CONTROL & OWNERSHIP

1991

JANUARY — MARCH.

Equities fail to deliver the goods

(232)

Star 3/1/91.

By Ann Crotty

At this stage the best that most JSE players will be hoping for from this year is that it won't be a repeat of the grim pattern of trade that made 1990 one that many will want quickly to forget.

It was a year that was dominated by an underperforming gold price which led to massive cut backs and retrenchments in the gold mining industry with the inevitable spill over into other sectors of the economy

Its impact on the JSE was severly damaging, sending the the All Gold index tumbling 40,7 percent over the year

Political developments — highlighted by the release of Nelson Mandela and the unbanning of the ANC and others — led to widespread nervousness in the market as township violence, boycotts and talk of nationalisation made investors wary of equity participation

Brokers

For the brokers the worry wasn't so much the weaker price levels that prevailed (resulting in an 8,5 percent drop in the Overall Index between January 2, 1990 and January 2, 1991) but the weak volumes that were traded

Most private investors moved out of the market and those that remained apparently made little or no changes to their portfolios

Institutions were topping up on blue chips but otherwise were taking a very cautious view of equities

This all resulted in very tough times for brokers as the volumes needed to support expensive overheads were not realised

As the year progressed volumes became thinner By September there was talk of retrenchments By October the retrenchments were being effected Two of the JSE's largest broking firms, Frankel Kruger Vinderine and Max Pollack Freemantle, announced plans to merge in October

By year-end most of the broking community still in employment were looking at a bonusless Christmas and no new year salary increases

For the investors Mr Mandela's calls for nationalisation made sure that it was the year to pick out "nationalisation-hedge" stocks just as 1989 had been the year of the "rand-hedge" stock

Diamonds

Richemont scored wonderfully on this sentiment And De Beers almost did The fact that it didn't probably produced the biggest losses suffered by private investors during 1990

In March, not long after Mr Mandela's release, De Beers announced that it was putting all its non-SA assets into a Swiss-based company to be called De Beers Centenary AG

The company was emphatic that there was no connection between ANC calls for nationalisation and the move offshore, stressing that it was a logical development in line with the growth of the group's asset base

The plan involved the creation of a stapled share comprising an "SA-unit" and a "non-SA-unit" Investors quickly saw the possibility for the de-stapling of the share and the consequent ability for SA shareholders to buy into an overseas asset that was safe from any developments that might threaten the SA investment environment

This sparked much talk of De Beers going well over R100 during 1990 Shortly after the initial announcement the share moved to R90 — from a January '90 level of R60 Many local investors bought at heady levels in anticipation of the share moving to R130

It was not to be

The share price briefly passed R100 but quickly scuttled back and for most of the year remained huddled around the R65 level — even there it occasionally looked under threat

News of De Beers plans to lend $1 billion to the Soviet Union's diamond industry in return for the right to market that country's diamond production over the next 5 years had little impact on the share price

Banking

It was a tough year for Sanlam/Sankorp investments Bankorp had to be bailed out again In September the giant banking group announced a massive R682,3 million write-off and on top of that an attributable loss of R378,5 million for the 12 months to end-June There was to be a one-for-one rights issue at 280c a share to raise R550 million

The reasonable strength of the share price was attributed to the appointment of Mr Piet Liebenberg (who had come over from Nedcor) as executive chairman as well as the presence of Sanlam as the major shareholder

Also in the Sanlam stable, Fedvolks announced massive losses and the need to make an R85 million write-off In June the share was suspended and in July the JSE saw its biggest ever delisting as Sankorp bought out minority shareholders at 460c a share.

Elsewhere in the Sankorp stable, Tradegro continued to suffer bad operating performances. In September, Sankorp and Pepgro announced that there were talking about a possible link-up between Tradegro and Pepgro. But by the end of the month the negotiations had been terminated

Although things were pretty bleak for Bankorp, the rest of the banking sector enjoyed good support during 1990 This was not so much due to fundamental trading factors as to widespread speculation about a restructuring of the banking/building society sector.

But despite considerable speculation, fuelled by the approaching introduction of the new Deposit-Taking Institutions Act, little happened on this front until the end of September. Then Volkskas, UBS, Allied and Sage (all with Rembrandt connections) announced that they were involved in discussions about merging their interests into a new diversified financial services group

By the close of the year there were still no details on these discussions.

It was also the year that Metal Closures' controlling shareholders were prevented from buying out their minority shareholders; that Iscor disappointed all of its new shareholders, that ERPM was allowed to hold on to its government lifeline, that Southern Sun was delisted, that Plate Glass began to emerge, scathed, from the wood and, that FSI had yet another restructuring

OPTIONS ON FUTURES

GETTING THE MEASURE

Statistics on futures options have been released for the first time by the SA Futures Exchange, which is preparing to register these options formally in the second half of the year Until then it does not guarantee them FIM 4/1/91. (232)

Safex started an informal register in August but the published figures, based on records of individual institutions, date back to May (see table)

Options enable an investor running a portfolio to hedge futures contracts A fund manager will use a combination of futures, options and cash markets to maximise returns

From May to December 13 companies wrote options on All Share and All Gold futures contracts The number of contracts per option varies· large writers tend to use 50 per option as a minimum, the smaller start at 10

The table shows 25% of options were exercised, the rest expired. This is in line with foreign trends, says a dealer.

Safex will publish options on futures figures after each expiry date from March 15.

Senior manager Patrick Birley says· "Knowing how many options are out in the market will give Safex a level of comfort and help improve its risk management."

Investec's Gerry Haworth welcomes the idea as long as information remains confidential Investec is among the larger options writers, along with Rand Merchant Bank, Securities Discount House and Finansbank.

Options on futures volumes have fallen sharply since last January. One leading trader says 85% of his gross income came from options on futures in 1989. that fell to zero in January 1990 One reason was the expiry of the huge number of options written as a hedge for March 1990 All Share futures.

Because 1990 was so volatile, banks and insurance companies, still smarting from 1989's whipsaws, were reluctant to write options. However, Howarth believes the market will grow this year because of the high cost of dealing in the underlying shares.

In last year's bearish environment it was holders of put options who made profits ■

F|M 4/1/91. (232)

SAFEX OPTIONS

December All Share and All Gold Futures

No of options registered (per co.)	No of futures contracts involved	No of options exercised*	No of futures contracts involved
115	2 360	22	450
57	3 735	17	1 030
57	2 880	6	1 175
36	2 640	6	450
25	1 770	5	300
17	890	0	—
16	1 300	3	150
15	640	5	260
14	725	3	300
3	40	0	—
3	15	0	—
3	150	1	50
3	50	1	20
364	17 195	69	4 185
		19%	24%

* Those reported to Safex

Source SA Futures Exchange

TOLLGATE/GANTS (232)

QUESTION OF PRICE

FM 4/1/91

Anyone expecting a gunfight between the Gants minorities and Duros chairman Julian Askin around the Tollgate table at the scheme meeting on January 7 could be disappointed But there may be more surprises to be revealed about Gants — an example is that Tollgate is suing David Gant for R6m This relates to the amount of profit stated when he sold the company to the group

Askin never thought the restructuring of Duros and Tollgate Holdings would be easy.

Remaining operations, including Gants, have either to be profitable, reconstructed or disposed of Askin wants to retain Tollgate's listing on London's International Stock Exchange, which does not allow listings of pyramid companies. Any pyramids that are in the Duros/Tollgate group have to be disposed of, which explains the proposed share swap of seven Duros shares at 650c each and 450c in cash, or R60 cash for every 100 shares of Gants held FM 4/1/91 (232)

Shareholders Association chairman Issy Goldberg has expressed concern about the offer price He notes that the scheme document lists tangible net worth as 114c, while the offer is pitched at 60c a share Goldberg also wants to know what caused the slide in profitability at Gants EPS were 24,8c in 1988, then fell to 2,2c in 1989 and interim figures for 1990 show a 5,7c per share loss Askin cites an estimated loss for Gants of 25c-30c a share for the 1991 year Debt stands at about R60m, and the company needs to be recapitalised But what shareholder, he asks, will put up the cash when the company is making losses? With only 52% of the equity, Askin's own group will not do so When Gants is a wholly owned subsidiary it could be financed internally

Askin emphasises that profit was sliding long before he came on the scene This, he says, is one reason for suing Gant Askin claims the profit tabled by Gant when the company was sold to Tollgate was stated on a basis not consistent with the previous method of accounting

The meeting on January 7 should at least be informative Until then, shareholders should avoid hasty decisions

Gerald Hirshon

PERSBEL/REMBRANDT FM 4/1/91 (232)

WHAT ARE THE ASSETS WORTH?

Judging by the run-up in Perskor Beleggings' share price to the current 500c, investors are taking the line that the Rembrandt/Persbel deal represents the start of a new era for this group. It might — but a lot more is going to have to happen to justify this optimism

The simple fact is that the deal *per se* does not seem to add any value in terms of earnings nor dividends to Persbel. In the near-term, indications are that the earnings (being dividend income), on the additional shares it is issuing in exchange for a 49% investment in Rembrandt's printing and packaging interests, will be the same as the earnings on its existing shares And while one can accept that the directors' forecast — that this year's payout will not be less than 1989's — is probably conservative, there is nothing to suggest the growth outlook is encouraging enough to warrant the present 2% dividend yield.

It is not even clear that any material synergistic benefits are likely to be achieved. For one thing, integrating the investment with the rest of the group's business will be complicated by the fact that the investment is housed in Persbel, which is a sort of double-pyramid of the operating company, Perskor For another, it has acquired only 49%, hardly sufficient to pursue the full integration programme necessary if significant cost benefits are to be achieved

But the picture could be different if Rembrandt intends taking an active interest in the management of the Perskor group, via its newly acquired 32% holding in Persbel, and in particular is able to unlock the considerable value inherent in Perskor's under-utilised asset base

The under-performance of the group was covered in some depth when the *FM* reviewed the annual report (*Companies* November 23). And while Perskor did not agree with this analysis, it is noteworthy that even the group seems to have some difficulty in deciding on a fair, or realistic, valuation for the underlying assets.

There is no clearer indication of this than in the Persbel financial statements. Net worth per Persbel share at June 30 1990 (the financial year-end), based on the then-market value of the company's 42,2% holding in Perskorgroep and the directors' valuation of the 2,7% direct interest in unlisted Perskor, was 226c — the figure used in the latest announcement to illustrate the effect of the Rembrandt deal on net worth

However, if one values these two investments at their respective book values, Persbel's net worth jumps to 476c, and if this is then adjusted for the directors' valuation of Perskor's investment in associates, it moves up further to 708c The significance of this is that Persbel's own directors value the investment in Perskor at a 43% discount to the underlying book value, and a 60% discount to the full value indicated by the Perskor balance sheet after adjusting for the directors' valuation of investments.

This may explain Rembrandt's decision to get involved If the underlying value inherent in the group can be realised, the take-up price of 440c per Persbel share will prove a bargain

But the fact remains that this value is not going to be realised while Perskor continues to earn only 9,3% gross on total funds employed On the other hand, if the involvement of Rembrandt contributes to improving this situation, it could be the opportunity the market has been waiting for — not to mention those who have invested in the group over the years as an asset situation

However, if the group continues to bumble along as it has in the past, it is hard to see the present enhanced share prices being maintained.

Brian Thompson

PERSBEL'S VALUE

	Value (R'000) Market/ Directors'	Book	Full*
Perskorgroep‡	17 449	37 347	55 812
	720†	1 541†	2 302†
Perskor§	1 589	2 808	3 974
	3 510†	6 203†	8 780†
Total invest	19 038	40 155	59 786
Net curr assets	81	81	81
Net worth	19 119	40 236	59 867
Per Persbel share	226c	476c	708c

* Book value adjusted for directors' valuation of investments † Cents per share ‡ 2,423m shares § 45 267 shares

FM 4/1/91 (232) FOX

NEW LISTINGS FM 4/1/91 (232)

NOT A VINTAGE YEAR

1990 was not a good year for new listings There were only 22 flotations, which raised a total of R586,5m. Companies already listed raised nearly six times as much capital — or R3,38bn — through rights issues.

Both these figures are well down on levels of recent years. In 1989, issues by listed companies raised R7,05bn and new listings R4,81bn; in 1988 listed companies raised R4,49bn and new listings R3,06bn; and in 1987 listed companies raised R3,87bn and new listings R6,42bn.

One-third of last year's new listings did not come to the market to raise capital but were flotations of pyramids or other schemes of arrangement The 14 that did seek capital brought very little joy for stags — the average initial premium (on the first sale) was only 4,9% (see table) Taking the highest prices reached, the maximum stagging profit was 67%

But these modest returns look handsome beside the unhappy experience of anybody who took shares in many of the placings and continue to hold them On average they now stand at 93% of the issue price.

Of the 14, eight stand at or below the issue price. Only five still show a premium, with M-Net, now trading more than 95% above its issue price, easily the star listing of the year.

The poor performance of most of the listings can be seen as a reflection of the state of the economy — and, often, corporate profits — as well as generally bearish sentiment on the JSE

What will 1991 bring for the stags? With few if any new issues in the pipeline, there may not be many opportunities for profits or losses. Even so, if the industrial board does recover this year, a listing of a good quality company with a proven track record should still do well The scarcity of quality scrip is unlikely to ease much.

Gerhard Slabber

Institutions stuck for investment opportunities

CAPE TIMES 7/1/91

232

From ANDREW GILL

JOHANNESBURG. — Financial institutions have entered 1991 with a projected cash flow of about R35bn and no obvious vehicles in which to invest as the economy continues on its stagnant path, offering limited opportunities and poor returns

A fundamentally weak equities market, declining returns in the money market, a limited gilts market and an exhausted property market all contribute to the dilemma of life assurers and pension fund managers

Based on the compounded annual growth of 15% in assurers' and pension funds' 1988 cash flow of R21,95bn, 1991 is estimated to yield a flow of R33,4bn

Some analysts say the 15% growth estimate is conservative and the figure could well be more than R40bn

About R11bn will be paid out to policyholders, leaving R22,4bn which has to be invested somewhere

Added to the R33,4bn is the projected R5,6bn funds of the Public Investment Commissioner (PIC) which will be channelled into government stock.

Investment switches could come into play as the money market becomes relatively less attractive because of expected rate cuts by the Reserve Bank. This may further increase potential cash flow

However, demand in the money market is likely to remain strong and this could push rates down even further

The gilts market is unlikely to experience any major increase in borrowing from the major players because of rationalisation by the government and Eskom, and thus supply will be limited This is likely to be exacerbated by the PIC's R5,6bn

Equities, says Southern Life equity investments GM Paul Beachy Head, will be a major absorber of the capital

An investment strategy of buying when the all share index is down 10% from 12 months previously and selling at growth of about 40% is sure to yield results, he says.

The index is at 2 710 points, 9,3% down from last January, and could mark a turnaround in fortunes for the struggling stock exchange.

Nedbank economist Edward Osborn says a lot of money is likely to find its way into equities and push share prices up "for no good reason"

Investors will be climbing into a market which is "really very dull" and offers poor growth prospects

The PIC is likely to absorb all government issues in the gilts market in the next few months and overall borrowing is unlikely to be that much higher

The result would be "tremendous pressure" on money market rates, Osborn says The 90-day liquid BA rate has already fallen to 17,65% — 35 points below Bank rate

Property is unlikely to absorb much as CBD activity is depressed, and while housing ought to be be attracting investment it has not been doing so because of poor returns and political unrest.

African Bank issues shares to other races

232

LIZ ROUSE

AFRICAN Bank is to issue ordinary shares to members of other race groups, within certain limitations, to position the bank for future growth and to ensure it meets the capitalisation requirements laid down in terms of the new Deposit-Taking Institutions Act.

Making this announcement in his annual review, chairman Sam Motsuenyane foresees continued growth and improved profitability for the bank in the new financial year

The bank's total issued share capital consisted of 4 165 302 ordinary shares, 750 000 16% and 3,37-million 8% cumulative redeemable preference shares at the end of September 1990 The 16% redeemable preference shares will be redeemed in the 1990/1991 financial year

The bank's authorised ordinary share capital is 6,25-million shares. There were 3 757 shareholders at end-September

African Bank performed well in the year to end-September, with assets up 28,3% to more than R213,8m (R166,67m) Taxed income increased 39,8% to more than R1m (R718 705), while retained income climbed to R510 186 from the previous year's R175 170 The dividend rose to 6c (5c).

Having surpassed the R1m net income mark for the first time since its humble beginning in 1975, and having had to contend with a R67m forex scandal in 1986, the bank has cleared the desks for expansion this year

In the past year, the bank bought African Bank Centre in Johannesburg from French Bank, using its own resources. It opened branches in Tzaneen and Durban, which have shown good growth in deposits and new loans, says CEO Jack Theron

Since the year-end Nelspruit and Queenstown mini-branches have been opened Theron says negotiations with the Venda and Lebowa Development Corporations for the bank to take over their savings accounts outlets have reached an advanced stage

This will increase the bank's network by 10 mini-branches with matched savings/loan books of about R18m, says Theron The loan books will be taken over on a recourse and/or selective basis

The agreement with the Venda Development Corporation envisages the opening of a banch in Thohoyandou this month Negotiations for the opening of a mini-branch in Giyani are also in progress and Theron hopes these will be finalised this month

The bank is investigating the implementation of an integrated computer system, which will enable it to offer additional services and products

Computerisation will assist the operations of African Bank Insurance Brokers (Afribrokers). Its products include a family funeral scheme, which greatly enhanced the bank's savings account book More recently it introduced a comprehensive policy for minibus taxi owners

Gant's votes for Duros buy-out deal

Cap Times 8/1/90

232

By PIETER COETZEE
Financial Editor

SHAREHOLDERS of Gant's yesterday voted in favour of a proposal by Duros Group to buy out minorities for R60 in cash or R4,50 in cash and seven Duros shares for every 100 Gant's shares held.

At a meeting in Cape Town which was attended by about 50 shareholders and lasted for more than three hours, shareholders holding 768 166 shares — or 5,7% of the shares entitled to a vote — cast their vote against the proposal while shareholders holding 3,3m shares abstained

The proposal must now be ratified by the Cape Supreme Court on January 16

This procedure is normally a formality but Issy Goldberg, chairman of the Shareholders' Association of SA and authorised to speak on behalf of 7m shares, disputed the validity of notice given of the meeting He said there is no clarity in the term "clear days" as opposed to "working days" in respect of the required 21-days notice

He also said the relevant documents lacked full disclosure Recent press reports contained valuable updated information on the financial position of the company as well as future prospects that do not appear in the documents, he pointed out

Goldberg submitted that it was not the function of the court on sanction day to adjudicate on the merits or demerits of the price offered for the shares. It was, however, the court's function to ensure that the scheme documents were accurate in all respects, in particular that of full disclosure.

