreign languages in education and decreasing flexibility to hire and fire employees.

Mr Hatty said one of the key signals to emerge from the report was that there was no country which had improved its ranking by accident. It had been done through national strategy.

# Troubled former homelands face further major industrial exodus

(180)

CT (BR) 20/11/95

By Ross Herbert

Johannesburg — South Africa's former homelands, already afflicted with some of the highest unemployment rates in the country, are facing a potential industrial exodus.

What was a trickle of businesses leaving is growing, and business officials say that the government, development officials and unions do not take the issue seriously.

"There is a problem with the decentralised areas and no one thinks of that," said Hermann Dedekind, the director of Springbok Clothing and the chairman of the Babelegi Industrial Association, whose members operate in the former Bophuthatswana.

**INDUSTRIAL DECLINE** *Hermann Dedekind, the chairman of the Babelegi Industrial Association, outside one of what he says is a growing number of abandoned factories in former homelands* PHOTO RÓSS HERBERT

Dedekind says more than 10 percent of the association's members have closed or moved out of the former homeland in the past year and more than 100 factories stand vacant in the Babelegi area. At least 57 businesses have left the former Bophuthatswana. And it is not merely white business raising the alarm.

"There was a vibrant economy (in the former Ciskei). Now, I think, it is going to become a desert unless the government changes its thinking," said Nettleton Gwili, an Eastern Cape executive director in the National African Federated Chamber of Commerce.

Taxes are one key issue. Low wages and low or non-existent corporate taxes were the only reason many factories set up in the former homelands.

Now businesses are paying full South African corporate rates.

"You must phase in (tax increases), not do it all at once in a big bang or all of our people will go under," Gwili said.

Cosatu-affiliated unions have launched an aggressive drive to bring wages in the former homelands up to the levels in metropolitan areas. Dedekind faces demands to raise wages to R250 a week. He now pays between R130 and R150 a week.

"If I have to double my wages, I'm out. Already we're out of the market. If it goes on like this, there will no longer be a clothing industry in South Africa in five years," Dedekind said.

The National Union of Metalworkers (Numsa) also is negotiating with businesses in the former homelands to boost wages to metropolitan averages with a 12-month phase-in period. Business is asking for a phase-in over three years with wages at 70 percent of Numsa minimums at the end of the period.

Elias Monage, a Numsa national organiser active in the negotiations, said he does not believe business is under serious pressure in the former homelands.

The threat of business failures, he believes, is merely another "dirty-trick" negotiating tactic. Nationally, Numsa is trying to raise the wages of the lowest paid workers to a level closer to that paid to artisans. Monage argues that if businesses are given three years to phase in wage increases in the homelands, they will never catch up with the rising national minimum wages.

Universal Paper and Plastic is one business that recently decided to expand in Garankuwa. But Phillip Sher, the managing director, said the company's high capital investment in machinery would make a move more costly than staying put.

If services are bad, transport costs high, managerial staff hard to find and wages the same everywhere, many businessmen feel they would be better off locating near a major city where there are more skilled workers and lower transport costs.

"If it weren't for our capital investment, we probably would have moved out. If the tax incentives given by the old state go, a number of people in this area will move," Sher said.

Business complains that infrastructure and services in the outlying areas — telephones, postal service, roads, rubbish removal — are declining rapidly.

Access to credit is also a problem. The development banks of various former homelands are in the process of merging and spend most of their time wrangling over bureaucratic issues, neglecting business development and lending.

Gwili said the commercial banks have expressed willingness to lend, but have done little so far.

"They are used to dealing with millions and are not used to small and medium businesses," he said.

"Each time we talk to the government, we list people preparing to leave and they say they'll look into it. We talk and nothing happens."

# Manufacturing sector returns strong growth in June quarter

eT (BR) 21/11/95 (180)

By Derek Tommey

Johannesburg — The manufacturing sector experienced strong earnings growth and healthy balance sheets in the June quarter, according to figures compiled by the Central Statistical Service.

The figures were compiled from the results of companies producing 80 percent of the sector's output. On a quarter-to-quarter basis, net profit were 32,5 percent higher in the June quarter after declining 15,2 percent in the March quarter.

In the 12 months ended June, net profit rose 31,7 percent on a 24,0 percent rise in turnover.

Despite the higher profit, dividends paid dropped 4,0 percent, influenced by the secondary tax on companies. Income tax and company tax rose 31,6 percent.

Capital expenditure in the 12 months ended June rose 11,6 percent, with spending on vehicles increasing 46,7 percent and on used assets 22,1 percent.

Money spent on plant and machinery rose 17,1 percent, but there was a small decline in expenditure on buildings and on construction works.

The value of stocks increased 26,1 percent, which was almost mirrored by a 25,3 percent rise in bills, short-term notes and trader debtors. But call money, demand deposits and cash on hand rose 55,2 percent.

The manufacturing sector was chasing its debtors and, at the end of June the average collection period was 51 days, down from 53 days at the end of March and 56 days at the end of December.

# NUM disappointed at supply-side proposals

John Dludlu (180)

BD 21/11/95

THE NUM has expressed disappointment at government's proposed package of supply-side measures, saying it took a narrow view of the SA industry.

NUM official Martin Nicol was reacting to the state discussion document on supply-side measures to improve industrial competitiveness. The document was tabled at the National Economic, Development and Labour Council.

Nicol said although the NUM welcomed the "well-written" document, especially the emphasis it placed on training, it was disappointing that no mention was made of primary sectors. No details were spelt out on how the primary sectors, SA's premier export sectors, were to be strengthened.

Essentially, the measures were aimed at the manufacturing industry, which studies had shown was inefficient, he said.

Even the part dealing with training failed to take into account the circumstances that would merit assistance for the mining sector.

Nicol said it was important that measures be put in place to preserve current jobs and not just to focus on the creation of new ones as the document seemed to suggest.

"It would be worthwhile for government to provide support for the mining industry to realise the full worth of the deposits." The NUM had expected a comprehensive package, identifying sensitive areas and dealing with their problems.

He said the failure to take the mining and agricultural sectors into account could have been the result of the lack of involvement of the minerals and agricultural affairs departments in Nedlac debates.

The state document outlines incentives for training, technology enhancement, investment incentives, industrial development finance, work organisation, productivity improvement and small business development.

The government package of supply-side measures will be financed from savings made from the general export incentive scheme which is administered by the trade and industry department and which is to be wound down in 1997.

Last week's document comes a month after a limited scale package, comprising low interest rate loan finance, was unveiled by the Industrial Development Corporation.

(180)

INDUSTRIAL POLICY

# Recycling the dinosaurs

FM 24/11/95

**The term** supply side is closely associated with economic reforms introduced by President Ronald Reagan in the US and Prime Minister Margaret Thatcher in the UK in the early Eighties.

From a free market perspective, supply side measures are low inflation, flexible markets and a low tax rate. However, the term is also used by economists who advocate intervention in the economy. And the supply side measures, mooted in the submission by government to the trade & industry chamber of Nedlac, lean heavily towards the latter.

The document is titled: "Support measures for the enhancement of the international competitiveness of SA's industrial sector." It proposes, among other things:

- Support measures for infant industries. "Though tariffs are being phased down, they are not being totally discarded. Protection therefore remains available as a tool to be used in the establishment of new industries that entail a significant degree of import replacement;"
- Assistance to sensitive industries "to enhance their competitiveness and chances of survival;"
- Assistance packages to competitive industries to avoid criticism that the programme "penalises those industrialists who have invested in their own competitiveness in the past;"
- Concessionary finance for "specific policy aims;"
- Technology enhancement;
- Productivity improvement. The document refers to the Monitor Group "Global Advantage of SA Project" which "points towards the need for active government policies which can help to increase investment in both human and physical capital;"
- Incentive packages which "ideally should lead to viable ventures being undertaken which would never have been undertaken in the absence of the incentives;" and
- A shift from grant-based incentives to selective tax incentives.

Even if the measures were desirable, their cost would be prohibitive in a country battling to make fiscal ends meet. We are not talking about once-off introductory costs but ongoing support programmes which will drain the fiscus each year.