The scheme of arrangement — whereby Duros will acquire the shares of minority shareholders in TGH in exchange for 33 Duros shares and 300c in cash for every 100 TGH shares held — was also approved by shareholders with 14,2% of the shareholders voting against the proposal

Duros's acquisition of minority shares of Norths and Entercore for 17 Duros shares and 117c in cash or R111,67 in cash, and 34 Duros shares and 233c in cash or R223,33 in cash respectively was approved unanimously by shareholders.

From the answers given by Askin it appeared that Gant's was in more serious trouble as far as its prospects were concerned than was revealed in the documents Askin also said that certain of the remaining trading operations in Gant's could be closed or sold off if they proved to be unprofitable

He said he was not prepared to pump millions of rands into an operation which cannot produce earnings for the group.

Askin also revealed that he had offers from four interested parties who wanted to take over Gant's but that the highest offer was 48c a share He was not prepared to sell at that price but confirmed that he would be happy to entertain a purchaser for Gant's at a more realistic price

McCarthy group sells off car hire interest for R19-m

(232) Star 8/1/91

By Jabulani Sikhakhane

The McCarthy group has sold off McCarthy Transport Holdings — its truck and car hire interest — for R19 million with effect from July 1 1990

The buyers are John Pearse, who has been managing director and 10 percent stakeholder in McCarthy Transport Holdings, and Nedfin

McCarthy Transport Holdings trades under the names of Fleetrent, Perkins Truck Hire, Supreme Truck Hire and Fleet Rent Car Hire

However, the deal excludes, the full maintenance leasing division, McCarthy Leasing.

The joint managing director of the McCarthy group, Dudley Saville, says McCarthy Leasing will be retained because it is directly related to the core business of the group, which is finance, distribution and maintenance of motor vehicles.

"Full maintenance leasing fits synergistically with our motor dealerships," he said

He added that the disposal of the truck and care hire business will have a positive impact on the group's balance sheet and is not expected to impact on the projected earnings in the current financial year

McCarthy sells truck and car hire business for R19m

B/Day 8/1/91 (232)

MARC HASENFUSS

NEDFIN Bank and vehicle hire entrepreneur John Pearse have jointly acquired the truck and car hire interests of SA's largest vehicle retailer, the McCarthy Group, in a R19m deal effective from July this year, says a statement released by McCarthy yesterday

These interests include Fleetrent, Perkins Truck Hire, Supreme Truck Hire and Fleet Car Hire which operated under the umbrella of group vehicle hire subsidiary McCarthy Transport Holdings

In terms of the agreement McCarthy Transport Holdings will change its name and apply for a JSE listing

The new company will maintain ties with the McCarthy Group, through which it will route future vehicle purchases under a preferential agreement

McCarthy joint MD Dudley Saville said McCarthy Leasing, the group's full maintenance leasing (FML) division, was excluded from the deal.

"We are retaining McCarthy Leasing because it is directly related to McCarthy's core business, which is the finance, distribution and maintenance of motor vehicles, and FML fits in synergistically with our motor dealerships"

While the disposal of interests would affect McCarthy's balance sheet, it was not expected to have any impact on the projected small drop in earnings of the group in the current year, Saville said.

Pearse, formerly MD and minority shareholder in McCarthy Transport Holdings, said he looked forward to taking the company into an exciting future

Motor sector analysts said car hire's profitability lay in the residual value of second-hand vehicles The low resale value of rental vehicles in the wake of the recessionary tide might have led to McCarthy's diposal of its vehicle hire interests

McCarthy shares were untraded yesterday at 300c, slightly above the October 1990 low of 280c.

JSE lobbies for immediate scrapping of securities tax

KEVIN DAVIE (232)

THERE is a good chance marketable securities tax (MST) will be scrapped in this year's Budget, well-placed observers believe.

Government committed itself in the last Budget to phasing out the tax of 1,5% on the purchase of all classes of shares and options The tax, which was budgeted to raise R235m in the current fiscal year, was to be phased out over three years, beginning this year

But the financial crisis which has hit the JSE has led it to lobby government for the immediate abolition of MST in the coming Budget Finance special advisor Japie Jacobs has confirmed that such a request has been received "in view of the low turnover on the JSE".

He said the matter was under consideration, and no decisions had been taken

It is understood that the JSE also believed the 10-year safe haven — which allows the tax-free sale of shares which have been held for this period — should be reduced to two years

B/Day 8/1/91

Troublesome

The JSE's view is that while the 10-year safe haven was introduced in the last Budget to increase liquidity on the market, it has had the effect of creating the impression in many investors minds that shares have to be held for 10 years or else profits would be taxed at the full rate

An Inland Revenue spokesman confirmed that deciding when to tax profits from share sales was a troublesome matter He said numerous cases had ended up in the tax court.

The spokesman said the 10-year rule applied an objective test Sales made before this period were decided on an individual basis Those who traded on a regular basis and who earned income from this trading could expect to be taxed

The JSE, which is by far the most illiquid stock market in the world, estimated it needed a reasonable average turnover of about 4 000 deals a day with a value of R100m Since the Gulf crisis it had been operating at less than half these levels

Government's decision to phase out MST followed a recommendation by the Financial Markets Advisory Board. JSE sources said the abolition of the tax would bring it in line with trends in international markets

Tollgate schemes draw big support

Bday 8/1/91 (232)

LESLEY LAMBERT

CAPE TOWN — Tollgate Holdings (TGH) cleared two hurdles yesterday as Gants and TGH shareholders approved separate schemes of arrangement which, subject to Supreme Court approval, will help facilitate the group's restructuring

The majority of shareholders represented at special meetings yesterday voted in favour of the two schemes If the Supreme Court sanctions the schemes next week, Gants will become a wholly owned subsidiary of TGH and will be delisted, while TGH will be absorbed into holding company Duros, which will be renamed TGH

In terms of the Gants scheme of arrangement, TGH is offering minority shareholders 60c a share or, alternatively, R4,50 in cash and seven Duros shares for every 100 Gants scheme shares The alternative offer puts a value of R8 a share on Duros shares which are trading at R7,25

The TGH scheme comprises an offer by holding company Duros of 38 new Duros shares and 300c for every 100 scheme shares, currently worth R2,50 each

The Gants meeting was preceded by a flurry of opposition from minorities Represented by Shareholders' Association chairman Issy Goldberg, they argued that the 60c offer represented a significant discount to the last reported net tangible asset value of 108c a share

The Gants minorities were also concerned at the recent decline in the com-

☐ To Page 2

Tollgate

Bday 8/1/91 (232)

☐ From Page 1

pany s profitability, the escalation of debt since the December 1989 year end and the suddenness of the decision to close Gants' fruit canning operations in Somerset West last year

But, of the 27-million Gants scheme shares, 12 4 million voted in favour of the scheme while only 757 000 voted against The abstentions totalled 3,3-million

TGH chairman Julian Askin told shareholders at the meeting that the decision to close down the Somerset West operations and buy out Gants minorities had been based on expectations of ongoing losses and the need for significant new capital inflows to stem the losses

He said Gants' borrowings were at about R75m and that the company would have lost R15m during the current financial year as a result of high levels of stock which was difficult to control Furthermore, up to R20m would have been required to bring the Somerset West factories up to standard to compete in foreign markets

He disclosed that TGH, which paid 170c a share for Gants in 1989 was suing the Gant family for portion of the purchase price because, he claimed, profits declared at the time of the purchase were not consistent with previous accounting methods

Both the Gants and the TGH schemes facilitate plans to prepare the group for an international listing by dismantling the pyramid structure which is unacceptable to many foreign shareholders

In the TGH meeting, Askin said he was happy with the progress of group restructuring plans although they had been delayed by the economic downturn which had affected the ability to dispose of some assets

Nevertheless, he said rationalisation and debt reduction plans were succeeding and should yield profits this year

Royal looking at further acquisition in chemical field

By Ann Crotty [redacted] (232) Star 9/1/91

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

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

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

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

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

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

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

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

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

Unit trusts picking up gold bargains

By Derek Tommey

Just when you might have thought that gold shares — down 41 percent in price last year and 25 percent in the December quarter — had no friends left in the investment community, the unit trusts have started to buy them.

Progress reports issued today by the giant GuardBank Fund, the GuardBank Resources Fund and from two recent arrivals to the unit trust list — Norwich-NBS and Safegro — show that all four nibbled at gold shares in the past quarter

GuardBank added to its portfolio 65 000 Western Deep Levels, 50 000 Winkelhaaks and, in the mining-financial line, 15 000 Anglos, 30 000 Anglovaal N, 550 000 Charter Consolidated, 250 000 Gencor, and 25 000 GFSA However, GuardBank's new liking for gold shares did not stop it selling its entire holding of 30 000 Vaal Reefs

GuardBank's sister unit trust, GuardBank Resources, added 50 000 Western Areas, 30 000 Gencor and 100 000 Middle Wits to its portfolio.

Safegro Unit Trust, which has been operating for only six months, bought Kloof shares for the first time and enlarged its holdings of Driefontein and Hartebeestfontein Norwich-NBS also bought more Driefontein to make it the fund's second largest investment. But it partly offset this purchase by selling its holdings in Amgold

Why is there a renewed interest in gold shares? Mr Keith Cockcroft of Safegro says many have been oversold, and purchases by Safegro reflected to a great extent a perception of price weakness He also believes the Iraq-Kuwait crisis could lead to an improvement in the gold price

Other investment analysts make the point that the South African gold mining industry is at last adjusting to the static gold price Desperate efforts are being made to cut costs and to mill ore with a higher gold content. These measures are paying off at several mines which are showing increased profits in spite of the adverse conditions the industry is facing. Consequently, they say a judicious investment in gold shares could be rewarding

GuardBank reports that the ex-distribution value of its units rose by 3,57 percent in the 12 months ended December This contrasts with a 8,6 percent decline in the same period in the All Share index.

On December 31 it distributed 56,29c a unit, an increase of 33,0 percent on the year ago figure of 42,31c This brought the total payment to unit holders for the year ended December to 100,58c, which is an increase of 29,3 percent on the 77,78c paid in 1988 This gave unit holders a total return of 9,63 percent for the year

Besides adding mining shares to its portfolio in the December quarter, GuardBank also acquired extra shares in UBS Holdings, Liberty Life and FIT. On the other side of the coin it sold 200 000 Minorco, 250 000 Richemont, 250 000 Sappi and 5,6 million Iscor

However, in spite of the sale of its shares, Richemont was still the biggest of GuardBank's investments at the end of December The other "top 10" were Wooltru A, SA Breweries, Liberty Holdings, De Beers/Centenary, Anglo American, Anamint, Adcock, Gencor and Remgro At December 31 its portfolio was 22,7 percent liquid.

GuardBank Resources, in contrast to the 38,75 percent drop in the JSE gold index and the 15,76 percent drop in the mining financial index (after both have been adjusted for re-investment of dividends) experienced a decline of only 13,36 percent in the value of its units in 1989 The fund distributed 9,3c (8,41c) a unit during 1989, reducing the loss to investors to 6,88 percent.

Shares sold during the quarter were Amcoal, Witbank Colls, Samancor, Anglovaal and JCI. The fund's "top 10" at December 31 were De Beers/Centenary, Sasol, Anamint, Kinross, Anglovaal N, Gencor, East Daggafontein, Anglo American, Northam Platinum and Witbank Colliery

GuardBank Income Fund is paying out 9,74c a unit for the six months ended December, against 8,87c a unit a year ago, making a total of 19,19c (16,96c) for the year The total return to unit holders, including both income reinvestment and capital appreciation for the 12 months ended December was 20,4 percent.

Safegro Unit Trust achieved a 5,13 percent rise in its unit price in the three months ended December At December 31, its "top 10" were De Beers, Anglo American, UBS, Duros, HLH, Richemont, SA Breweries, Consol, Wooltru and Remgro Mr Cockcroft said the fund's substantial investment in Duros and HLH reflected its view that these were potential blue chips

Norwich-NBS Unit Trust increased its liquidity to 38,6 percent in the Decmember quarter, and had a further 8,3 percent of its portfolio in Eskom stock This increased the historic yield on the fund's units to 9,07 percent.

The total return on the units, including income, equalled 5,4 percent in the December quarter, says Mr John Bowman, MD of Norwich Management Company

He says the fund continued to enjoy a handsome net cash inflow in the quarter, equal to some 19 percent of the value of its portfolio and increasing its size to R13 million.

Mr Bowman says that the share market is probably close to its bottom, and is providing the long-term, serious unit-trust investor with a valuable opportunity to increase their holdings at subdued price levels

Reconstructing Duros likely to cost millions

Star 10/1/91. (232)

By Blaise Hopkinson

CAPE TOWN — The reconstruction of the troubled Duros group will cost millions, with professional fees alone topping the R6 million mark

At a series of meetings Duros received the nod, subject to court approval, to take out minority shareholders in Tollgate Group Holdings, Gants and Entercor to make them wholly-owned subsidiaries

Stated costs in the shareholders' circular were put at R6 million, which does not include the cash required to buy out minority shareholders In the case of Gants alone this could amount to more than R16 million

The Duros listed vehicle will be renamed Tollgate Holdings following the delisting of TGH, Entercor and Gants

Chairman Julian Askin, former London-based entrepreneur, said the benefits of the restructuring would be immense and would far outweigh the cost of managing a series of listed vehicles

Mr Askin said part of the rationale for taking out the minorities was to offer a clearer investment picture, particularly to the international investing community.

Duros's listing on the International Stock Exchange in London will end with the simultaneous listing of Tollgate Holdings

He projected Tollgate's overall earnings would eventually be sourced as much as 50 percent from offshore following a planned acquisition thrust

Overseas investment

This programme would begin only once the company's South African interests had been put in order

"I believe we are going back to the days when you can build an international business out of this country," Mr Askin said

Overseas investment was also back on the cards and already the group has several weighty London institutions as investors

He said the downturn in the UK market could present buying opportunities to the restructured and refortified Tollgate

The disposal of assets and general turnaround in operations meant the group had reduced borrowings while a further dip is on the cards this financial year

In a marathon special meeting, which lasted more than three hours, the Duros board heard argument from representatives of Gants' minorities

In reply to a question Mr Askin, said "I see myself as tidying up a mess"

He was referring to the critical state in which Gants found itself

Gants recently closed its entire deciduous fruit canning operation and is to concentrate its interests in meat, vegetable and fruit canning

In spite of the slackening of the sanctions noose, Mr Askin said South Africa simply did not have the contacts in the UK and European markets who would seek to renew imports

"We are not competitive," he said

Referring to the closure of the Somerset West deciduous fruit canning operation, Mr Askin said the Duros group personnel office had found jobs for virtually all the 1 500 workers who lost their jobs

He said people who had approached him about buying the factory had had the feeling they were "sniffing around a carcass" as the plant had become so run down and was "held together by chewing gum" — it was in need of drastic capital inflows to save it

The 60c a share offer to Gants minorities was, he said, fair in the light of the fact that potential buyers of the operation had mustered only a 48c a share offer

He said the Somerset West plant would have required at least R20 million in capital spending to make it competitive It would have lost upwards of R15 million in the next 12 months had it not been shut

In answer to a question about the attractions of the 18 percent export allowance, Mr Askin said "They could give me a 50 percent export allowance and I still wouldn't get back into deciduous fruit canning"

The group overall had turned the corner, he said, with all operations showing a positive return in the last three months

He did warn that further off-loading of non-performing assets would continue

Industrial sector tipped to take the lead on JSE

232

Star 11/1/91

This year has kicked off optimistically for the Johannesburg Stock Exchange, with the gold price close to $390 an ounce and the all-gold index closing 4,3 percent higher after the first week of trading

Analysts are hopeful for 1991 A slow downward trend in interest rates, expected to start soon, should benefit companies and their share prices Although all forecasts are subject to the predictable Gulf *caveat*, analysts favour the industrial sector to perform the best this year

Another important factor is the huge overhang of institutions' investable surplus funds, calculated at R28 billion by Richard Stewart of stockbrokers Martin and Company

An average of 38 percent of the overhang has gone into equities over the past five years, he says, and about 16 percent normally finds its way into the industrial sector

Although the Johannesburg Stock Exchange outperformed most other world bourses in 1990, it was a year of unfulfilled promise.

It began on a wave of political optimism, which was soon dashed, and was ultimately frustrated by the reduction of gold's traditional status as a safe haven for investors

The overall index declined by 6,5 percent on the year, due mainly to the weak performance of gold shares, where the sub-group index dropped by nearly 40 percent

De Beers

Industrials appreciated 8,3 percent, with consumer-based stocks doing particularly well De Beers, the diamond giant and bellwether stock, closed at R66,90, ahead 8 percent on the year, but nearly 40 percent off its May peak of R110.

The release from prison in February of Nelson Mandela and other political reform initiatives of the government were euphorically received by equity markets

Early confidence, however, was soon badly knocked by loose talk about nationalisation from the African National Congress and the appalling township violence which blighted the political scene for the rest of the year.

The "commoditisation" of gold was the other dominant, and disturbing, feature of 1990 for the JSE. Pundits thought that the political turmoil in eastern Europe would lend support ... analyst at stockbrokers George Huysamer, comments: "There has been a structural change in the way the gold price moves. Gold is now in a new era where it is regarded as a commodity It is a process that has been accelerating for the last few years. South African institutions are not in gold shares any more.

"Gold has fallen out of favour and I do not think it is going to go back again".

The poor performance of gold shares reflects the industry's straitened circumstances. Profits are sharply down, squeezed by declining revenues and rising costs

The extent to which the market has lost confidence in gold is show by the decline in the gold shares index over the year, a move wildly out of proportion to any downward movement in the bullion price.

Mr Clemmow points out that it is not only gold that has suffered the price of virtually every commodity that South Africa exports, with rhodium a notable exception, fell during the year Much of this can be traced to fears of reduced demand in the wake of recessionary conditions in the leading Anglo-Saxon economies

Platinum

The platinum share price index, for example, shed 30 percent over the year. A recession would lead to lower automobile sales and hence a reduced platinum requirement, as the metal's leading use is in the autocatalysts which reduce exhaust emissions

The firm exchange rate of the rand against the US dollar, in which most of South Africa's exports are denominated, has been a contributing factor to weakness in the mining sector.

The rate was virtually unchanged at R2,56 over the year, whereas analysts had been predicting at least a 5 percent deterioration, to take account of the countries' inflation differential.

This reflects the hand of Dr Chris Stals, governor of the Reserve Bank, who, in defending the value of the currency and making the fight against inflation his priority, has caused considerable pain in the real economy and equity markets

The brighter industrial side of the JSE's performance particularly reflected the consumer sectors, and especially those companies with a high exposure to urban black consumers.

While the transport group showed strongest growth over-safe haven for investors

The overall index declined by 6,5 percent on the year, due mainly to the weak performance of gold shares, where the sub-group index dropped by nearly 40 percent

De Beers

Industrials appreciated 8,3 percent, with consumer-based stocks doing particularly well De Beers, the diamond giant and bellwether stock, closed at R66,90, ahead 8 percent on the year, but nearly 40 percent off its May peak of R110

The release from prison in February of Nelson Mandela and other political reform initiatives of the government were euphorically received by equity markets

Early confidence, however, was soon badly knocked by loose talk about nationalisation from the African National Congress and the appalling township violence which blighted the political scene for the rest of the year.