The document explains: "The new approach to industrial policy entails a shift from raising the price of outputs (demand-side incentives) to lowering the cost of productivity enhancing investments (supply-side incentives)."

Lowering the cost of production can best be achieved by removing the costly obstacles — such as unwieldy regulations and distortions which prevent markets from clearing — and removing secondary tax on companies.

But the measures are not desirable because they skew supply rather than promote it. They will simply replicate the inefficient, uncompetitive industries which similar measures created in the past.

Government's submissions must now be considered by the business and labour constituencies in Nedlac. ■

# Frame warns unions not to push wages too high

(365) (180) (19)

By Shirley Jones

Durban — Trade unions and employees must realise that unless South Africa contains the rising cost of wages and salaries, competitiveness in world markets will diminish and, with it, badly needed jobs.

This warning was delivered by Frame's managing director, Walter Simeoni, at a presentation to Steve Swanborough, sales manager at one of its largest export customers, Allders Stores.

Allders, a major departmental retail store in Britain, which has a turnover of more than £700 million from 25 stores, has booked a third in-store promotion with an expected order value of more than R4,5 million.

Products will be shipped in March.

CT (BR) 24/11/95

# Manufacturers wind down after strong growth

Mungo Soggot

THE manufacturing sector is cooling down in line with anecdotal evidence that the sector is taking a breather after growing robustly for about 18 months, according to Central Statistical Service figures released yesterday.

The CSS figures showed manufacturing production had fallen a seasonally adjusted 0,1% in September from August after lower output from the textile and chemical sectors.

The CSS also released figures which showed that production capacity utilisation had levelled off, dropping by 0,4% between May and August when it was measured at 82,9%. Later figures are not available.

Economists said the manufacturing figures confirmed suspicions that the third quarter manufacturing growth figure in last week's GDP release was "too high" at a quarter on quarter seasonally adjusted annualised 10,5% — up on the previous quarter's 10%. Many expected a drop when the fourth quarter's GDP figures were released next year.

Econometrix economist Tony Twine said the drop was "not totally unexpected. It's not the end of the world after a good run of about 18 months." He said the slowdown probably stemmed from the substantial drop in inventory levels at the end of the second quarter following the interest rate hike in June. After a hefty build-up in inventory levels late last year and in the first half of this year, the rate of growth in inventory levels had slackened, although this had not yet been confirmed by official figures.

Twine said manufacturing's contribution to GDP would not necessarily follow the same pattern as the monthly CSS release, as its contribution to GDP only reflected final products, whereas the CSS's manufacturing figures included intermediate goods.

Old Mutual economist Johann Els said the pause for breath was "part of the consolidation process in the whole economy" caused in part by high interest rates.

The CSS said there had been production increases in September in the paper, petroleum and coal products, machinery and equipment sectors.

(180)

See Page 12

BD 24/11/95

# CSS estimates challenged

EDWARD OSBORN

TO BE blunt, I do not believe the latest GDP growth estimates for the third quarter.

The Central Statistical Service (CSS), in its release on November 15, published a preliminary annualised growth estimate for GDP at factor cost of 2,3% for the third quarter, with a revision of the second quarter from 0,3% to 1,5%.

Indeed revisions were made right back to 1993, in general pushing up the rates of growth ever since the upturn in the economic cycle in the first quarter of 1993.

National accounting estimation is difficult at the best of times and the process of continuous revision has to be accepted as new information accumulates and there is a changing perspective on the unfolding economic process.

There will be the inevitable revision too for this third quarter estimate, but it is clear that the revision should be as radically downward as the revision for the second quarter was radically upward.

The offending sector estimate is that for manufacturing.

According to the release, the successive rates of growth in the three quarters this year were 7%, 10% and 10,5%. (Last time the rates of growth for manufacturing in the first and second quarters were given as 4,7% and 7%. The manufacturing sector is the one that is reflecting the largest upward revisions.)

The growth estimates for manufacturing are therefore purporting to say there has been an acceleration of growth into the third quarter, that is with the rate of growth in the third quarter being even greater than in the second.

Unfortunately this flies in the face of CSS's own release on manufacturing production in August, published on October 19, almost a full month before the GDP release.

To quote from that release: "Manufacturing production levelled off after the upward trend during the first five months of 1995 and remained at the same level for the last three months up to August." This statement is consistent with anecdotal evidence about trends in the manufacturing sector and also with many of the statements in the recent spate of company reports.

The clue to what has possibly gone wrong was given by the director Mark Orkin in a reported statement explaining the magnitude of the revision to the second quarter, namely that at the time of the estimation of the second quarter only manufacturing production for April was available. But this is extraordinary in that the May production figures, albeit preliminary, were available in mid-July and the second quarter estimates for GDP were published in mid-August.

The CSS is therefore only using the manufacturing data of the first month of the quarter when it could and should be using two months.

It just so happens that there was an exceptional spike in manufacturing production in May. Had that been brought into the picture at the time, there would have been a much higher estimate for manufacturing and for GDP as a whole.

By the same token a levelling off of manufacturing only became apparent with the August figure.

Furthermore the CSS would appear to be using the three-month moving average trend line of manufacturing production as the basic indicator for its estimate of growth. Thus the three-month average using the July production would pick up the May spike, whereas the similar average using August production would not.

On this basis what was derived as an annualised 10,5% growth would actually turn out to be only 3,1%, or only 0,77% greater quarter on quarter. If this is indeed closer to the truth the growth of GDP at factor cost in the third quarter should only be 0,5%, instead of the published 2,3%. And the growth of GDP at market prices should be revised downwards from the published 3% to 1,4%.

I am inclined to stick to my forecast of 2,8% GDP growth (market prices) for this year, as opposed to the 3%-plus these latest estimates are indicating.

There are no clear-cut implications for monetary policy. The Reserve Bank must be cautious of preliminary GDP estimates in any circumstances. The governor will continue to be influenced by specific considerations of money supply and credit growth, balance of payments and inflationary expectations.

If he accepts the CSS estimate of growth he can argue that the present high real interest rate regime is not inimical to growth, while achieving low inflation. If, on the other hand, he is just as sceptical of the growth figure he will shift his ground and say that the economy is on the track expected and that credit demand is disproportionately high. — Reuter.

(The opinions expressed in this article represent those of the author, and should not be seen to represent the views of Reuter.)

☐ **Osborn is an independent economist and consultant.**

(180) BD 24/11/95

LETTERS

# Government proposes a new deal for industries

ST(BT)26/11/95 (180)

By CIARAN RYAN

THE government this week proposed a package of measures aimed at breathing new life into the industrial sector.

The focus of the proposed industrial policy will be new industries, sensitive or highly protected ones and those that are internationally competitive. The four main objectives of the industrial policy are employment generation, increased investment, improved trade performance and enhanced productivity.

The report, *Support Measures for the Enhancement of the Industrial Competitiveness of South Africa's Industrial Sector*, was presented for discussion to the trade and industry chamber of the National Economic, Development and Labour Council.

The short- to medium-term objective is to bring about a leap in capital investment, both physical and human, by pursuing policies which support infant and high-risk industries.

The report emphasises the urgent need for policies and support measures to assist the reconstruction and development programme to enter delivery phase, a process requiring large-scale industrial development which will generate jobs and boost the sector's international competitiveness. South Africa's membership of the World Trade Organisation, the successor to the General Agreement on Tariffs and Trade, severely limits the type of assistance available. The emphasis on industrial policy internationally is shifting from direct cash endowments towards creating a stable macroeconomic environment with realistic exchange rates and policies which support capital, technology and skills accumulation.

Although import tariffs are being phased down in terms of Gatt, they remain available as a policy tool to encourage investment in new industries which have potential to compete internationally and which advance social objectives.

The package is designed to attract local and foreign investment and improve industrial competitiveness through various supply-side measures, such as assistance in upgrading technology, improving productivity and training staff. This represents a major shift from the demand-side support such as cash export incentives.