The "commoditisation" of gold was the other dominant, and disturbing, feature of 1990 for the JSE. Pundits thought that the political turmoil in eastern Europe would lend support to gold with its traditional safe haven status This proved not to be the case

Even more depressing for the gold bulls has been the weak performance of bullion since the start of the Gulf crisis Expectations that the price would rise, as a hedge against higher inflation brought on by the increase in crude oil prices, have not been realised

John Clemmow, mining analyst ... The platinum share price index, for example, shed 30 percent over the year A recession would lead to lower automobile sales and hence a reduced platinum requirement, as the metal's leading use is in the autocatalysts which reduce exhaust emissions.

The firm exchange rate of the rand against the US dollar, in which most of South Africa's exports are denominated, has been a contributing factor to weakness in the mining sector.

The rate was virtually unchanged at R2,56 over the year, whereas analysts had been predicting at least a 5 percent deterioration, to take account of the countries' inflation differential

This reflects the hand of Dr Chris Stals, governor of the Reserve Bank, who, in defending the value of the currency and making the fight against inflation his priority, has caused considerable pain in the real economy and equity markets

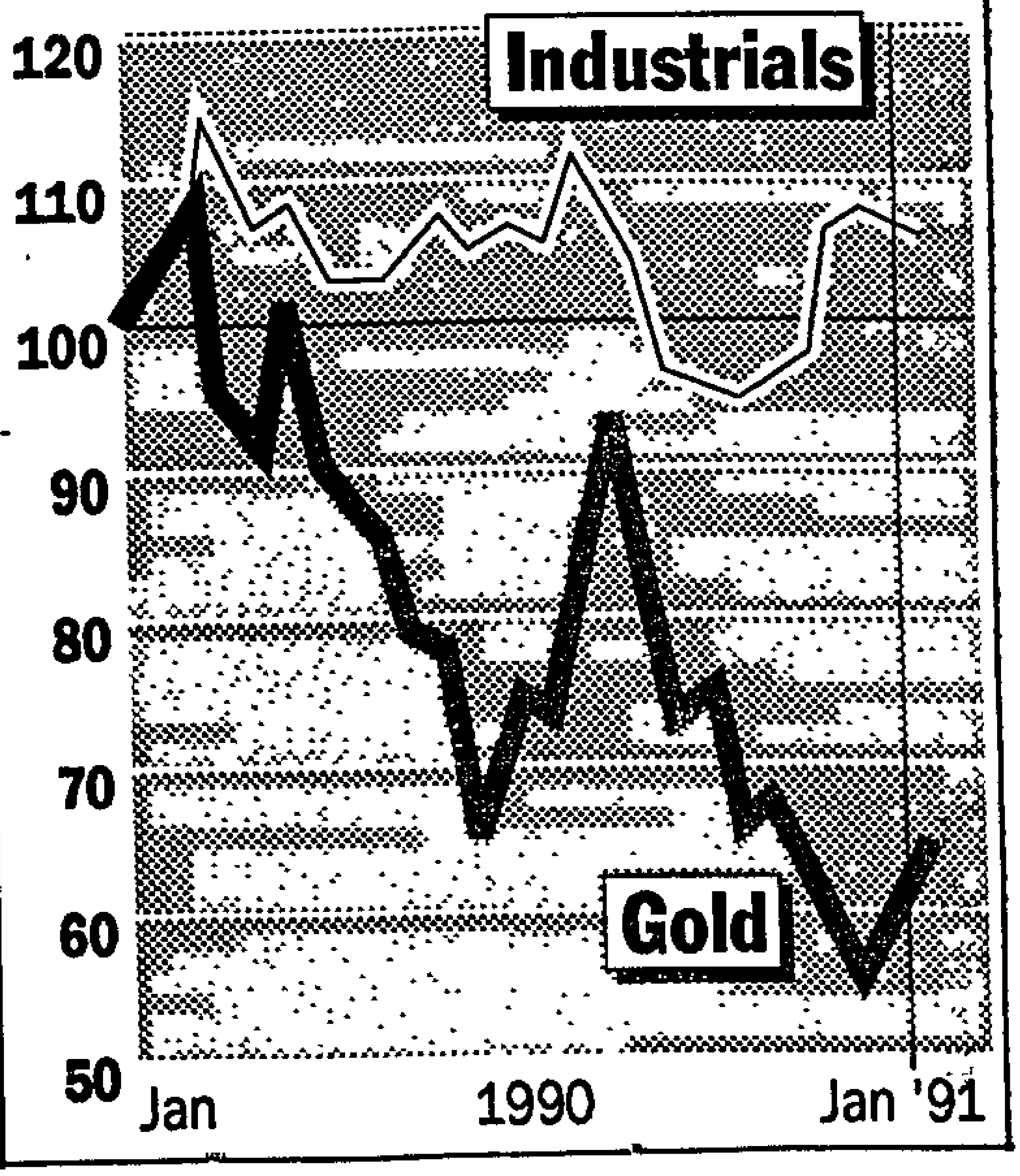
The brighter industrial side of the JSE's performance particularly reflected the consumer sectors, and especially those companies with a high exposure to urban black consumers.

While the transport group showed strongest growth overall, it was followed by the retail and furniture sectors, both of which rose by more than 50 percent.

Some see this trend tailing off as recessionary conditions bite Others, like David Shapiro of stockbrokers Frankel, Max Pollak, Vinderine, believe there is such a backlog in black spending that it will be years before black consumers start to save.

— Financial Times

S E Indices rebased



FM 11/1/91 (232)

(232)

DUROS/TOLLGATE FM 11/1/91

DELISTINGS AGREED

At a five-hour meeting this week, the Duros consortium successfully motivated the delisting of four companies It thus exposed itself to a maximum cash outlay of R30m to buy out minorities in terms of the schemes of arrangement, though it also generated savings of expenses attached to legal obligations and requirements for listed companies

Norths, Entercor and Gants become wholly owned subsidiaries of Tollgate Holdings (TGH), while TGH becomes a wholly owned subsidiary of Duros Their listings terminate on January 18 Duros's name is to be changed to Tollgate Holdings, so that when the JSE opens business on January 21, only the name TGH will feature All this depends on the courts sanctioning the scheme on January 16

Most of the time was absorbed by Gants' meeting Understandably, certain shareholders were vexed at having a value of only 60c attached to their shares when only a year ago the ruling market price was around 180c

Shareholders Association chairman Issy Goldberg was vitriolic in his criticism of the scheme, which he said "had been done too precipitously and without too much thought" He took issue with the fact that the documents had been sent out "in the season of goodwill," that the 21 clear days requirement had been shortened by public holidays and that the documentation tabled insufficient up-to-date information.

Goldberg called for a month's postponement of the meeting to give him time to find a buyer for Gants Julian Askin, chairman of the consortium and of Duros, rejected this out of hand.

In support, a minority shareholder holding a proxy for more than 2m shares pointed out that a party that had been interested in acquiring Gants had done a "due diligence" examination of the company and had advised that "it was tied up with chewing gum and string" Askin told the meeting a number of interested buyers had performed thorough investigations of Gants' worth, but the highest offer was 48c a share

Only 5,7% of Gants' minority shares were voted against the proposed scheme There was also discussion at the TGH meeting, but 86% of votes were cast in favour of the proposal

Askin can now press ahead with his plans The prime objective is to focus on development of an overseas asset and earnings base

From this standpoint, opting for the offer of both Duros shares and cash could offer a sound long-term opportunity *Gerald Hirshon*

SATURDAY JANUARY 12 1991

Anatomy of a killing on the JSE

232

W/E ARGUS 12/1/91

From JOHN SPIRA

JOHANNESBURG. — Investment adviser Bill Barclay smiled broadly as he deposited his R1,92-million cheque — his final reward for 13 years of foresight and patience.

It was back in 1977 that Mr Barclay spotted the enormous inherent value that vested in the Persbel-/Perskor publishing group.

That was when he started buying shares in Persbel, Perskor's holding company, his first purchase having taken place at 16c, at which time the net asset value was 200c a share

He continued accumulating the stock until 1986 for an average price of around 150c a share over his entire holding of 480 000 shares.

When he sold three weeks ago, he had realised a profit of R1,2million, thanks to his ability to pinpoint an undervalued situation and to stay with it for more than a decade.

"It wasn't all plain sailing," he muses. When the group was found guilty of publishing fictitious circulation figures about 10 years ago, the share price halved to 35c.

"I'd bought a lot of shares at 70c and I don't mind telling you I was very worried."

He nevertheless persisted and although it took the shares years to recover from the scandal, he never wavered in his belief that the company's value would eventually be unlocked.

So he just kept on buying — not only for himself but for his clients, all of whom have, like Mr Barclay himself, been grinning happily all the way to the bank.

Among his clients was former South African whiz-kid entrepreneur Mannie Simchowtz who, it was revealed earlier in the week, had built up a sizeable 28-percent stake in Persbel — in the process sending the ostensible controlling shareholders scurrying around for more shares in an attempt to entrench their control.

Mr Barclay "Mannie has been a client for many years, so when some big lines came to the market — lines which I couldn't afford to take for myself or my clients — I offered them to him.

Buying programme

"He found the situation attractive, so he, too, embarked on a buying programme, purchasing the large lines while I and my clients took the smaller lines."

Thus, in 1980 Mr Simchowitz acquired 100 000 Perskor shares from Sanlam and, more recently, in the region of 120 000 Perskor and 700 000 Persbel from Old Mutual, along with some 130 000 Perskor from Liberty.

Mr Barclay now reckons that Perskor's net asset value has risen to 3118c a share (current price 1250c), making Persbel worth 1006c (current price 640c).

Why, then, was he prepared to sell his Persbel shares at 400c?

● See page 3

A cool R1,9 million return

W/E ARGUS 12/1/91 232

● From page 1

"Even Job eventually ran out of stamina. I'd been attending the group's annual meetings for the past 12 years

"Every year I'd tell the directors that their market image wasn't up to scratch that they had to do away with the seventimes dividend cover that had deterred investors from buying the shares for so long On 12 occasions the response was negative

"So when Mannie Simchowitz negotiated an offer for my shares at 400c a share, I caved in and sold.

"I don't have regrets My clients have done well and those who haven't sold are still riding the shares higher.

"Besides, the stir that I've caused is bound to shake up the Persbel management team — which means I've done the minorities (of whom there are still 400 with holdings ranging from 100 to 10 000 shares) a good turn.

"I'm now ready to look for my next undervalued situation"

Mr Barclay believes that the Persbel/Perskor control battle is far from over.

"The Dagbreek Trust/Rembrandt alliance is clearly concerned — else they wouldn't be buying all the shares on which they can lay their hands

"They're not prepared to put Dagbreek's special voting rights to the test — which is why the Rembrandt share exchange deal was scaled down on Friday"

The original share exchange with Rembrandt would have required that Persbel issue more than 30 percent of its issued share capital, in which event shareholders would have had to approve the deal.

By reducing the figure to below 30 percent, the approval of shareholders is not necessary

What will Mr Simchowitz do with his shares?

Mr Barclay won't speak for him "But if he gets a good offer, he might well be prepared to sell"

Rainbow buys 50% stake in Premier's Epol

CAPE TIMES 14/1/91

232

Own Correspondent

JOHANNESBURG — Rainbow Chicken has not only acquired Premier Group's interests in its Bonny Bird broiler operations, it has also purchased a 50% stake in Premier's Epol Animal Feeds

Rainbow and Premier will participate in Rainbow's R237m feed mill expansion, an announcement today says

Rainbow is to acquire Premier's 50% interest in Bonny Bird Farms, Bokomo and Sacca for an undisclosed amount. Premier was left with a 50% holding in Bonny Bird when it merged its broiler activities with those of Bokomo and Sacca

The combined market share of Rainbow (about 35%) and Bonny Bird (about 18,6%) would leave Rainbow with over 50% of the chicken industry

Analysts estimated Bonny Bird would be worth about R375m, including debt. However the acquisition price was expected to exceed this amount.

It has also been agreed in principle that Rainbow will acquire 50% of the shareholders' interest and management control in Premier's Epol Animal Feeds

Sources said the acquisition would have to be funded through a rights issue, and Rainbow might use the opportunity to take up more of the Methven family's share if they did not follow their rights — Methven Holdings has a big holding in Rainbow

Naspers-Persbel link 'may spark press shake-up'

Cape Times 14/1/91

232

Own Correspondents

JOHANNESBURG — Persbel's competitor, Nasionale Pers (Naspers), now holds 25% of its equity — and at the weekend the two companies hinted at rationalisation and co-operation which could result in a major shake-up in the Afrikaans press

On Friday Naspers bought 2,7m Persbel shares from Mannie Simchowitz, leaving it with 25% of Persbel's equity At Friday's price of 660c the deal was worth R17,82m

Naspers and Rembrandt now own about 49% of Persbel shares between them, with Rembrandt holding about 23,5% of Persbel's enlarged share capital Persbel and Naspers have various common interests, including Rapport Uitgewers, M-Net and Maister Directories

Persbel chairman Koos Buitendag was reported yesterday as saying the control structure of the group would remain unchanged, and he believed Dagbreek Trust would retain control through its special voting rights

He welcomed Naspers as a shareholder and said opportunities for co-operation and scope for rationalisation had been opened In the process a hostile overseas consortium led by Simchowitz was cut out, he said

Naspers MD Ton Vosloo could not be reached for comment yesterday, but he was reported as saying the move was a case of protecting communal interests, and an opportunity to strengthen both press groups

A sound performance from CFM for lump sum investors

B Day 14/1/91

GILLIAN HAYNE

CONSOLIDATED Fund Managers' (CFM) decision to keep clients relatively liquid during 1990 has paid off with a recorded performance of 8,16% from March to December 1990 for lump sum investors, MD Clive Fox reported in the latest issue of CFM's Hotline

This compares with the JSE Actuaries Overall Index which showed a negative return of 15,0% over the same period

Apart from capital gains, the importance of achieving a growing income to overcome the inflationary environment is of major importance to Fox

232

Inflation

"Many are not aware that unit trusts pay a regular income, which in the case of equity funds is split between dividend and interest income It is also important for the investments in the unit trust portfolios to generate regular and growing dividend income," he said

In the 10 years to end September 1990 general equity unit trusts produced a compounded annual growth income of 15,02% a year, against the official average inflation rate of 14,6%

"Where income growth is non-existent or does not match up to inflation, 'income-reliant' investors will soon find that radical adjustments have to be made to their standard of living," Fox explained

Old Mutual Investors Fund recorded the largest compound growth in income over the 10 years to end September 1990 of 18,7% a year

For the five years ended September 1990 the Standard Bank Mutual Fund topped the charts with an income growth at 21,29%.

"But over the long term, equity unit trusts have produced sound growth in income distributions which have ably counteracted the negative effects of inflation For this profound reason, unit trusts should form part of any long-term investment plan," he said.

Looking ahead at buying opportunities in 1991, Fox suggested the continuing bear trend should be seen as an early buying opportunity for clients with high levels of liquidity

"At present, both institutional and private investors have accumulated vast amounts of cash for deployment into the equity market

"It is estimated that as much as R40bn could be held awaiting investment opportunities With the shortage of quality scrip the aspect of too much money chasing too few shares will support share price advances even though fundamental wisdom could dictate to the contrary"

Outcry grows over proposed sale of hospital

232 Cape Times 15/1/91

By TOSH LEVETT-HARDING

THE proposal being considered by the Cape Provincial Administration to sell Somerset Hospital and build an 800-bed hospital on the Cape Flats for Khayelitsha residents has brought a storm of protest from Green Point and Sea Point residents Elderly citizens are urging their local councillors to take action.

Chris Joubert, a city councillor and member of the Hospital Board at Somerset Hospital, said "A strong delegation may be formed, led by the two local members of Parliament Mr Colin Eglin and Mr Tiaan van der Merwe, and with the six ward councillors, to seek an interview with the CPA authorities I am quite prepared to organise this if any more pressure is brought to bear to close the hospital "

'On bread line'

Elderly folk bombarded councillors with complaints after a letter appeared in the Cape Times from Mr Alan Barnard of Plumstead, who wrote: "The senior citizens of Green Point and Sea Point using Somerset Hospital are mostly higher income, medical aid patients who have access to other facilities — both private and state

"The same cannot be said of the majority of residents of the Cape Flats where a CPA hospital is required to provide a service to people who cannot afford services, let alone expensive transport "

Mr Norman Feitelberg, vice-chairman of the Green Point and Sea Point Traders Association, said "It is an illusion that only wealthy people live in Sea Point."

BATTLE CRY. Hospital Board member Mr Chris Joubert, who is ready to fight to save Somerset Hospital.

Mr Feitelberg, a pharmacist, said he had many pensioners among his customers and he knew that they could not afford to go to expensive private hospitals but were utterly reliant on Somerset Hospital

He added· "Let's not lose sight of the fact that Somerset Hospital does a sterling job for the black and coloured people There is a large number working in Green and Sea Point, in hotels and blocks of flats, and they are grateful for the help from the local hospital "

Mr Joubert, supporting this view, went further by saying many elderly people in Sea Point were "living on the bread line"

"Many sweated it out as workers and as ratepayers they helped to keep the Somerset Hospital alive Today many of them do not have medical aid and are entirely reliant upon this hospital's services "

He stressed that Green and Sea Point consisted of people of all colours and creeds who used Somerset Hospital's services

'Valuable asset'

He said "This hospital serves the whole of the Atlantic seaboard and the City Bowl and is such a valuable asset that we will fight tooth and nail to retain it."

Dr W E Sutton of Sea Point felt that the hospital belonged to the local people He asked in a letter "What is to happen to the 80 000 people the hospital serves at the moment, as many are senior citizens, the frail who can hardly walk?"

He pointed out that this generation of taxpayers had, during its productive years, helped to support the hospital

"Where are they expected to go for medical treatment to which they are morally entitled to the Cape Flats perhaps?"

But Mr Alan Barnard maintained that Dr Sutton wanted merely to "maintain the status quo whereby the people of Green and Sea Point retain a facility for their benefit to the detriment of others who are in a greater need"

Clearly the elderly in Green Point and Sea Point are going to put up stiff resistance to the closure of this facility

Management buys out CIB corporate subsidiary

232

By Ann Crotty Star 15/1/91

Latest development in the CIB saga is the decision by the management of CIB's Corporate Finance subsidiary to effect a management buyout

The decision apparently followed discussions between CIBCF's management and Prima management (which now controls CIB) These discussions indicated that CIBCF's strategy was not complementary with that of Prima's

CIBCF management has acquired the entire issued share capital of CIBCF for an undisclosed sum In terms of the agreement the name of the company will be changed and management states that it is currently reviewing its strategic position and an announcement in this regard will soon be made

It was also announced yesterday that CIB is no longer active as a market maker in Eskom ELCI stock

CIB developed the ELCI stock in early 1989 and had been making a market in it since March 1989 Market sources indicate that the Cape bank suffered heavy losses on this front chiefly because the market conditions turned against them with interest rates increasing and liquidity drying up Dealers point out that in this sort of environment ELCI proved to be too illiquid and too complex to be successful.

Royal announces two listings on JSE

232

Star 15/1/91

By Ann Crotty

Royal has announced the details of the R173,9 million acquisition of Sapco and Ferro, which includes the creation of two new listings on the JSE — Roychem in the chemicals sector and Royfood in the food sector

The restructuring and the rights issues involved (which have been underwritten by a major financial institution) will see Royal holding 65 percent of Royfood and 58 percent of Roychem

Royfood will have 97,4 million shares in issue Given the issue price of 330c a share, this attributes a total value to that company of R321,4 million

Sapco represents approximately 35 percent of this value, equivalent to R113,6 million, which is the amount that minority shareholders are being asked to provide

Royfood's other major asset is RBN. It also has Kellog's and Manhattan

Roychem (which will comprise recently acquired Ferro and Holpro-Lovasz) will have 48,2 million shares in issue

The issue price of 260c attributes a value of R125,3 million to this company Minority shareholders will hold 42 percent in exchange for contributing R52,9 million by taking up the rights offer

The R52,9 million will fund the R38 million acquisition of Ferro, plus R3 million transaction and holding costs

In addition, there is an R11,9 million recapitalisation of Holpro-Lovasz, which is being funded through this rights issue

On the basis of the issue prices of the Roychem and Royfood shares, the deal attributes a value of R446,7 million to Royal

Royal chairman Vivian Imerman describes the transaction "as an ideal opportunity to unlock the value in Royal and Royhold and to give our shareholders a direct participation in our operating activities at attractive returns"

Royal and Royhold, which holds 52 percent of Royal, and the controlling shareholders of these two companies have agreed to renounce their entitlements to subscribe for shares in Royfood and Roychem to the minority shareholders in Royal and Royhold

This means that the holder of every 100 shares in Royal will be entitled to subscribe for 50 Royfood at 335c a share and 30 Roychem at 260c a share

The holder of every 100 shares in Royhold has the same entitlement

The decision to go for separate listings in the food and chemicals sector enables Royal management to access the much better ratings enjoyed by these sectors

This means that the funding of the acquisitions can be done at a more attractive rating for Royal management, one that is more in line with the assets that have been acquired

According to management, pro-forma earnings for the year to February 1991 are 24,9c for Royfood and 27,1c for Roychem

The issue price for Royfood thus represents a prospective P/E rating of 13,4 times And that for Roychem represents a prospective P/E of 9,6 times

This is in line with the average P/E ratings for the two sectors

The food sector is currently on an average (historic) P/E of 13,3 times. The chemicals sector is on an average (historic) P/E of 8,5 times

If Royal management had decided against separate listings and issued additional Royal shares to fund the acquisitions, it would have had to consider a P/E rating of eight times, which is the average for the industrial holdings sector

Sapco and Royfood are regarded as the more important leg of the deal and, according to analysts, the quality of Sapco and Royfood's other assets would suggest a rating more in line with the P/E of 22 times that is enjoyed by Cadschweppes

As the group becomes more familar to the market, and presuming that it performs in line with current expectations, the share may move towards this sort of rating

Although there will be 98,7 million Royfood shares in issue and 48,2 million Roychem, the market will not be awash with these shares as they are all tightly held — with dominant controlling shareholders being supported by firm institutional holders

(232)

Royal takes over Ferro for R38 m

By BLAISE HOPKINSON, Business Staff

FERRO Industrial Products has been taken over by the Royal Corporation for about R38 million.

This follows the cautionary announcement last week that the takeover of an undisclosed company was about to take place

In December the group announced it had taken over the SA Preserving Company (Sapco) from Del Monte Foods International for R113 million. Ferro was bought from its US-based parent

The aquisitions present the group with funding requirements of about R162 million, plus R11,9 million needed to recapitalise the existing chemical business of Helpro Lovasz, bringing the total amount required to R173,9 million

Funding

The funding is to be by means of a combination of share issues of placement shares in Royfood and Roychem at issue prices of 335c and 260c respectively, by rights issues in Royfood and Roychem and through debt funding in Royfood

The restructuring and the rights issues involved, which have been underwritten by a major financial institution, will see Royal holding 65 percent of Royfood and 58 percent of Roychem

Royfood will have 97,4 million shares in issue Given the issue price of 330c a share, this attributes a total value to that company of R321,4 million

● Fedfood, through subsidiary Patoma Foods, has strengthened its sub-tropical fruit business with a R5,5 million takeover of Mango Man.

The deal, announced yesterday, is set to make Fedfood SA's largest processor and marketer of sub-tropical fruit products

Fedfood made its first move into the fruit business when it acquired Patoma Foods, which processes, exports and markets sub-tropical fruits and vegetables, in a R9million deal last year

● The latest development in the CIB saga is the decision by the management of CIB's Corporate Finance subsidiary to effect a management buyout

This apparently followed discussions between CIBCF's management and Prima management, which now controls CIB. These discussions indicated CIBCF's strategy was not complementary to that of Prima's

CIBCF management has acquired the entire issued share capital of CIBCF for an undisclosed sum In terms of the agreement the name of the company will be changed and management states that it is currently reviewing its strategic position and an announcement in this regard will soon be made

It was also announced yesterday that CIB is no longer active as a market maker in Eskom ELCI stock

● Anybody who thinks the Persbel saga ended with the sale of Mr Manny Simchowitz's stake to Nasionale Pers for R18,5 million late last Friday does not realise the significance of the deal

In terms of the deal, unlisted Naspers bought a stake of 25 percent in Persbel, the controlling shareholder of Perskor.

The other major shareholder of Persbel is now Rembrandt with 24 percent, a shareholding it acquired for its role as white knight in the dawn raid on Persbel by Mr Simchowitz just before Christmas.

Developments yesterday on the JSE suggest that Perskor might not be taking the deal, which effectively gives a long-standing rival virtual control, lying down.

SPESCOM 840 27

UAL facing JSE wrath

Star 16/1/91.

(232)

By Ann Crotty

It looks as though the JSE and UAL are lining up to do battle in an attempt to resolve the position of the long-suffering Manserv minorities.

In a move that could pitch two high-profile financial institutions against each other in a court battle, the JSE says it will instruct its attorney to draft the necessary papers and "to proceed to protest the rights of the minority shareholders in Manserv through the legal process".

At issue in a JSE/UAL battle is a letter sent by UAL to the JSE last April.

The letter was sent on behalf of Financial Ltd stating that R1,5 million had been deposited as security for the offer to the Manserv minorities

On the basis of this letter the JSE agreed to release the shares that had been pledged with attorneys.

These shares represented the 89 percent Manserv stake that Naas Ferreira (acting on behalf of Financial Ltd) had bought in February '90 — they had been pledged with attorneys to ensure that an offer to minorities would be made.

They were to be held by the attorneys until such time as a suitable bank guarantee was lodged with the JSE.

What was not made clear in the UAL letter, and only became clear subsequently (after the shares were released), was that the funds with UAL were financial rands.

These could not be used to fund the offer to minorities without permission of the Reserve Bank.

The Bank did not grant the permission According to Charles van Staden, assistant GM of the exchange control department at the Bank, in terms of exchange control regulations the use of financial rands in this context requires that Financial Ltd submit an application to the Bank.

"We have not received such an application," he says

Mr Van Staden says the Bank is only involved in the issue because Financial Ltd was attempting to use finrands and not commercial rands to effect the minority purchase.

Last November the issue became apparently even more hopeless for the Manserv minorities when the Bank blocked the R1,5 million on deposit at UAL

This was part of a wider move aimed at establishing whether or not Naas Ferreira and other parties had been involved in a number of finrand-related frauds

Having been left out in the cold for the best part of a year, it seems that the Manserv minorities (led by Trevor Nel) have now persuaded the JSE to proceed against UAL.

What is at issue is the legal standing of the UAL letter.

Last year the JSE said it took the letter to represent an undertaking by UAL that an offer to minorities would be effected using the R1,5 million and therefore released the shares

Mr Nel argues that this position obliges UAL to make good the offer to minorities.

For its part, UAL is emphatic that the letter was no more than a "banking letter" and that it was merely acting as a middle man for Financial Ltd without knowledge that the JSE was holding security

UAL director Tim Sewell says the letter does not put any obligation on UAL and, given the Reserve Bank's attachment of the R1,5 million deposit, believes that UAL no longer has any ability to do anything to resolve the situation.

But he notes that with the Bank's permission the R1,5 million finrand deposit could be converted into commerical rand (using the discount) and the minority offer then be effected Mr Nel's view is that UAL should then make good the amount of the discount.

Uncertain market fails to halt unit trust growth

BDay 16/1/91 (232)

GILLIAN HAYNE

INVESTORS continued to put money into unit trusts in 1990 despite uncertain share market conditions and, although the short-term outlook for 1991 was bleak, the trend seemed set to continue, Association of Unit Trusts chairman Roy McAlpine said yesterday

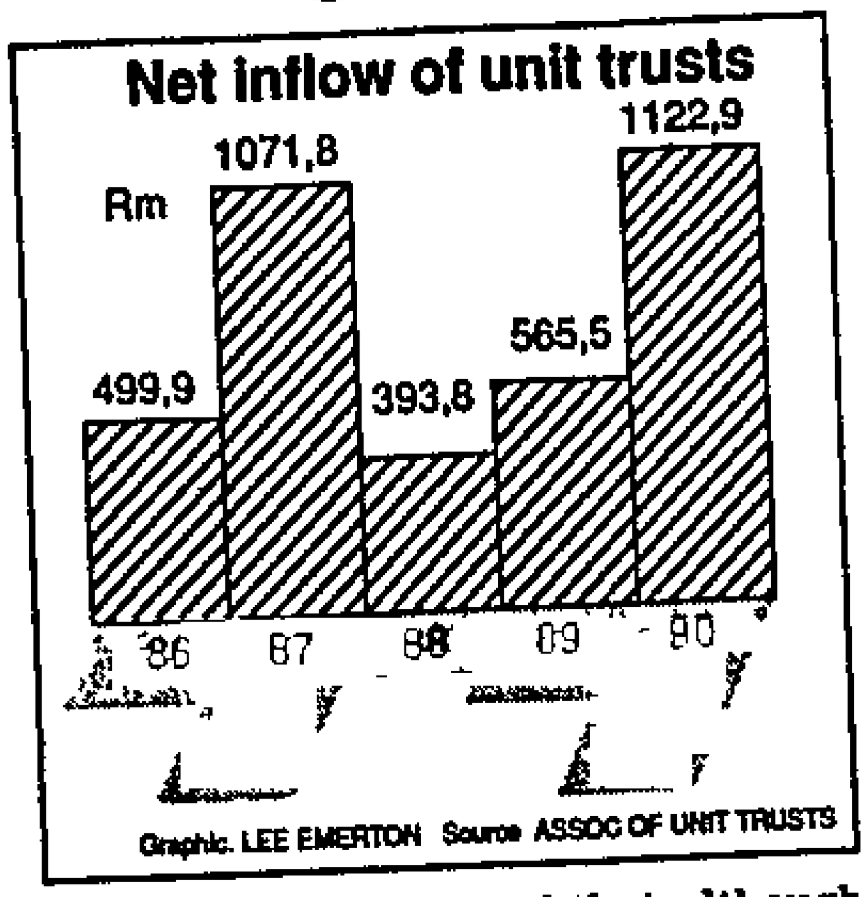
Figures released by the association showed that in the past 12 months sales of unit trusts rose 53% to R2,11bn compared with R1,38bn for the same period in 1989, while repurchases amounted to R985m, 21% up from R811m This resulted in a net inflow of business of R1,12bn, 98% up from the previous year's R565m

These figures were achieved on the back of 168 000 new accounts, which brought the total number of unitholder accounts to 736 000 The industry ended 1990 with 36 trusts having total assets of R7,6bn, 15% up from the R6,6bn recorded at the end of 1989 distributed between 31 trusts.

McAlpine stressed that unit trusts continued to be a good long-term investment.

"With the JSE All-Share Index declining by 8,6% over the year, the general equity funds did well to achieve an average total return (that is capital appreciation plus income distributed) of 7,5%," he added

Of the 13 general equity funds, seven have been in existence for five years and achieved an average return of 21,6% For the same period inflation averaged 15,05%.



McAlpine confirmed that although general equity trusts attracted most investor interest, high interest rates and an unsettled equity market had helped income funds enjoy a record inflow for the quarter.

The eight income trusts achieved a total return of 16,7% over the year.

By contrast the specialist equity trusts recorded a negative 3% return for the year although for the five year period they achieved an average total return of 15,2%.

McAlpine noted that investors could now participate in many different sectors of the equity market.

"For the investor wanting a balanced portfolio and spread of investments, general equity trusts are recommended while, for the investor who wants a more focused portfolio and who is prepared to accept a higher level of volatility, there are the specialist equity trusts," he said

IDC ready to pump R10bn into new industry

CAPE TIMES 17/1/91

232

By KEVIN DAVIE

JOHANNESBURG. — The Industrial Development Corporation (IDC) has billions of rands available to promote new industries, if the correct opportunities can be identified

IDC MD Carel van der Merwe said in an interview yesterday that it could raise R10bn in the next five to six years on a range of new projects. Projects valued at R21bn were under investigation, but not all would get the go-ahead.

Of the R10bn, R2bn could be raised on foreign capital markets, R3,5bn from IDC profits and the remaining R4,5bn from the sale of assets such as the IDC's substantial shareholdings in Sasol and Foskor

"Capital is not a limitation, if the opportunities are there," Van der Merwe said.

He said a valid criticism was that the IDC had too much tied up in mature investments such as Sasol and Foskor But this shareholding could be sold as and when funds were required.

Planning for the privatisation of the phosphate manufacturer was proceeding, only requiring a more favourable market and the go-ahead from government.

Van der Merwe said this could take place later this year Two possibilities were selling to a group or consortium, and/or listing part of Foskor on the JSE.

The IDC, which released its annual report yesterday, created 9 400 job opportunities last year by investing R328m in industrial financing under its special low financing scheme to replace imports

Van der Merwe said these figures showed the high cost of creating new jobs in SA, because typically the IDC only financed buildings and plant, the balance of the costs being financed by commercial banks and shareholders

Of total borrowings of R640m raised last year, R367m came from foreign sources. An after-tax profit of R457m (up 28%) was reported and a surplus of R63m realised on the sale of investments.

Total funds in this, its 50th year, are at R4,9bn (R4,3bn).

Merger to create banking colossus

CAP TIMES 17/1/91

Own Correspondent

JOHANNESBURG — UBS, Volkskas, Allied and Sage Financial Services have agreed in principle to merge their interests to create the largest financial institution in South Africa

The mechanics of the agreement will be announced shortly, the companies promised yesterday

Recent figures suggest that the new financial services giant will have combined assets of about R50bn, and after-tax earnings of about R400m

By contrast, the present banking leader Standard Bank Investment Corporation has assets of about R32bn, and its last year's attributable earnings were R333m

Ed Hern Rudolf director Mr Alan McConnochie emphasised that Allied would probably retain its own identity and its branch network for a "couple of years", but over time, with the formation of one computer system and one treasury, rationalisation would take place

Allied chairman Mr Norman Alborough is on record as saying Allied's separate identity was "not negotiable"

Analysts saw the rationalisation opportunities as the main benefit of the deal

They said that the country was "over-banked", and would benefit from the economies of scale which would lower technological costs

The merger would strengthen the equity base, and help defer the need to raise further capital.

Reserve Bank Governer Dr Chris Stals gave tacit approval to the creation of a super bank last September saying "We have no objection, this is in line with our thinking on rationalisation in the sector"

232

Govt to privatise local services

'BDay 17/1/91 (232)

EDYTH BULBRING

GOVERNMENT will soon introduce a programme to privatise local government services in an attempt to stimulate small business opportunities and to create a public culture favouring privatisation

Office of Privatisation CE Jasper Nieuwoudt yesterday refuted assumptions that government had put the privatisation of the "big names" — Eskom, Transnet and Foskor — on the back burner.

Nieuwoudt said Institute of Town Clerks president Riaan Pienaar would be seconded from the Kimberley Town Council to the Department of Privatisation and Deregulation as chairman of a new local government privatisation unit from February 1

Pienaar's brief was to help municipalities appoint management consultants to assess the cost effectiveness and efficiency of departments

The Privatisation Unit would not interfere with autonomous local authorities, he said

Nieuwoudt said efforts were continuing to prepare Eskom, Transnet and Foskor for privatisation for Stage Four of the Commercialisation Programme — the stage prior to privatisation

The final decision would be up to government, he said.

While extra-parliamentary opposition to privatisation of government assets would have to be considered, Nieuwoudt said he doubted government would stall once at that stage.

The big challenge facing government was to show that free enterprise would benefit all South Africans

The privatisation of Iscor had not sufficiently demonstrated to the man in the street that privatisation would change his day-to-day life But the privatisation of municipal departments would change anti-privatisation attitudes, he predicted

Nieuwoudt said opposition to privatisation could be expected as municipal officials' salaries were graded according to the city's budget, which would change with privatisation.

However, Pienaar would look into grading mechanisms.