Sensitive industries earmarked for special assistance are those facing severe down-phasing of import tariffs, those in need of substantial modernisation and not yet capable of surviving without support.

Also earmarked for special support are internationally competitive industries which have the potential to expand their market shares, both locally and abroad, and improve the broader economy through backward and forward linkages. Industries considered competitive in international markets are those that add value to mineral and agricultural products before export.

Measures aimed at fundamental restructuring of the industrial sector include human resource development, seen as vital to employment creation, low interest finance for targeted industries, grant and research support for modernisation and technology upgrades and productivity improvement incentives.

Investment incentives are preferred to reductions in corporate tax rates because of the pressure this would exert on the fiscus in the short term. Conditions attached to awarding incentives should include the extent of training, value added, scale of output, best practice work organisation, labour absorption and the overall cost to government.

The report acknowledges that the economy's reliance on natural resources is no longer sufficient for sustainable economic growth. More attention must be paid to human resource development and skills development which will result in "a new source of dynamic competitive advantage and vitality". This will enhance the economy's labour-absorption capacity which should narrow income disparities. This is a long-term process requiring urgent allocation of resources. In the meantime export-oriented natural resource development is necessary to strengthen the balance of payments.

"The long-term vision of South Africa's policymakers is to guide and expedite the country's process of industrial development up the so-called value-added chain and, in so doing, to achieve the goal of creating substantial (high skill and high income) employment opportunities on a sustainable basis in the long term," says the report.

The various support measures should be funded by redeploying expenditure on the General Export Incentive Scheme, which is being phased out to comply with Gatt. Geis costs 0,5% of gross domestic product, a sum large enough to make a meaningful difference to the new industrial policy.

The report notes that despite sound economic growth there is little evidence of job creation in manufacturing and savings rates are too low for the required level of investment. One policy approach which should be considered is depreciating the rand to counter the effects of lower tariff protection. However, this policy will be successful only if wage and price increases as well as other inefficiencies and inflexibilities are not allowed to nullify the competitiveness-enhancing effects of currency depreciation.

# South Africa loses rank

MG(BM) 27/10-2/11/95 (180)

SOUTH AFRICA has slid down a spot in the *World Competitiveness Report* from 35th position in 1994 to 36th this year out of 41 countries overall. The Czech Republic and Brazil leapfrogged over South Africa while Mexico dropped below South Africa to 38th position.

South Africa, although improving its rankings in five factors, declined in the categories for internationalism and management. In the people factor, South Africa came last, even losing out to Russia which scored lowest in all other factors.

World leaders, and streets ahead of the rest, are the United States followed by Singapore, Hong Kong, Japan, Switzerland and Germany.

In spite of its low ranking, an authority on the report said South African did demonstrate some good positive trends in the economic sphere. These included the prospects for growth, the probability of a low inflation rate in the next 12 months and the fact that there appeared little likelihood of a recession in the near future.

Sector in danger without fiscal support

# Plea for govt to support manufacturing

BD 1/12/95 (180).

Greta Steyn and Mungo Soggot

THE Industrial Development Corporation has made a strong plea for government backing for manufacturing, warning that the sector is in danger of sagging without fiscal support.

It said in its annual report: "Trade reform on its own will not lead to improved competitiveness, but rather to industrial shrinkage if not supplemented by other forms of government support." It called for a broad-based system of supply-side measures to support investment, training, technology development and productivity improvements, and to ensure that manufacturing continued to steam ahead.

The corporation wants fiscal support to cushion the blow from crumbling trade barriers. Government has dragged its heels over introducing supply-side measures to replace incentives and subsidies, which clashed with GATT, due to a lack of funds.