There were a potential 83 local government services that could be privatised in a single municipality supported by institutions, which may restrict trade in the new shares *Simon Cashmore*

te

POWERTECH/YELLAND

FIRST STEP

FM 18/1/91

232

Powertech's proposed acquisition of Yelland Technology, through its 50%-owned Brown Boveri Technologies subsidiary, is not expected to have much effect on the group's earnings — at least in the short term

However, the Yelland takeover will certainly expand Powertech's share of the electrical equipment market and improve its research and development capabilities in the sector Further acquisitions in some of Powertech's traditional markets, such as electrical cabling, batteries, lighting and power equipment, are expected this year

Powertech chairman Peter Watt says the company is looking at several other takeover candidates With the slump in the economy, high interest rates and cutbacks in capital spending there should be some candidates around

Certainly, the Yelland deal appears favourable to Powertech The group, Altron's star performer, is offering Yelland share-

FOX FM 18/1/91.

holders 81,5c a share, valuing Yelland at R11,5m, which is just above net asset value As part of the terms, the Yelland directors undertook to enter into three-year restraint-of-trade agreements

Watt says that if the deal is successful most of Yelland's 200 staff, as well as most of its directors, will be retained in Brown Boveri Technologies, a joint venture between Powertech and Brown Boveri in Switzerland He says opportunities for Powertech to rationalise involve reductions in R&D spending rather than cutting jobs and other overheads

232

Listing to terminate

With Yelland's directors, who hold 69,4% of its shareholding, recommending that shareholders accept the offer, it is reasonable to assume that Powertech will secure the support needed to complete the acquisition Powertech intends terminating Yelland's listing

Yelland's share price languished at around 45c for most of last year — a far cry from the 140c when the company was listed in 1987 — and only started rising to the current 76c after the company announced in October that it was involved in discussions with Powertech

Yelland announced disappointing results for the February 1990 year — with attributable income down nearly 30% — though EPS rose from 4,9c to 9,4c in the next six months owing to internal rationalisation Chairman Jack Yelland warned at the midpoint that earnings would be lower in the second half

The decision by the directors and majority shareholders to sell at this price suggests that Yelland's future is unlikely to be easy Most shareholders will probably follow the line taken by Yelland's directors and accept the offer *Simon Cashmore*

JSE LISTINGS FM 18/1/91

END OF A TREND? (232)

Growth in the number of companies listed on the JSE came to a standstill over the past two years The result of last year's new listings and delistings was a net loss of eight companies During the 1986-1988 listings boom a net 256 companies came to market

Some of the anomalies in the 31 delistings in the accompanying table are Furniture Fair, converted into Marlin by a reverse takeover, and Atkinson-Oates, where only pref shares were still listed, the ordinaries having been acquired by McCarthy Group a decade ago Two others were liquidations and Sequel was delisted after failing to get assets in its cash shell Five DCM listings

FM 18/1/91 (232)

were terminated but the sector gained Norvic Manufacturing and Environmental Resources

Most delistings were schemes of arrangements, where minorities were taken out A fair number also relate to groups cleaning up messy structures so that investors can clearly identify the best entry point Fewer than half came to the JSE during 1986-1988

The slowdown in net new listings — and several more delistings have already been announced this year — has triggered fears that a trend towards delistings has started Arban and Spectrum were delisted this week

Problems for JSE

Bank of Lisbon International says in its latest *Economic Focus* that deep-rooted problems facing the JSE, particularly illiquidity, are illustrated by the trend Delistings are threatening to diminish the function of the JSE in facilitating the raising of new equity

However, the picture may not be that gloomy The recent statement by mining house Gencor that it is investigating breaking itself up into separate companies could be the harbinger of new corporate structures Market talk is that another Sanlam offshoot, industrial holding company Sankorp, is thinking along the same lines

If the large mining house conglomerates are ever broken up by hiving off their separate companies, marketability on the JSE would be improved This could also stimulate the return of the private investor whose average share of daily trade on the JSE has dwindled in the past three years from around 20% to 10% *Gerhard Slabber*

You-know-who puffs pipe through JSE

W/E Argus 19/1/91

232

From JOHN SPIRA

JOHANNESBURG. — Anton Rupert's mammoth Rembrandt group has bumped up its sphere of influence in the JSE by a quantum margin following a spate of feverish acquisition activity

In the past several weeks alone, the tobacco giant has

- Bought a major stake in newspaper group Perskor
- Seen the value of its interests in the financial services sector rise strongly as a result of the United-Volkskas-Allied-Sage merger
- Boosted the value of indirectly-controlled Rainbow Chickens via that company's acquisition of Premier Group's interests in its Bonny Bird broiler operations to give it more than 50 percent of South Africa's white meat market

● See page 3

Rupert boosts JSE status

232

W/E Argus 19/1/91

● From page 1

Robin McGregor, chairman of McGregor's On Line Information, calculates that Rembrandt's sphere of influence on the JSE has soared from 7,6 percent 18 months ago to a current 14,3 percent as a result of its forays into the food, mining, printing and finance industries.

He adds "Rembrandt strongly protests its partnership role in the majority of its investments. However, its 30 percent-plus holdings in major South African groups undoubtedly gives it - at the very least - a major influence -

"It is a strategy not unlike that of Anglo American and SA Mutual, which also have a number of major investments below 50 percent and which also claim to be passive partners."

Mr McGregor draws attention to the recent Margo recommendation whereby ownership of more than 30 percent of the equity of a company would require an offer to be made for the balance of the shares.

Such a requirement would have the effect of reducing the concentration of control so characteristic of the South African business scene.

"However, if the Margo recommendation is not made retrospective, the horse is already far away and will never be restabled"

Mr McGregor is especially incensed that the Rainbow deal went through without any objections having been raised

"In no other industrialised country can a producer hold more than 25 percent of a market unless that share is achieved by organic growth."

He urges that steps be taken to increase competition and thereby reduce inflation

● REMBRANDT occupies a key position in the R50 billion United-Volkskas-Allied-Sage mega-merger, which will result in South Africa's largest financial services group

Its holdings in the parties to the deal comprise 26 percent of Sage Holdings, 30 percent of Volkskas and 9,9 percent of UBS Holdings Sage has a 10 percent stake in Allied, giving Rembrandt an indirect interest here.

Adding interest to the way in which the merger might eventually unfold is Rembrandt's 28,7 percent stake in Momentum Life (into which Sage Life could be slotted) and its indirect holding in Boland Bank via Momentum and Volkskas

Also coming into the picture could be Rand Merchant Bank, 26 percent owned by Sage Holdings.

GDM Finance takes over Repfin Holdings

MARCIA KLEIN

TRADE finance company GDM Finance has announced its acquisition — for no consideration — of troubled competitor Repfin Holdings.

This is GDM Finance's third acquisition in the past year.

It acquired clearing and forwarding group African Shipping in February 1990, which then acquired and merged its business with another clearing and forwarding group Fowlie & Whytock in September 1990.

The deal, which takes effect from January 1, will see GDM Finance acquire the total shareholding of Repfin Holdings (formerly the Ewing McDonald group) and its subsidiaries from a group of Repfin's creditor banks.

GDM Finance MD John Cowper said at the weekend that "the move consolidates the group's position in the South African confirming market and boosts the number of clients on its books to over 200"

"As we collect Repfin's debts, the funds will be paid to the banks and utilised to reduce the company's loan account," he said.

Cowper did not expect the acquisition to have any effect on GDM Finance's earnings for the year to April 1991, but he said the additional business should benefit the group in the long term.

GDM Finance has negotiated the disposal of Repfin's international procurement company and overseas commitments to UK procurement company Meridian Corporate Services.

Both the Repfin Holdings deal and the sale of Repfin's overseas subsidiaries have been approved by the Reserve Bank.

The name of Repfin Finance — the Repfin group's major operating company — has been changed to GDM International with effect from January 14.

Cowper said that GDM Finance had achieved a compound annual growth rate in earnings of 75% since its listing in 1987.

Privatisation a theme of session

LESLEY LAMBERT

CAPE TOWN — Privatisation and deregulation are themes of many of the Bills to be debated this parliamentary session as government continues its efforts to remove historic barriers to economic activity and reduce the state's role in the economy.

Many of the measures do not represent new efforts at privatisation, which government relegated to a low profile after ANC and union opposition to the programme, but rather the endorsement of projects which started more than a year ago

The Businesses Bill, which is before a joint committee of Parliament, is one of the most significant attempts at removing restrictions that have inhibited widespread economic development in the past.

Its objectives are broadly to deregulate the system of licensing and trading hours and it will replace the temporary measure proclaimed by former President P W Botha in 1989 to deregulate the system

The Bill repeals all restrictions on trading hours other than on Sundays and religious holidays. It proposes that a business licence should be refused only if an enterprise poses a threat to public health or safety, and that many businesses now subject to licensing should be exempt

Privatisation and deregulation in the mining industry are a common theme in several Bills in the first batch tabled in Parliament (232)

The Minerals Bill consolidates and rationalises nine different mineral laws in one Act and aims to promote government's policy of privatisation and deregulation in the mining industry

It proposes to do so by gradually privatising state mineral rights, allowing the holders of mineral rights to find their own

☐ To Page 2

Bday 24/1/91

Privatisation

(232) Bday 24/1/91

☐ From Page 1

markets and to sell their rights on the free market rather than being forced to lease them to the state

Other Bills remove race and gender restrictions from the mining industry

The Mining Rights Amendment Bill scraps measures which restrict certain race groups from buying prospecting and mining rights, while the Mines and Works Amendment Bill eliminates discriminatory measures against female mine workers.

The Diamonds Amendment Bill proposes greater autonomy for the SA Diamond Board. It proposes that state funding of the board should end and state control of its funds be curtailed

The Coal Amendment Bill proposes the scrapping of the state's contribution to a levy paid by colliers on coal sold or used for industrial purposes.

National Energy Council coal manager Jan Bredell says the proposed amendment is "part of a continuous effort by government to critically review state expenditure and to decrease the state's involvement in private sector activities"

The Petroleum Products Amendment Bill proposes that the authorities prescribe minimum and maximum, rather than fixed, fuel prices The fixed pricing system does not respond quickly enough to price changes in crude oil, it is administratively burdensome and it inhibits competition, says a Department of Mineral and Energy Affairs spokesman

The General Law Amendment Bill reinforces previous legislation which cancelled restrictions on the acquisition and ownership of property and is widely regarded as a precursor to the scrapping of the Group Areas and Land Acts

● Comment. Page 8

Southern unit trusts raise cash holdings

Star 22/1/91

Finance Staff (232)

After the poor performance of most sectors of the JSE and the disappointing gold price, Southern Unit Trusts increased liquidity in its two funds for the quarter to December 1990

Portfolio manager Carel de Ridder said yesterday liquidity levels in Southern Equity Fund had risen from 22,2 percent to 27,1 percent, while liquid assets in Southern Mining Fund had risen from 16,5 percent to 18,2 percent.

Mr de Ridder said Southern had reluctantly decided to increase liquidity levels

"I would estimate the unit trust industry is holding R1,5 billion in cash at the moment There will be a stampede back into shares if the market starts to rise again," he said

He said although shares were not cheap, prices were good in relations to returns.

"Dividend returns are still low, but dividend cover has improved considerably since 1985 and most industrial companies will have no difficulty in maintaining dividends.

"Unlike the 1984 scenario, companies generally have less debt and fewer foreign loans and have also reduced their inventories considerably

"This will make it easier to maintain profitability and investors can expect substantially improved profits by 1992," Mr de Ridder said.

Southern Equity Fund held seven percent of its assets in gold shares at the end of the quarter (down from 10 percent) and 19 percent in mining financials. Other mining-related holdings decreased from 13,5 percent to 12 percent, while industrials made up 34,9 percent of the portfolio

The Mining Fund decreased holdings in gold shares to 21,1 percent, with mining financials increasing to 32,2 percent (30,7 percent)

Boldness pays off for Old Mutual funds

(232)

Star 24/1/91

By Derek Tommey

Buying cheaply is held to be the key to investment success. But few investors actually have the nerve to buy when a market is depressed, with the frequent result that their successes are limited.

But this is not the case with the Old Mutual Investors Fund

Figures issued yesterday show that in the past quarter, when most of the other unit trusts kept out of the market and built up their liquidity, Old Mutual had been a fairly strong buyer of both gold and industrial shares, particularly of Iscor

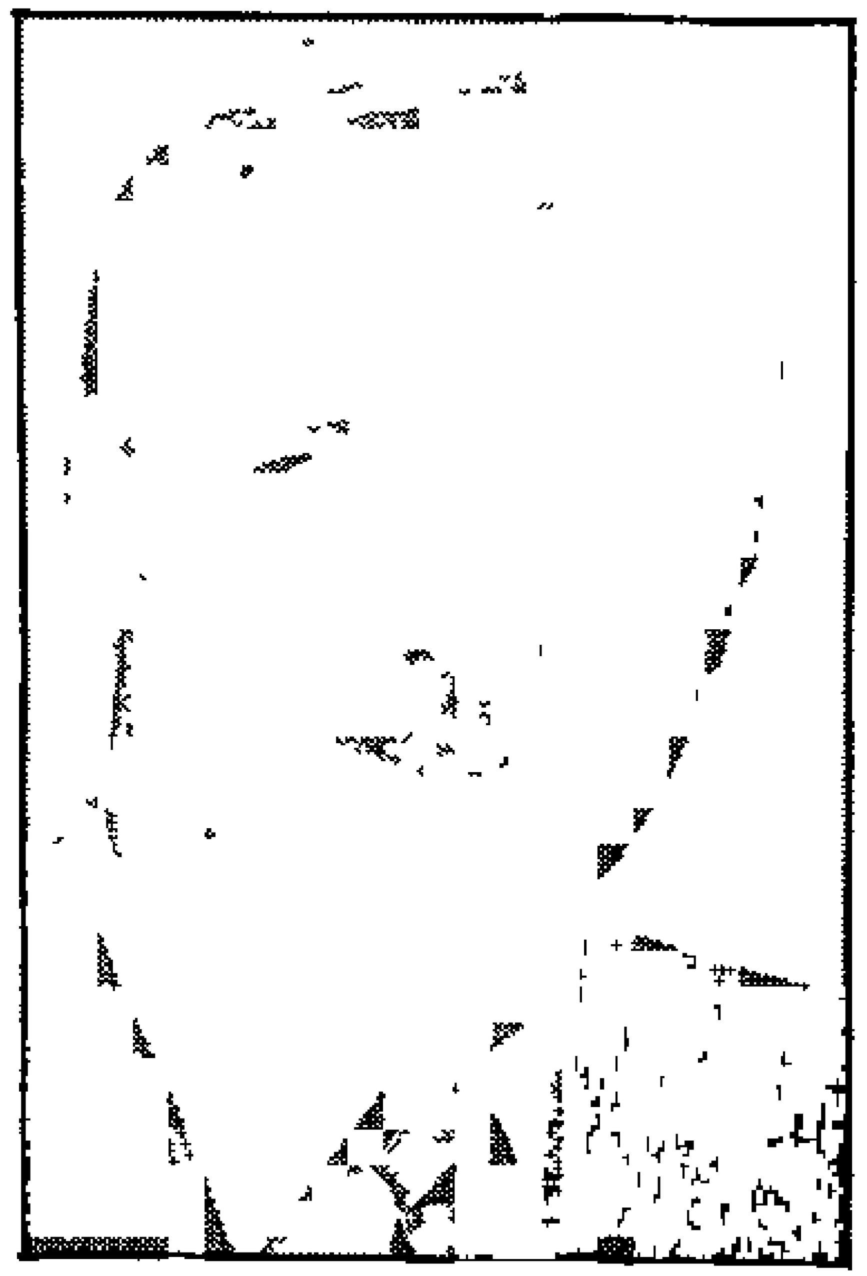
Such boldness probably accounts for the fact that it has shown the highest growth of all the unit trust over the past five-, seven-, and 10- year periods, with average annual returns in these periods of 24,6 percent, 24,4 percent and 23,8 percent respectively

Marco Celotti, senior portfolio manager, said all Old Mutual unit trusts had been following a cautious buying programme. Money was continuously flowing into them from investors and from dividends

The aim was to keep their liquidity below 20 percent, so this money had to be invested At the end of December the liquidity levels of the four funds ranged from eight to 22 percent.

The funds bought shares they believed offered value at a reasonable price and were continuing to do so this quarter

He added that even if the share market remained depressed, the four funds would probably have to struggle in the next three or four months to get the shares they sought.



Rowland Chute . superior share selection

Old Mutual's policy of buying shares at times when the share market was low and looked likely to remain so for some time was explained by Rowland Chute, assistant general manager, investments

He said. "The trusts rely on superior share selection to sustain long-term performance, rather than trying to outguess short-term market trend reversals"

It is clear that by not going liquid at times of market weakness, the funds are not so well cushioned against a fall in share prices.

This is reflected in the limited growth in the unit price of the Investors' Fund, which ended the quarter virtually unchanged from the end of September

On the other hand, this policy ought to lead to much stronger unit growth than that achieved by the excessively liquid funds when the market turns and rallies

Among the shares the Investors Fund believed worth buying in the December quarter were those of mining holding company Amgold, investmest holding companies Minorco, Amic, conglomerate Barlows, leisure share Kersaf, chemical share AECI, computer share TSI, food share ICS, and, last but not least, 10 700 000 shares in Iscor, increasing its holding to 36,8 million shares worth R70,3 million

Mr Chute said the Old Mutual expected a good medium-term performance from Iscor and was continuing to buy the share at current levels despite scepticism in the market

The fund's 10 largest holdings at December 31 were Anamint/De Beers, Richemont, Rembrandt, Safren, Barlows, Sasol, Anglos, Iscor, JCI and Gencor

The Old Mutual Mining Fund had an active investment quarter, although the value of its units dipped by about 10 percent It paid 7,89c a unit.

The mining fund trimmed its holdings of coal shares, and reduced its holdings of De Beers from 134 000 to 130 000 shares

It sold all its Driefontein, Elandrand, Impala and Messina shares

Purchases included more than 900 000 ET Cons, bringing the value of its stake in this mine to more than R4,3 million

ET Cons is a gold mine in the Eastern Transvaal which said last October it was prospecting for platinum, nickel and copper on an adjacent farm

The mining fund bought shares in Southvaal, Barplats, in granite producer Keeley, in Amgold, in Lonrho and 10 000 shares in Iscor

Top 10 shares at December 31 were Anamint/De Beers, Anglos, Assore, Sasol, JCI, Gencor, Samancor, Lonrho, Amgold and ET Cons.

Although the JSE gold index dropped 25 percent in the December quarter, the unit value of Old Mutual's Gold Fund dropped only 18,3 percent after paying a 3,7c dividend. This fund was also a heavy buyer of ET Cons

It bought shares in WR Cons, Kinross, Zandpan, Beatrix, Driefontein, Kloof, Libanon, WesWits, GFSA, Amgold, East Dagga and New Central Wits.

The Industrial Fund weathered the quarter with a 8,8 percent drop in its unit price. Purchases included GDM Finance, FIT, Amic, Barlows, Malbak, Malhold, Richemont, Toco Holdings, Uniserv, Inter Leisure, Sun International, Sasol, Da Gama, Dimension Data, McCarthy, Holdains, Sunpak and Iscor It sold its Premier shares.

The fund's top 10 were Sun International, (Bop), Rembrandt Group, Pick 'n Pay, Iscor, Richemont, Waltons, Barlows, FIT, Toco Holdings and Amic.

COMP

Old Mutual trusts' assets dip

BDay 24/1/91 (232)

TOTAL assets of Old Mutual's unit trusts declined in the last quarter of 1990, reflecting the decline in equity markets

Business Day Reporter

Assets at end-December totalled R2,44bn, down from the R2,52bn at end-June

The liquidity levels of the unit trusts were lower than other funds, apart from that of the Old Mutual Income Fund which invests in the money market Its liquid assets represented 80,31% of its portfolio at the end of the quarter

Liquidity of the Investors Fund was 17,59% (17,4% at the end of the June quarter) and for the Mining Fund 21,98% (15,63%), while liquidity of the Industrial Fund — launched in May last year — stood at 9,97% (14,9%)

The Gold Fund, which in the first half of 1990 adopted a policy of being almost fully invested, had a liquidity of 15,37% at the end of December

Assistant GM, investments, Rowland Chute said the reason for the low liquidity was that the funds opted to select quality shares to sustain long-term performance rather than attempt to outguess short-term market-trend reversals

More than 7 600 new accounts in the Investors Fund were opened during the quarter, and the fund grew by R91m

With greater returns available for cash investments, the Old Mutual Income Fund was the best performer in the stable, ending the year to end-December with a return of 17,9% on its repurchase to repurchase price

The quarterly distribution for the Income Fund was 5,57c a unit, bringing the total for the year to end-December to 16,79c

The Mining Fund declared a quarterly distribution of 7,89c a unit, giving a total of 15,94c, while the Gold Fund declared a distribution of 3,70c, bringing its total for the year to 8,18c

The Investors Fund declares distributions only at the end of the March and September quarters The yield of the fund over the year to end-December was about 5,5%

Chute said the Income Fund had not played the interest rate cycle

"Although the returns could be higher in the shorter term, the risk also increases"

A common favourite for all funds was Iscor, in which the Investors's Fund, Industrial Fund and Mining Fund held a combined R71m at quarter-end

Chute said Old Mutual expected a good medium-term performance from Iscor and had continued to buy at current levels in spite of scepticism in the market

The 10 largest holdings in the Investors Fund were Anamint/De Beers, Richemont, Rembrandt, Safren, Barlows, Sasol, Anglo American, Iscor, Johannesburg Consolidated Investments (JCI) and Gencor

The Mining Fund's top 10 holdings were Anamint/De Beers, Anglo American, Associated Ore and Metal Corporation (Assore), Sasol, JCI, Gencor, Samancor, Lonrho Plc, Anglo American Gold (Amgold) and Eastern Transvaal Consolidated (E T Cons)

The top 10 holdings of the Gold Fund were Anglo American, Winkelhaak, Zandpan, Gold Fields of SA, E T Cons, Driefontein Consolidated, Kloof, Southvaal, Kinross and Western Deep

Civil debt judgments on increase

232

By Duma Gqubule Star 25/1/91

The average number of monthly summonses for debt, civil judgments for debt and sequestrations rose sharply in the 10 months to October last year, figures released by the Information Trust Corporation show

In 1989, the average number of monthly summonses issued was 66 000 This figure rose to 73 600 in the ten months to October 1990 — an increase of 11,5 percent.

Civil judgments for debt were running at a monthly average of 33 700 in 1989 In the ten months to October 1990 the figure went up to 37 500 — an increase of 11,2 percent.

However, the picture is gloomier when looking at the average value of these judgments.

The average monthly value of civil judgments for debt soared to R149 million in the first ten months of 1990 from R93 million in 1989.

Sequestrations were running at an average 250 a month in the first 10 months of 1990, compared with 218 per month in 1989.

Although the trend is upwards, as would be expected in a recession, the number of sequestrations is still far from reaching the peak of 359 a month in the 1986 recession.

ITC chairman Paul Edwards says the debt position of individuals is likely to improve only in mid-1992

"An improvement in the debt position of individuals tends to follow an economic recovery by about six months," he says.

DIRECTORS' FEES

WATCHING THE TOP LINE

QUALITY OF MANAGEMENT IS HARD TO MEASURE — AND REWARD

Are company directors inclined to feather their own nests at the expense of shareholders? Under normal conditions, nobody seems to bother much But when, as now, profits are under pressure, there is a sudden re-awakening of interest as to who gets precisely what out of the corporate profit cake — and sooner or later it gets asked why directors' remuneration continues to increase when dividends have been pegged, or even passed.

The question may be logical, but the subject is complex, not least because there is no direct relationship between the respective amounts paid to directors and shareholders, except to the extent that dividends will obviously be influenced by the performance of those who manage the business

Essentially, the distinction that needs to be drawn is that directors are rewarded for managing the business, while shareholders are rewarded for the provision of the risk capital that makes the business possible

The least complicated situation is where the directors are, in effect, employees with a minimal direct stake in the ownership of the assets they manage In such cases, their remuneration can be viewed in much the same way as the remuneration of any other category of employee and nobody (especially an employee) would seriously suggest that salaries and wages in general should fluctuate in line with corporate profits.

More complex is the situation where the directors also own the business Here, they obviously have a right to structure their total income package — comprising a mix of directors' fees and dividends — to suit their own requirements and the best minority shareholders can reasonably hope for is that policies will remain fairly constant from year to year If they don't, it becomes impossible for outside shareholders to assess the share in terms of their own needs (which may or may not coincide with those of the directors/major shareholders), and the result in investment terms is more likely to be frustrating than rewarding

But getting back to the main question of how directors are rewarded in relation to shareholders, the University of Pretoria's Bureau of Financial Analaysis (BFA) was asked to throw some light on the subject by producing four ratios relating directors' remuneration to total assets, turnover, pre-interest profit and equity dividends respectively, for the entire industrial sector of the JSE since 1981.

The results are summarised in the accompanying table, which shows how these ratios changed between 1981 and 1989 (the last year for which sufficiently comprehensive data was available) for each sector and for the industrial market as a whole Ratios are calculated on the basis of total directors' remuneration (fees plus payments for other services) expressed as a percentage of the four different comparatives

From this data it is obvious that, over the eight years, it has been far more lucrative in terms of income growth to be a company director than a shareholder, the ratio in this instance having moved up from 5,5 to just over 7 The position would have looked even worse had this exercise been done in 1986-

P.T.O.

FNB in bid for Allied

Weekend Argus Correspondent

W/C ARGUS 26/1/91 232

JOHANNESBURG — The Allied Group's 48 000 shareholders are in line to make a handsome profit

After weeks of speculation about the possible future of Allied, a new suitor emerged yesterday when First National Bank presented proposals to acquire the group

First National has given no details of the price it is proposing to pay for Allied's shares and whether it wants to acquire all or only part of the equity

Largest banking group

However, at the request of Allied the Johannesburg Stock Exchange suspended trading in Allied shares. This suggests that the offer by First National is above the current market price of 230c

First National managing director Barry Swart said he was awaiting a reply from Allied directors and further information would be made available as soon as possible

A merged Allied-First National Bank would have assets totalling around R47 billion, making it the largest banking group in the country in terms of assets

It would be slightly bigger than the Standard and also slightly bigger than a merged Volkskas-UBS

Allied's directors were at a meeting all yesterday and were unavailable for comment.

Mr Swart said that his group had been considering linking up with the Allied Group for some time.

He believed that the Allied had tremendous potential and that the two banks could work well together for their joint benefit

Many of Allied's senior staff, including the manager director, Mr Kevin de Villiers, are also former First National employees, which should help facilitate co-operation between the two organisations.

Mr Swart said that as a result of acquisition through the share market First National now held 8,3 percent of Allied's share capital

Masterbond merger on cards

SATURDAY JANUARY 26 1991

By MAGGIE ROWLEY
Business Staff

CAPE-based financial services and development company, Masterbond Trust, which is looking to a whopping 200 percent increase in pre-tax profits for the year ending February 28, is negotiating to merge with Pretoria Bank, chairman Mr Koos Jonker said this week.

Pre-tax profits surged to R6 million, well ahead of the forecasted R4 million.

For the second consecutive year assets under its control more than doubled and have now passed the R1 billion level while funds under administration showed a 50 percent increase to R750 million.

The seven-year-old company has grown rapidly in the past two years.

For the year ending February 1990, Masterbond's pretax profits doubled to R2 million while managed assets rose from R186 million to R532 million and funds under administration soared to R496 million.

In an interview, Mr Jonker said that financial services, the traditional area of operations had performed particularly well.

The group recently expanded into specialist investment services through the formation of Capital and Asset Management Services which now has assets of about R250 million against R150 million during the previous financial year.

Negotiations

He has ascribed the growth in financial services to the high real interest rate pattern coupled with uncertainty in stock markets.

Mr Jonker said that negotiations for the group to merge with Pretoria Bank in which it has a 30 percent stake were well underway.

"However, details are still being worked out and the scheme of the arrangement is still subject to approval of the board and shareholders," he said.

Pretoria Bank's assets stand at about R140 million. Both Mr Jonker and Masterbond Trust's MD, Mr Johan Brits, sit on Pretoria Bank's board.

Publicly held

Mr Jonker said Masterbond was looking to further real growth in the 1991/1992 financial year but budgets were still being drawn up.

Masterbond is highly active in the leisure industry and these interests are consolidated under the Masterleisure subsidiary which had also had a good year.

He said statistics from Resort Condominium International showed that their Club Mykonos development on the Cape West coast, which falls under a separate company with 70 percent of the shares held by the public, presently accounted for 50 percent of all timeshare sales in South Africa.

Timeshare sales

A total of 900 units are planned in the development which is scheduled for completion in the next five years. So far 280 units have been constructed.

A further 96 units will be built this year and work will start on 32 others which will be completed early next year.

Timeshare sales were well ahead of budget and had passed the R8 million in November and R6 million in December.

Total sales in the past four years since the development was launched had totalled about R150 million, he said.

Pyramids escape the noose

ST Times 27/1/91 232

By DAVID CARTE

THE NEW legislation governing mergers and takeovers has been criticised for failing to deal with the problem of existing pyramids and for not forbidding new ones.

Section 440C of the Companies Act compels buyers of control of new pyramids to extend an equivalent offer to minority shareholders in down line operating companies.

But control of existing pyramids can change without such offers

JSE president Tony Norton says the new rules could not be retrospective — but critics say they amount to closing the stable door after the horse has bolted

Asked why legislation should not be retrospective, Professor Katz says "That would have interfered with existing rights. But I take the point We were reforming the law "

Professor Katz says the lawmakers did not want to outlaw pyramids altogether

"I know pyramids are not permitted in the UK, but we had to recognise that this is a younger, less-developed economy It is also more entrepreneurial We didn't wish to thwart entrepreneurs who want to grow their companies and retain control

He says the new regulations permit entrepreneurs to keep control But they cannot hog the control premium when control changes.

But a critic says that once a controller has secured control through formation of a pyramid, he defers the day that a minority shareholder in the bottom company receives an offer

Meanwhile, having secured control through only a fraction of the equity, he can run the company and ignore the interests of minority holders

Indeed because the new legislation does not prevent downward pyramid building, he can delay takeovers almost forever

Controllers who already have pyramids and who require funding can retain control without laying out cash by splitting an existing company into two or more down line companies achieving the same effect.

For example not content with forming the pyramid Royal Group Holdings, the Immerman family, controllers of Royal Corporation, propose to split the existing operating company into separate listed chemical and food companies.

If they so wish, later they can split ordinary food from sweets and confectionery and so on until the family has a pyramid as multi tiered as Anton Rupert's. When control changes, the bidder needs make an offer only to the Royal Group Holdings minority

It is hoped that this type of construction would be judged by the Securities Regulation Panel as a circumvention of the spirit of the new law

Critics of pyramids say that on no respectable foreign stock market are the same assets allowed to be listed twice, let alone three or four times as on the JSE.

Stockbroker Richard Stuart of Martin & Co told the Financial Mail investment conference last year that 40% of the JSE s market capitalisation represented double counting

Advocates of unbundling maintain that nobody will try to wrest control from an entrepreneur who is an outstanding manager only badly managed companies are vulnerable.

One says "Anyone who made a hostile bid for Pick 'n Pay would be crazy He would have to offer a large premium on a share price that is always full The share price and the company's performance would suffer enormously through the loss Raymond Ackerman's leadership."

Under the status quo it is possible, for example, for the Rupert family to sell control of Rembrandt, Richemont and therefore of Rothmans International as well through disposal of shares representing an estimated 9% of the operating companies The premium for control — probably more than a billion rands — could accrue only to the family

Other families that can similarly claim the lion's share of control premiums through pyramids include those of Toyota's Albert Wessels, Liberty s Donald Gordon Clive Menell and Basil Hersov of Anglovaal the Abelkops of Imperial Group, the Immerman family, Jeff Liebesman of FS Group Bill Venter of Ventron Altron, the Mowszowski family of Elcentre and Aaron Searll of Seardel

Some pyramids in which downline minority shareholders will not get an offer include Anamint, Anglovaal Holdings, Gencor Controlling, Saflife, Liberty Holdings, FS Group Huntcor Imperial Holdings, Malbak Holdings, M&R Holdings, Royal Holdings Walcor Bevcon, Dalys, Spur Holdings, Everite Holdings, Group Five Holdings, Allwear Group, Consolidated Frame Textiles, Seardel Consolidated Holdings, Trimtex Trading, Placor, Allied Electronics Corp Elcentre Group, Ventron Group, Berzack Illman Investment Corp Danglo, Danech Industrial Corp, Fralex, Metkor, NEI Holdings, Wesco Sunvest Perskor Beleggings, Hiscore Holdings Lewis Foschini, Pepgro Score-Clicks Holdings, Tradegro Holdings, Waltons Holdings Rembrandt Controlling TIB, Tegkor and Mobile

Some of these pyramids have been around since the late 1960s But most came into being after the JSE permitted Pick 'n Pay to form its pyramid Pick n Pay Holdings (Pikwik) in 1981 Pyramids had been forbidden since the crash of 1969

Merchant bank UAL persuaded the JSE that it was in the interests of shareholders that Mr Ackerman s family should retain control

Institutional shareholders agreed — particularly since Mr Ackerman gave an undertaking that shareholders in the bottom company would receive an offer if his family sold control

But Pikwik set a precedent and opened the floodgates Few of the other pyramids gave the guarantee that Mr Ackerman did

New era opens for investor protection

ST Times 27/1/91.

232

By MICHAEL KATZ

Sunlight is said to be the best of disinfectants, electric light the most efficient policeman — Louis D Brandeis in Other People's Money

MICHAEL KATZ A long haul for change

REVOLUTIONARY legislation affecting takeovers, mergers and insider trading was promulgated last week. The Securities Regulation Code on Take-Overs and Mergers (the Code) was published in the Government Gazette Professor MICHAEL KATZ, one of the Code's authors, reviews the legislation In the other report on this page DAVID CARTE mentions objections to some aspects of the legislation.

THE NEW rules are the culmination of much effort by many people over a long time to regulate the securities industry.

The most significant feature of the regulation which is embodied in sections 440A to 440M of the Companies Act No 61 of 1973, as amended and the Code is that on the one hand it achieves all the advantages of self-regulation by the industry as well as the benefits of flexibility

On the other hand, there exists a statutory sanction to control breaches of the legislation

This pattern of regulation is pioneering in character and it is confidently expected that it will be the forerunner for similar regulation in other jurisdictions, particularly the EEC

Flexibility is indeed an advantage in this sphere of securities transactions, particularly mergers and acquisitions This is so because almost every merger and acquisition has its own nuance Thus any effort to legislate comprehensively to cover every possible nuance will be highly complex and both difficult to administer and obey This has been the unfortunate experience in Australia

Flexibility will be achieved in SA by relying on the spirit of the regulation and its general principles

What then are these general principles? In commenting on the City Code in England, which has served as a useful precedent for ours, Antony Beevor in **Practitioners' Guide to the City Code on Take-Overs and Mergers** points out that the Code's objectives are fourfold It is submitted that this would be of equal application to our Code

The four principles are

- Equality of treatment for all shareholders, large and small,
- The provision of adequate and timely information to enable shareholders to decide on the merits of the offer;
- To ensure a fair market in the shares of the companies involved,
- To ensure that neither the target company nor its directors take any action which would operate to frustrate the offer against the wishes of the shareholders

What is outside of the scope of the regulation? First, the commercial fairness of transactions It is not the objective of the regulator or the law to prevent investors from making bad bargains

Second, competition policy remains the function of the Competition Board and is outside the Panel's powers

It is also important to bear in mind that the provisions of sections 440A to 440M of the Act and the Code represent an additional overlay of regulation and are not an exhaustive codification of the law applicable to takeovers and mergers

Other provisions contained in the Act continue to apply as, for example, the application of section 228 of the Act to disposals of major assets Furthermore, the common law principles also continue to remain applicable, such as the fiduciary duties of directors

Where companies listed on the JSE are involved, they continue to remain bound by the rules of the JSE Thus, where an offer to minority shareholders would be required in terms of the JSE's rules, that obligation continues whether or not it would be required in terms of the Code

It follows that the actors and their advisers will have to co-ordinate the interaction of all these applicable requirements

However meritorious the substance of the new regulatory provisions may be, their effective working in practice will depend much on the procedural attributes of the Panel and its personnel Much care has been taken to ensure that there will be effectiveness from a procedural point of view

The Panel will work on a day-to-day basis through its executive director (or his deputy) and, where appropriate, through its executive committee As is set out in the Code, the executive functions include, either on the Panel's own initiative, or at the instance of any party, the conduct of investigations (including those into suspected inside trading), and the monitoring of relevant dealings in connection with the Code

In recognition of the fact that speed is of the essence in takeovers and mergers, the executive director is available at all times for consultations and rulings An expeditious appeal mechanism also exists

In England, when the concept of a panel was first introduced at the instance of the then Prime Minister, Harold Wilson, it worked exceptionally well largely as a result of the stature and excellence of its first chairman, Sir Hartley Shawcross

The mark which he stamped on the Panel gave it a character and reputation which ensured its success initially and for all time thereafter We are indeed fortunate in SA that we will enjoy in Mr Justice Cecil Margo, the first chairman of our Securities Regulation Panel, a man of similar stature, whose presence will undoubtedly contribute to the success of the Panel and its significance to the securities industry

We look forward to a new era of securities regulation in this country

CAPE TIMES 28/1/91 (232)

UBS and Allied agree on merger

Own Correspondent

JOHANNESBURG — Lawyers worked feverishly through the weekend to complete UBS's controversial proposals for the acquisition of Allied in the apparent hope of pre-empting a possible scrutiny of the merger by the new Takeover Code watchdog, the Financial Services Board (FSB), due to come into operation on February 1

This followed the effective rejection by the Allied board on Friday of a counter offer from First National Bank (FNB)

On Sunday the UBS's Piet Badenhorst declined to comment as, largely, did Sage's Louis Shill. Allied MD Kevin de Villiers was also reluctant to discuss the competing bids

However, outsiders believe the UBS is under pressure to reach agreement on the merger of the assets of Allied, Volkskas, UBS and Sage Financial Services (SFS) in a new holding company for fear that use of Section 228 of the Companies Act could be overturned by the FSB

The UBS camp seems to hope that if terms can be agreed before February 1, the merger deal could avoid investigation by the FSB, which will then have more powers than there are now to protect shareholders

Without that protection it would be possible, FNB's Barry Swart argued yesterday, for a small minority of shareholders to force through a sale of Allied's assets to the detriment of the majority of the company's shareholders

He made that point on the basis that Section 228 requires only that a majority of shareholders present at an ordinary shareholders' meeting vote in favour

On Friday, FNB announced its offer for absolute control of Allied

The offer's terms were not disclosed but they were reliably said to involve a share swap with a cash underpin amounting to almost 250c an Allied share

An earlier cash offer by Southern Life for 30% of Allied fell away

However, at a hurriedly convened board meeting on Friday, Allied's directors again chose to go along with the UBS and, by implication, rejected FNB's approach

FNB's offer differed materially from the merger proposals by the UBS in terms of which Allied's assets would be transferred to a new holding company whose shares would, in turn, be distributed to Allied shareholders in payment

In the past, Section 228 deals have frequently been disallowed by the courts protecting shareholders' interests

Those rejections have been prompted by judges' views that Section 228 could be used to circumvent regulations designed to protect minority shareholders' rights

Analysts said the Allied board's decision appeared to have been taken on incomplete information as lawyers were still working on the UBS proposals

The intention is for Allied's shareholders to be compensated by means of a special dividend paid in the scrip of a new holding company to be formed to hold the assets of UBS, Volkskas, SFS and Allied

The effective rejection of its offer has not pleased FNB as it believes several of Allied's directors closely linked to Sage should have recused themselves It is particularly concerned that Section 228 procedures are to be employed Shill said, however, that the question of recusal created a distorted impression and claimed that Sage had little influence on Allied's board

At Friday's meeting of Allied's 10-man board, the UBS option was supported by Shill, Alan Tindall, a director of Sage Properties and a former chairman of Allied who initiated Allied's contentious marketing and computer agreement with Sage, Noel Mills, who is the managing director of Sage Properties, Jeff Bortz, one of Sage's attorneys, and stockbroker Hugh Boonzaaier The vote was not taken on a show of hands but "consensus" was assured by Sage's associates commanding half the votes, company insiders said

Insider-trading watchdog ready to bare fangs

By David Canning (232)

Star 28/1/91

DURBAN — JSE president Tony Norton has warned South Africans to think very carefully before indulging in insider trading after February 1

On that day, when the Securities Regulation Panel (SRP) comes into being, a "particularly vicious" set of penalties will be introduced for the offence, he says

"Now, at last, we will get them," Mr Norton says He says previous attempts to nail offenders had failed because the JSE had been a "toothless bulldog" when it came to policing insider trading.