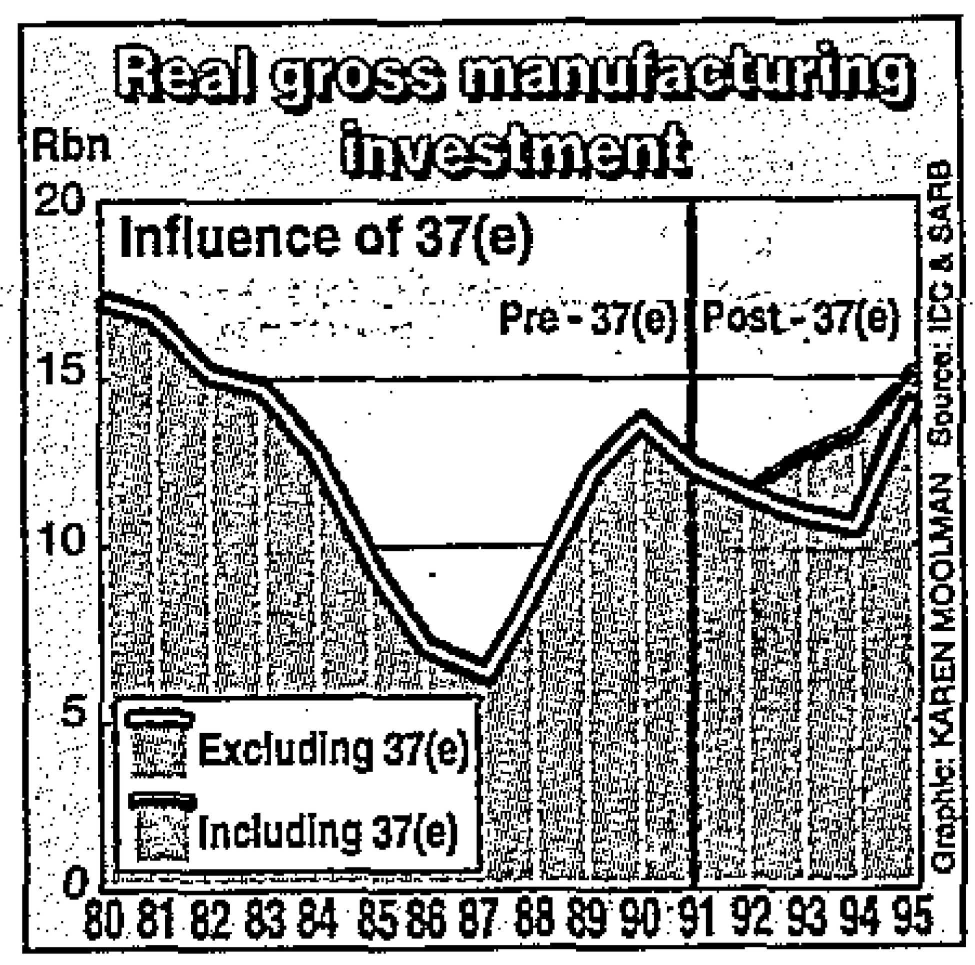
The corporation said manufacturing output had soared by more than 7% in real terms in its past financial year. During the year, it had approved more than R7bn in new credit — outstripping the average of the first four years of the corporation's industrial development plan. This would create 14 434 new jobs and generate R4,3bn in foreign exchange earnings a year, bringing the tally for the first four years of the five-year plan to more than R15bn.

It believed it had a pivotal role to play in SA's drive for international competitiveness. But it signalled the race would be lost without fiscal support for new investment in manufacturing — citing the success of the tax incentives in terms of section 37 (e) of the Income Tax Act to prove its case.

These incentives were ended because they fell foul of GATT. Since the incentive lapsed, the industry had been without fiscal support.

In view of lower import tariffs and the abolition of import surcharges and other incentives, this could not be allowed to persist.

See Page 14



# Applied science experts vital to SA

(180) ARG 13/12/95

Staff Reporter

TRAINING in new fields of applied sciences is vital for manufacturing and industrial growth in South Africa.

Only about three percent of technikon students are studying courses in the field which puts South Africa way out of line internationally in terms of training technologists versus professional engineers, said Teboho Moja, executive director of the National Commission of Higher Education, at the Cape Technikon Diploma ceremony.

Dr Moja said South Korea had an estimated ratio of 20 to 1 technologists to professional engineers as compared to 0,8 to 1 in South Africa.

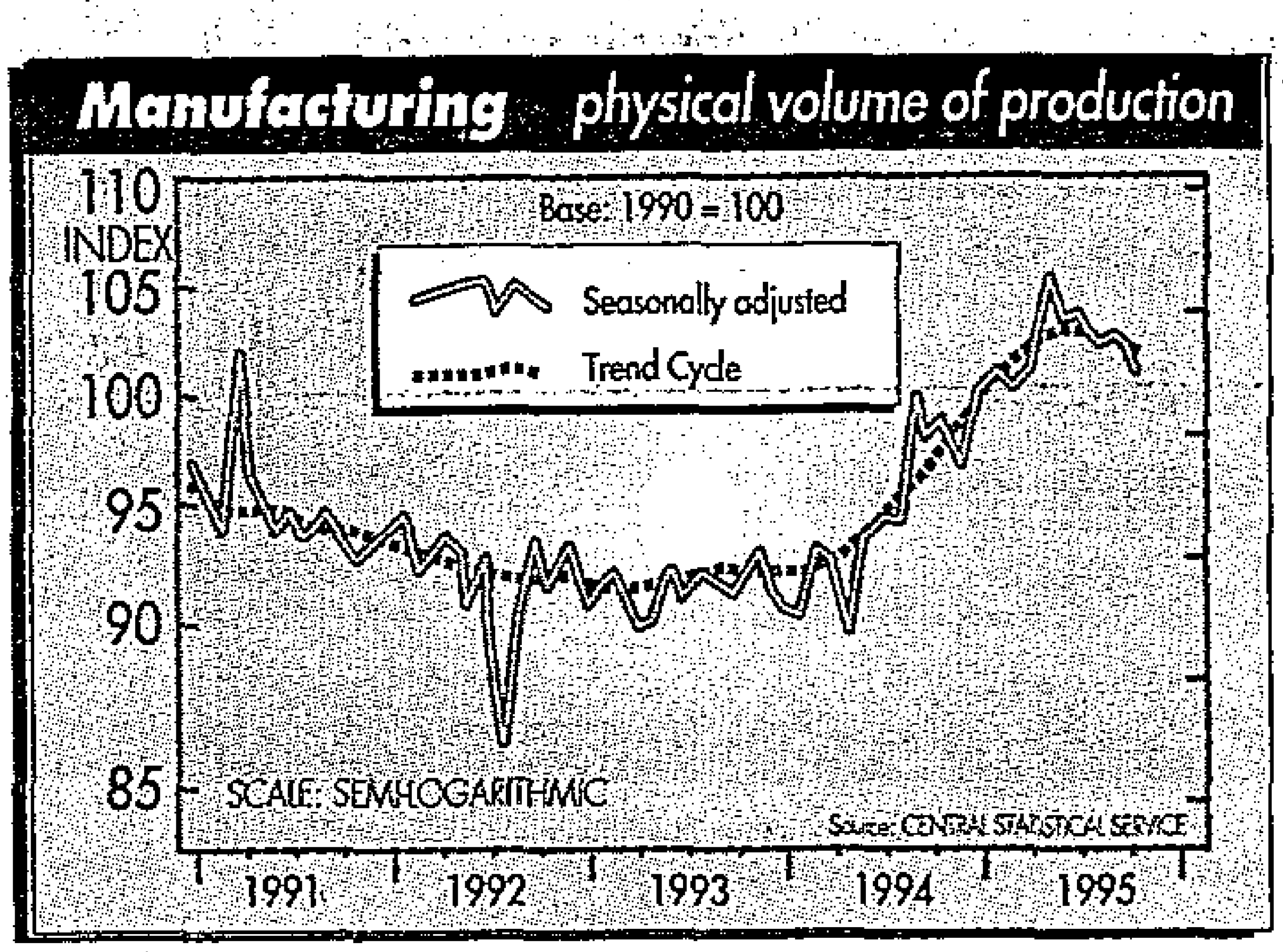
Between 1988 and 1991 there had been a relative shift away from science and tecnhology fields of study towards diplomas in commerce and management.

Women, and both male and female African students, were not strongly oriented towards science and technology fields which were dominated by white men.