University of Durban-Westville's Professor Narendra Bhana, who has researched the subject, says insider trading is rampant and unchecked in South Africa, particularly in the five days preceding company announcements

Both he and Mr Norton say the new laws will go a long way towards reducing the malpractice, although Professor Bhana believes a couple of areas still need to be tightened up

From February 1 businessmen and others who use privileged information for their own profit face jail terms of up to 10 years plus a fine of up to R500 000

In addition, Mr Norton says, they will be exposed to potentially huge civil damanges claims

Professor Bhana believes the authorities will start looking for one or two top businessmen to make examples of

This, as happened in the Ivan Boesky and other cases in the US, should send shock waves through the business community

Mr Norton is enthusiastic about the structure and powers of the new panel whose activities will strengthen the perception of the market as being fair and honest and, hopefully, attract smaller investors back to the JSE

He says the JSE has the lowest level of small shareholder involvement in the world

One of the panel's most potent weapons will be its statutory power to interrogate anybody on subpoena, enabling it to dig deep beneath veils of lies, half-truths and nominees

Those who refuse to testify can be held in contempt of court

Mr Norton, who sits on the SRP, also proposes to develop a "stop-watch" computer programme to be used for prima facie investigations to determine unusual moves in share prices or trading volumes in the weeks prior to an important company announcement

Holdains gains control of Sunvest in JSE bookover

Star 28/1/91 (232)

By Jabulani Sikhakhane

Paper and packaging group Holdains has gained control of Sun Packaging Investments (Sunvest), holding company of Sun Packaging Holdings (Sunpak) and the recently-listed Biopolymers

Holdains said today it had acquired more than half Sunvest's shares through stock market purchases It is offering minorities 130c a share

The acquisition would have no immediate material effect on either earnings or net asset value but benefits were expected in the future

Sunvest chief executive Ian Strachan said today "The takeover was a surprise to most of us in the company but we will obviously make the best of it."

On Friday more than 10,9 million Sunvest shares worth R14,191 million — equal to 40 percent of the company's issued share capital The share price rose 25c to 130c

The deal was effected by Martin & Co, which is also Sunvest's sponsoring broker.

According to McGregor's Quick Reference to the JSE, Sanlam had 23 percent, Quarto Nominees (effectively directors) held 29,4 percent and Martin & Co's Sharestock Nominees 11,2 percent.

The directors and Sanlam were the ultimate controlling shareholders.

An analyst said that judging by the size of the deal, either directors led by chairman Tubby Gericke were selling their stake, or there was a rearrangement of holdings.

Sunvest controls 51 percent of Sun Packaging Holdings, which in turn holds Sunpak.

Sunpak has three divisions, which produce white polysterene trays, laminated polysterene trays and synthetic paper used in labelling.

The Atlantis-based Sunpak has a remarkable and valuable relationship with one of Japan's largest packaging companies, Sekisuyi, which has a turnover of $10 billion.

Sekisuyi only sells within Japan, which opens the way for Sunpak to export Sekisuyi's patented products.

Another analyst said Sunpak had good growth prospects. The company exported synthetic paper labels for the packaging industry to 20 countries, making it a is a rand-hedge in various currencies.

Because of the higher export allowances for high value-added manufactured goods, Sunpak's effective tax rate was low

Sunpak was started by Ian Gericke in 1984 after a career in business dating back to his university days when he founded Palinaurus Trawling to exploit rock lobster at Mount Vema Seamount.

Merging institutions will learn fate today

Star 28/1/91.

Q32

By Derek Tommey

Speculation about whether a major takeover battle is impending between companies associated with two business giants — Rembrandt and Anglo American — for Allied Group should be settled later today.

The four financial companies which have been engaged for the past three months in merger talks — UBS Holdings, Volkskas Bank, the Allied Group and Sage Holdings — are holding a press conference today at which the terms of their merger plans should be announced

Rembrandt's interest in the merger arises from its substantial stake in UBS Holdings and Volkskas

The merger talks came to fruition 11 days ago

They four companies announced they had reached agreement in principle to form a diversified financial group, which would control assets of R56 billion and be SA's largest financial institution

However, the merger proposals ran into choppy water on Friday when First National Bank, which has close links with Anglo American, said it had made a proposal to the Allied board to acquire control of the group

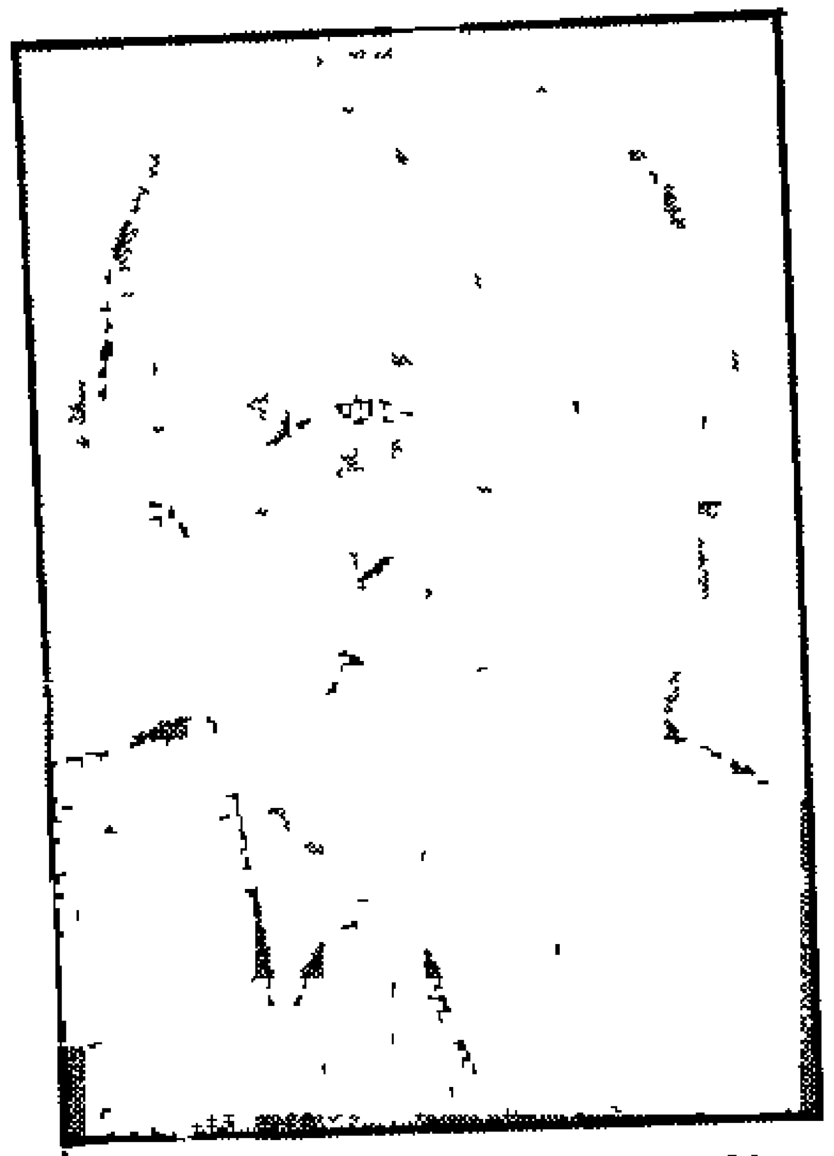
First National is expecting a reply to its proposals today

Shareholders of all four organisations involved in the merger have been left completely in the dark about the form the proposals would take.

There is, therefore, a possibility that today's press conference might contain a few surprises

It could have two possible outcomes The companies could announce they are going ahead with the merger and outline the terms Or they could say Allied's directors had accepted the First National proposals and that only three companies would be merged

Shares of Allied were suspended on Friday and it is expected that the shares of UBS and Volkskas will be suspended prior to trading today



Issy Goldberg . help for Allied's small shareholders

There is considerable concern in investment circles about the ultimate ownership of Allied and how much is paid for its shares

Allied is a former mutual building society, which converted into a bank and secured a JSE listing three years ago

Depositors were offered preferential rights to shares This resulted in Allied gaining 50 000 small shareholders (now down to 48 000) with little knowledge of valuing bank shares, but no major or controlling shareholder able to lay down takeover terms and defend the interests of shareholders

Issy Goldberg, chairman of the Shareholders' Association, said last night the association would inspect the merger and takeover proposals and try to help Allied's small shareholders

He said there might be an impression that any plans accepted by Allied's directors were binding, but all proposals for the merger or acquisition of Allied would need to be ratified by its shareholders at the annual meeting

His association would do its best to advise Allied shareholders on which proposal was in their best interests

The valuation of Allied's shares could be a matter of considerable controversy

Since it became a bank Allied has spent substantial sums developing its systems and introducing new products Money spent had to come out of profits and has resulted in a lower sharemarket rating

Now, however, Allied should start reaping the rewards of its investment

An analyst said yesterday Allied's position was in some ways similar to that of a new gold mine, which had spent tens of millions on shaft sinking, plant construction and development and had reached the stage where the first gold was about to be poured

The analyst said Allied had many valuable properties

If, as seems likely, Allied had followed normal banking practice, these were probably on its books at well below their true worth

This meant the figures for its net asset value, based on balance sheet figures, would be standing at a substantial discount

.. 29 1991

UBS, Allied detail plans for merger

CAPE TIMES 29/1/91 232

Own Correspondent

JOHANNESBURG — UBS HOLDINGS believes it has beaten off competing bids for Allied Holdings after yesterday's announcement of its merger terms with Allied, Volkskas and Sage Financial Services (SFS) It also believes its merger plans will not come under the scrutiny of the new Securities Regulation Panel (SRP) due to come into being on Friday

The proposed merger is expected by its participants to create SA's largest financial services group, boasting total assets in the region of R50bn

The merged group will be housed in UBS Holdings, which will be renamed Amalgamated Banks of SA (Absa), and its listing on the JSE is planned to coincide with the disappearance of separate listings for Allied and Volkskas

If the merger goes through as planned, Absa will effectively be controlled by Rembrandt, the Mine Officials' Pension Fund, the Mine Employees' Pension Fund and SFS, which have agreed to pool their 30,4% interest in Absa into a single holding company This would have the power to block any transactions requiring special resolutions

At yesterday's media briefing to announce the merger little attention was paid to last Friday's counter offer for Allied by First National Bank (FNB)

However, there was an indirect recognition that FNB's approach remains in play as the merger terms include a partial cash underpin for Allied shares — an option not extended to shareholders of the other three merger participants

FNB did not offically disclose the takeover terms it put to Allied's board last Friday, but reliable company sources valued the cash underpin of FNB's bid in the region of 250c an Allied share

At the weekend it was suggested that the merger announcement was being advanced to avoid possible investigation by the new SRP (not the Financial Services Board as was reported erroneously reported yesterday) Herc Hefer, Absa's chairman-designate, said the timing of the merger announcement meant the deal would not be subject to SRP attention

Allied shareholders have been told that their share earnings and net worth are expected to be improved by the merger

They have been offered 100 Absa shares for 320 Allied, and a consortium headed by the two mine pension funds has agreed to buy half of the Absa shares issued to Allied shareholders at 770c each in cash That placed an effective cash value of 240c on each Allied share

The same cash offer is not extended to Volkskas Its shareholders are faced with the prospect of earnings and asset dilution as a result of the merger, though stockbrokers believe this might be a small immediate price to pay for improved growth prospects

SFS is to transfer 49% of its principal interests to the group at an effective price of R154m based on the 770c Absa cash underpin UBS shareholders simply receive Absa shares for their UBS shares

Some Allied minority shareholders yesterday expressed concern at the merger's mechanics

Peter Brown, the 19th largest Allied shareholder with over 500 000 shares, said "It is immoral to push the merger through on a Section 228 ticket, using the vote of only three to four shareholders

UBS is obviously sidestepping a possible examination by the SRP which will be effective this Friday A further iniquity is that Allied's board has a strong Sage link, which obviously loaded the decision in favour of the merger "

Norman Alborough, Allied's chairman said the board had taken the decision based on the facts on the table at the time

First Corp director Stuart Jones said the UBS merger was not a fait accompli and the door was still open for counter offers "Now that UBS's cards are on the table, FNB is better able to consider its options."

Hefer countered that UBS had chosen the "228 route" as it provided a greater chance for the merger to succeed

Section 228 requires only that a majority be achieved among the shareholders present at an ordinary general meeting In terms of Section 311 of the Companies Act, 75% of shareholders present at an extraordinary meeting need to approve a special resolution when minorities contest plans for a company to dispose of major assets

Volkskas shareholders have been offered 240 Absa shares for 100 Volkskas shares, translating into R18,48 a Volkskas share if the new Absa shares were worth the 770c cash alternative being extended to Allied's shareholders

The new Absa board will be reconstituted to reflect the constituents and structure of the new group UBS chairman Herc Hefer will become Absa's chairman, and Volkskas' chairman Joe Stegmann becomes deputy chairman

Piet Badenhorst will assume the position of CE, while Danie Cronje will become deputy CE The vice-chairmen will be Norman Alborough of Allied, Graham Boustred of UBS and Louis Shill of Sage

COMPANIES

Gencor on track to maintain dividend

B/Day 29/1/91

LIZ ROUSE

GENCOR expected at least to maintain its dividend at 40c a share this year, executive chairman Derek Keys said at the AGM yesterday

He said operating income from Gencor's divisions could show a decline on last year, but both Engen and Genbel were performing better than expected

"This, coupled with transaction profits which should be fairly substantial this year, should enable Gencor to at least maintain the dividend at its increased 1990 level of 40c a share," he said

He said Gencor — which ended its last financial year with large net cash balances — still had its cash resources intact

Keys said Gencor would not have to resort to either borrowings or to shareholders to fund projects.

Asked about Samancor involvement in the Columbus project, Keys said various options to proceed with the project were being investigated No final decision had been taken.

Only if the project went ahead and Samancor found its own substantial cash balances insufficient to fund its 50% participation, would Gencor be called upon to contribute.

Even then it had to be borne in mind that Gencor's holding in Samancor was only 41%

(232)

Asked about Impala Platinum's expansion while the market was perceived to be oversupplied with platinum, Keys replied. "Our analysis shows that the market may well be in balance, not in surplus Not only that, Impala has a long-term supply contract with General Motors and as a consequence, any surplus is more likely to affect price rather than volume, so we are not unduly concerned at this stage."

Bank merger drama expected as curbs Act deadline nears

ARGUS 30/1/91 (232)

Business Staff

LAST minute counter offers to Allied and Saambou are expected to be made in the next day ahead of stricter regulations governing mergers and takeovers coming into effect on Friday.

First National Bank is expected to make a counter offer today to acquire 100 percent of Allied This follows the announcement Monday that Allied intended merging with UBS Holdings and Volkskas to form South Africa's largest bank with assets of R50 billion to be called the Amalgamated Banks of South Africa (ABSA)

Mr Viv Bartlett, a senior general manager at First National Bank, said this week that FNB was still keen to acquire Allied. On Friday FNB said it had made a proposal to acquire Allied, but it was rejected.

He said FNB was considering its position and hoped to make a statement today He said the proposed merger of Allied with UBS and Volkskas still had to be approved by Allied shareholders.

Analysts said if FNB was to have any hope of securing sufficient Allied shares to block the merger, it would need to offer substantially more than the 240c for each Allied share that ABSA was offering

And with just one full trading day left before the close of Trafalgar's offer to acquire 30 percent of Saambou, there is widespread speculation that another party will make a last minute counter offer to get control of the independent building society

Market speculation is that another bid could come from Nedcor, Fedsure or Prestasi and that one of these parties recently acquired about 5 million Saambou shares

Nedcor's Mr Chris Liebenberg and Fedsure's Mr Arnold Basserabie were not available for comment yesterday Earlier this month Prestasi denied it was involved in an offer for Saambou shares

The close of trading tomorrow is important for several reasons, and many Saambou shareholders will not commit themselves until tomorrow afternoon They will want to see if there is any other offer and how the market price compares with the Trafalgar offer before deciding whether to take up that offer

Starting on Friday morning, takeover and merger activity will be regulated by the Securities Regulation Panel (SRP)

As the new regulations impose tougher requirements on takeover and merger bids, it seems likely any counter bid in the offing would be made under the existing legislation

Also the new Deposit Taking Institutions Act comes into force on Friday, which means that any potential bid for control of a financial institution from that date would have to meet with the banking industry's new requirements.

Because of the SRP and the new Act, Trafalgar will not be extending its present offer beyond tomorrow afternoon

In spite of the strengthening in the share price since Trafalgar published its offer on January 17, Mr Pieter Hougaard, an executive director of Trafalgar, is optimistic about a good response to his 140c offer .

He says it will not be possible to identify the extent of the response until late tomorrow, but points out that the fact that the current share price is around 150c does not automatically mean that the 140c will be rejected

He says many of the 18 500 Saambou shareholders might not familiar with the workings of the stock exchange and might prefer to respond to the offer letters received from Trafalgar Also the 150c JSE price might not be sustained if there were a lot of sellers.

Trading charges

What must also be taken into consideration is that trading charges on the JSE reduce the apparent gap between the offer and market prices.