Peter Thomson, chairman of engineers Ninham Shand, speaking at a different diploma ceremony, said pressure would build up to produce technologically edcuated people in much larger numbers than at present.

He said that to meet the future needs of society, adequate numbers of people with higher education skills in the applied sciences would be needed.

While numbers had increased at the Cape Technikon from about 6 000 to 7 500 over the last four years, this growth rate was too low, and in engineering, five or six times as many graduates would be needed in 10 to 15 years.




# Manufacturing output up

(180) ET (BR) 16/12/95

BY DEREK TOMMEY

Johannesburg — Physical manufacturing output in October was running 3,7 percent ahead of last year indicating that this sector of the economy is still growing at a steady pace, according to Central Statistical Service figures released yesterday.

One apparently disturbing figure is the 10,8 percent drop in the production of motor vehicles, parts and accessories compared with October 1994. But motor industry analysts say this figure is not a fair reflection of conditions in the industry as motor vehicle production this time last year was abnormally high, because of assemblers exerting every effort to make up the production lost during the mid-winter strikes.

Most of the raw material processing industries showed significant production increases in October. Output of basic iron and steel industries was 11,2 percent higher than last year while that of basic non-ferrous metals industries was up 8,0 percent.

Production of "other non metallic minerals", mainly cement, was running 9,3 percent ahead of last year while the output of products of petroleum and coal was 12,4 percent higher.

Food production was 7,4 percent higher, clothing production 5,5 percent and footwear production 4,3 percent.

The output of machinery and equipment was 15,8 percent up and that of electrical machinery 7,5 percent.

An extremely strong rise in output was the 23,9 percent increase recorded by the wooden furniture sector.

However, laggards included the textile sector where production was down 6, 5 percent and metal products, excluding machinery, which experienced a 1,2 percent decline.

# Unions and bosses urged to discuss challenges of new trading conditions

ARG 16/12/95 (180)

**JOHN VILJOEN**
Business Reporter

THE key to competitiveness in South Africa's manufacturing sector is simply not to cut jobs but to upgrade skills, training and communication through co-operation by management and trade unions.

John McKeefry

John McKeefry, of Cape Town-based manufacturing consultancy Competitive Capabilities Africa (CCA) urged unions and management to debate as equal partners the issues facing companies in an era of lower tariffs and increased competition.

Some major South African companies are taking steps to increase their staff's access to training and information, but a lot more needs to be done on this front, according to Mr McKeefry.

CCA has been dealing with companies across the country ranging in size from fewer than 30 employees to those with staffs of around 1 500.

Clients include South African Breweries, Nampak and the Tiger Oats group.

South African firms needed to set up forums or stakeholder committees, similar to the working place forums proposed in the new Labour Relations Act, to manage change, he said.

These forums should be the place to discuss any change which was going to affect the workforce — for example, the upgrading of technology, quality issues, employee education and training.

Mr McKeefry's organisation aims to assist companies to understand the need to change.

"One of our roles is to establish where an organisation stands using organisational and operational audits and benchmarking the company against the highest international 'Best Practice' standards. We then design a process which will get the company from being less than the best to being the best.

"But, we are not imposing international solutions — we look for answers which are developed specifically for the South African situation."

In doing this, McKeefry calls partly on the experiences he gained working with the New Zealand Engineering Union at a stage in the 1980s and 1990s when that country experienced a relaxation of its protective tariffs, international competition and the impact of a worldwide recession.

"I wouldn't say do as New Zealand has done, but there is an opportunity to learn from the mistakes we've made and the good things we've done."

# Wages not the reason for firms failing

LACK of funds, not high wages paid to employees, are at the root of small business failures, said Paul Benjamin.

"Big banks are more responsible for the failure of small businesses than labour legislation.

"Labour law has become a scapegoat in an ideological campaign."

He was responding to a questioner who asked whether by extending minimum wages to smaller businesses, legislation would inhibit employment creation.

"This is a complex issue. The main reasons for small business failure are lack of management skills and lack of access to loans

"This is a development issue, not a question of labour law. In the end small business will survive if there is the necessary range of support structures."