Against all of that is the fact that Trafalgar's offer is only for 30 percent of the Saambou shares, while a counter offer could be for 100 percent.

In spite of speculation about his objectives and his backers, Mr Hougaard remains adamant He has identified Saambou as an under valued investment and is using the funds in his care to try and get a strategic stake in the company.

FNB counters UBS bid for Allied

Cap Times 31/1/91

(68)

232

ARI JACOBSON

FIRST National Bank (FNB) took a brash step last night to attempt to capture the mortgage book embedded in the Allied Building Society by countering the offer from the UBS-led alliance

Allied MD Kevin de Villiers added credence to this R750m bid by undertaking a straw poll among his managers, prior to the press conference, which was solidly in support of victory for FNB

The offer, announced by FNB MD Barry Swart, provides shareholders with a share consideration — 35 FNB shares for every 400 Allied shares held — a cash alternative pitched at 250c a share or any combination thereof

MD Barry Swart said the 100% cash underpin was noticeably absent in the UBS deal (at a price effectively 10c higher) while superseding any market price of Allied shares since its listing in June 1987

De Villiers remarked that a cash underpin would swing Allied management overwhelmingly in favour of an FNB merger

From the writer's perspective the Rembrandt-structured deal is hardly synergistic, duplicating the building society profile (UBS and Allied) while overlooking the need for a corporate component

This is an oversight as merchant banks are expected to play a greater role in boosting profits in the '90s, as savings flows to banks are increased, with the advent of a holding tax (possibly) in February

Analysts canvassed said the FNB-Allied alliance was the most compatible They pointed out that FNB has a relatively barren home loan book and has a strong management link with Allied

From a portfolio viewpoint a fair price for Allied would be 190c a share, one said

"The Volkskas-UBS-Sage-Allied proposed deal pitched Allied's price at 240c a share which is a sharp premium given the inefficiencies in the set-up"

"There's no doubt that FNB has the most chance of exposing and cultivating the benefits"

"Even FNB's small mortgage book can be taken over and accommodated by the Allied using their excess computer capacity"

FNB's late dash to acquire a building society was handicapped by a low share rating — currently at about R30 a share — which traded at R14 roughly a year back.

As an aside, Southern Life and FNB have a deep commitment to each other underlined by the large crossholdings Anglo American, in turn, has effective control of both

W & A buys Arwa Hosiery

CM-7/7/S 1/2/91 (232)

By AUDREY D'ANGELO
Business Editor

W & A Investment Corporation has bought the entire hosiery knitting and distribution activities of Arwa Hosiery from the Duros group, with effect from Monday, January 28

In a statement yesterday W & A said "The purchase price, to be settled through the issue of ordinary shares in W & A, will be determined after completion of an audit of the net asset value of the acquired businesses, but is subject to a ceiling of R27m"

The deal will give W & A about 90% of the total SA hosiery and pantihose market — which is estimated to be 80m pairs a year — and substantially increase the group's export capacity

A spokesman for W & A said the deal had been sanctioned by the Competition Board because Arwa was "a failing company"

He said market research by an independent company had shown that W & A's Burhose group had 60% of the SA market before the deal and Arwa 30%

Burhose had been in the export market for seven years Sales overseas had reached a level which justified the opening of an office in Europe last year Before then the export business had been handled through agents

The statement issued by W & A said the transaction was "consistent with W &A's stated policy of developing its core businesses on a global scale through gaining significant market share at home, then entering export markets, and finally acquiring direct international investments

"The additional manufacturing facilities now available to W & A are expected to assist in further development of W & A's existing, substantial hosiery export business, with beneficial impact on foreign exchange earnings"

The statement continued "There will be some rationalisation of W & A's enlarged hosiery manufacturing operations, but marketing, sales and promotion activities of Arwa will remain autonomous, competing freely for business with W & A's existing brands and with imports

"The established hosiery brand names acquired from Arwa will be developed under the strategic guidance of W & A executives"

It said costs would be incurred this year in streamlining and upgrading the newly-acquired hosiery activities, "but thereafter meaningful, ongoing benefits are expected to accrue to W & A"

Alan Falconer, MD of Burhose, said that companies within the group including Cape Town-based Golden Girl competed fiercely with each other Arwa would continue to compete with them

Falconer said the SA market was not completely recession-proof and had fallen by 13% in the current downturn

But exports to Europe were successful because "SA hosiery is very competitive in world markets We can produce and ship high quality hosiery much more cheaper than they can make it themselves"

The quality of SA products was higher than those from "the other cheap production areas

"People who are shopping around for good value in hosiery have SA high on their lists, particularly now that sanctions are falling away"

Markets were opening up "at a very fast rate" Although the group was not yet exporting hosiery to the US it was receiving inquiries and discussions were taking place, said Falconer

Spotlight on SA monopolies

W/C 4164J 2/2/91 (232)

By DAVID SHRAND, a leading tax expert

IN view of the ANC's recent comments on the redistribution of wealth and nationalisation in a future new South Africa, it is the object of this article to examine the present economic landscape in South Africa with special reference to the question of monopolies

Capitalism has been described as 'the law of the jungle' principally because it involves economic warfare on a 'tooth and claw' basis Although the free-enterprise system results in various irregularities and bottle-necks, it is a self-adjusting mechanism which ultimately operates in the interests of the consumer

Under the capitalist system the profit motive dictates the economic trend It is the incentive which influences entrepreneurs to take risks in the investment of their capital.

This principle has recently been acknowledged in Russia and other Eastern European countries where the profit motive has been integrated into the economic system as a stimulus to increased production

Economists agree that competition which is promoted by the profit motive is the greatest incentive to production and that any check to competition lessens the aggregate product

The economic law of demand and supply, if allowed free play, will ultimately iron out any irregularities that may result in the process of adjustment One of the greatest threats to the smooth operation of the competitive system is the emergence of monopolists whose aim is to control the market by regulating supply and in devious other ways holding the consumer up to ransom

South Africa is criss-crossed with monopolies which assume various forms and operate under different disguises In most countries legislation has been introduced to prevent monopolists dislocating the economic system In this connection South Africa has followed suit

In the US in its efforts to create a favourable climate for the operation of competition has declared mergers as being in conflict with the American anti-trust laws

United States courts have also frowned on the creation of joint ventures by corporation giants which has the effect of stultifying the workings of the free competitive system

In 1955, the government placed on the statute book the Regulation of Monopolistic Conditions Act In terms of the Act, the Board of Trade and Industries was entrusted with its administration and since 1955 has undertaken various investigations, among them the biscuit industry, tyre manufacturers, motion pictures, electrical equipment, the liquor trade, tobacco manufacturers, and the building industry

The principle entrenched in the Act is that monopolies are not in the interest of the public and that appropriate measures must be taken to excise any monopolistic growth from the economic system

The government has replaced the Regulation of Monopolistic Conditions Act with the Maintenance and Promotion of Competition Act, 1978, which enlarges the scope of its operations

This measure, apart from the prevention or control of restrictive practices, also provides for the prohibition or regulation of the acquisition by the holder of a controlling interest in a business or undertaking of such an interest in another business or undertaking, such as a merger scheme

Merger tribunal

To that end, the Act provides for the establishment of a merger tribunal whose function it is to investigate mergers and takeover schemes

Monopolistic practices may take various forms such as arrangements to restrict output or to maintain fixed selling prices or to prevent new entrants into the market

Although the government has with one hand sought to destroy monopolies, it has with the other hand created them in violation of the principle enunciated in the new measure

The government has supported monopolistic conditions in the wine industry, which is rigorously controlled Similarly, various prtimary agricultural products which fall under the control of the marketing boards established under the Marketing Act 1937, are in effect a monopolistic device to protect the farmers — which it is submitted, is not in the interest of the public

The marketing boards established under the Marketing Act, 1937, are specifically excluded from the provisons of the Maintenance and Promotion of Competition act

Most of the important agricultural products have been placed under control and the farmer has thus been relieved of the pressure exerted by the competitive system to the prejudice of the consuming public, which is forced under this arrangement to subsidise the inefficient producer

The prices of these various agricultural commodities are maintained at an artificial level to enable the producers to derive a greater measure of profit than would otherwise accrue to them in normal circumstances

The government has argued that this principle of control is essential in order to maintain orderly marketing There is some force in this contention, but on the other hand, there is the counter-argument that by the same token similar control measures should be applied to other spheres of the economy and that in fact competition should be eliminated and monopolies substituted.

Throughout the world governments have arrogated to themselves, monopoly rights and South Africa is no exception to this rule This trend is manifest in various fields of the economy The government has created monopolies in various fields, namely, Saskor, the railways, the post office and similar organisations

Apart from governmental interference in the competitive system in South Africa, there are various organisations in the private sector which have achieved monopolistic status

It is estimated that about 80 percent of the companies quoted on the Johannesburg Stock Exchnage are controlled by about five conglomerates in South Africa

In the diamond industry De Beers has achieved complete monopolistic control by virtue of the creation of a central selling organisation The supply of diamonds is regulated by this institution so as to ensure that maximum prices are extracted from the public

Tell-tale signs that a monopolistic trend exists in South Africa are shown by the various mergers and takeover bids that have become an everyday feature in its economic life

Mergers constitute a stepping stone to the creation of monopolies

The United States government has taken a serious view of the proliferation of mergers and has introduced legislation to circumvent their occurrence

US courts' present day attitude is derived from the 1950 Amendment to the Clayton Act which prohibited corporation giants from acquiring stock or assets from another corporation which would have the effect of substantially lessening the competition or tending to create a monopoly The courts have applied the principles enumerated by this amendment regularly and several cases that have come before them have prevented mergers and joint ventures being implemented

Mergers of similar businesses have not been scrutinised by the United States government as they are not considered detrimental to the free working of the competitive system but mergers between giant corporations have been challenged successfully on several occasions in the United States Courts

A similar approach is now being adopted by the South African government in terms of the present legislation This aspect is administered by the merger tribunal, which is established under the existing legislation

The Maintenance and Promotion of Competition Act, should not become a dead letter but its principles should be energetically upheld The more frequently investigations are undertaken, the more persuasively will it serve as a deterrent to those who contemplate creating a monopolistic setup in South Africa

In a new South Africa, the breaking up of monopolies should be a first consideration To free the economy from the clutches of monopolists will liberate the forces of competition to the benefit of society as a whole

UBS plea to Allied shareholders

W/C ARGUS 2/2/91 (232)

From JOHN SPIRA

JOHANNESBURG — As the fierce battle for control of Allied hots up, UBS, Volkskas and Sage Financial Services have issued an open letter to Allied shareholders urging them to take a second look at the counter bid from First National Bank

On Monday, UBS, Volkskas, Sage and Allied announced the formation of Amalgamated Banks of SA (ABSA), a new diversified financial services group with assets in excess of R50 million

UBS Holdings, to be renamed ABSA, would be used as the vehicle for the merger and would acquire the assets of Allied and Volkskas through the issue of new ABSA shares in exchange for shares in Allied and Volkskas

The offer, which provided a cash alternative to Allied shareholders in respect of 50 percent of their new ABSA shares, valued Allied at 240c a share

This was closely followed by an offer from FNB to Allied shareholders at a price of 250c a share with a full cash underpin

Speculation that the ABSA bid would be increased to counter the FNB offer, along with rumours that Standard Bank might enter the fray, pushed Allied shares to a high of 280c on Friday, though they reacted to 165c at the close

The UBS/Volkskas/Sage message to Allied shareholders suggests that the ABSA alliance will not be improving on its original bid, which United's Piet Badenhorst describes as more than full value for Allied

The message points out that in terms of the proposed ABSA merger, Allied shareholders have been given a contractual guarantee not only of the continuity of Allied's 100 year old name but also of Allied's continued operating independence

"We have also guaranteed the continued functioning of the board, with a strong presence from your existing directors on the both the operating company and ABSA boards"

The letter urges Allied shareholders not to sell their shares in terms of the FNB offer without taking into account the following

● The FNB offer is conditional on the resolutions to be proposed at a ~~general~~ meeting of Allied shareholders (for ~~the~~ approval of the UBS offer) not being passed.

That meeting will not be held until the second half of March 1991, which means the closing date of the FNB offer is likely to be extended beyond that date The earliest that Allied shareholders would receive payment is April 1991

Mr Badenhorst calculates the interest lost as a result of the payment lag makes the FNB offer equivalent to 235c a share

And, the letter points out, if the conditions of the FNB offer are not met, payment will not be made at all

● Since the announcement of the FNB offer, Allied shares have traded well above the 250c cash underpin

● In contrast to the Allied board's assurances, FNB has given "weak" assurances regarding the Allied name and identity, the continuation of its established operating structure and the future of Allied staff.

● There is a far better "match of cultures" between UBS and Allied than between Allied and FNB

● "If you are one of the approximately 35000 Allied shareholders holding less than 1200 Allied shares, the terms of the FNB bid are such that your investment into the company could be eliminated by the treatment of odd lots."

● There will be a "material" reduction in net asset value as a result of the FNB share exchange option

● The FNB offer envisages FNB obtaining 100 percent of the Allied equity "This might be impossible to achieve because a number of Allied shareholders may well support the ABSA offer.

● See page 6.

Allied bidders warned by JSE

Star 2/2/91.

232

DEREK TOMMEY

ALLIED shareholders look like being the first to benefit from the new Securities Regulation Panel(SRP), which has been established to give shareholders a fairer deal and the Johannesburg Stock Exchange some "teeth".

The SRP, which came into being yesterday, quickly made its presence felt

It warned the two parties bidding for Allied that it could cost them a lot of money if they bought Allied shares on the market at a price above their public offer prices

The SRP pointed out that in terms of the new regulations the competing bidders would have to bring their offer price in line with the share market price

The SRP made this announcement shortly after Allied shares traded at 275c This was substantially above the United offer price of 240c and the First National offer of 250c in cash or 262,5c in FNB shares

After the announcement Allied shares dropped back to 265c

Allied has almost 300 million shares so if the UBS had been involved it would have cost them an extra R105 million For FNB it would have meant an extra R37 million to R75 million

Market sources believe that speculators were behind the surge in the Allied share price in the expectation that the UBS would make a higher bid for the Allied

So far the UBS has not replied to the FNB offer

But yesterday Allied group MD Kevin de Villiers told Sapa he believed First National would win in the end and that the battle could be over by February 21

Mr de Villiers said he felt that United may not be willing to match the FNB offer because it already had a hefty home loan book, while FNB was prepared to pay a premium for a building society operation that it did not have at present.

However, the decision as to who wins rests not with the competing banks, but with the tens of thousands of "little" shareholders including the "golden girls" as they have become known — the wives, widows and career women who over the years entrusted their savings to the Allied and took up Allied shares when it went public in 1987

They carry a lot of clout in the present stage of the battle and no one can really say which way they will vote

What is important is their loyalty to Alliedand FNB has recognised this and has stressed that Allied shareholders who accept its offer will still have a stake in the Allied.

BIDDERS: Swart to Badenhorst — "Top that if you can".

Guinness takes stake in local distributor

MARC HASENFUSS

UNITED Distillers, the spirits company of UK brewing giant Guinness plc, has acquired a 50% stake in local liquor distributors Henry Tayler & Ries (HTR) for an undisclosed sum

HTR would become sole distributors for United Distillers Scotch whisky brands White Horse, Dewars White Label and Black & White, a statement released by HTR said at the weekend

United Distillers regional director (SA) Walter Crosbie said the acquisition was in line with United Distillers' policy of developing a more focused approach to controlling the distribution of its brands worldwide.

(232)

The acquisition of the shareholding is effective from February 1 1991

Stellenbosch Farmers' Winery Group (SFW) and Distillers Corp each retain 25% of HTR shares

SFW handles United Distillers' Bell's, Haig and Dimple Scotch whisky brands, while Distillers Corp distributes the company's Johnnie Walker Red and Black Label whiskies

BDay 14/1/91

Govt move to boost development

Billions to be freed by IDC restructuring

B\DA 4|4|91

232

KEVIN DAVIE and BILLY PADDOCK

SA INDUSTRY stands to get a multi-billion-rand boost from the proposed restructuring of the Industrial Development Corporation, announced by President F W de Klerk in his speech in Parliament on Friday.

The restructuring is expected to involve the sale of IDC's existing holdings to release funds for industrial development.

These holdings include phosphate giant Foskor (at least R330m) which is earmarked for privatisation, a 30% stake in Sasol Ltd valued at about R2bn, a major stake in aluminium giant Alusaf, a R600m investment in Iscor, and its holdings in Natsel and Indsele, two listed companies with substantial investments on the JSE.

Restructuring the IDC is believed to be just one of numerous initiatives aimed at reducing the state's economic involvement and encouraging private sector industrial developments towards increased beneficiation of raw materials.

"We simply cannot forgo the much-needed employment opportunities this will bring about," De Klerk said in his speech on Friday. "Government places a high premium on job and income-creating growth."

Government sources said the restructuring of the IDC would make at least R3bn to R4bn available for industrial investments, at current market value.

De Klerk's announcement that the IDC would be restructured to promote optimum industrial growth follows a report by retired auditor-general Joop de Loor and a separate inquiry by Economic Co-ordination Minister Wim de Villiers.

Both apparently criticised the IDC for sitting on strategic investments rather than ploughing these funds into new risk ventures.

De Villiers' view is that there are sectors, such as the mining sector, that have most of the resources to turn raw materials into finished products, increasing SA's competitiveness in the export market and bolstering growth and productivity.

● See Pages 2 and 6

Natsel and Indsele, which are 51%-owned by the IDC, hold numerous IDC investments which are sufficiently mature to pay regular dividends.

Major shareholdings within these two portfolios include those in Bankorp, C G Smith, Implats, Sappi, Sasol, Palabora Mining, Tongaat-Hulett, Fedvolks and the Industrial Finance Corporation, a company jointly owned by Natsel and Indsele, which has investments in C G Smith, Sentrachem and Alusaf.

While the IDC sees these holdings as a

☐ To Page 2

IDC plan

B\DA 4|4|91

232

☐ From Page 1

way of allowing private participation in its successful ventures, critics say too much of its potential funding is tied up in safe equity investments.

De Klerk's announcement came as a surprise to the IDC, which appears not to have had advance warning that it was to be restructured.

Government wanted to reduce its share of the economic pie and operate more as an agent in development, De Klerk said.

"This includes a shift from import replacement and strategic self-sufficiency to an export-orientated strategy, involving limited protection of domestic industry, and aimed at maximum productivity and cost-effectiveness," he said.

An IDC spokesman declined to comment until more details were forthcoming.

The restructuring is likely to focus on freeing up some of the mature investments, making more finance available as soft loans for entrepreneurs. It is also likely to speed up projects which the IDC is investigating.

MD Carel van der Merwe disclosed in a recent interview that the IDC had projects valued at R21bn in the pipeline. He said it could raise R10bn in the next five years to fund new industries.

He said capital was not the problem if the right opportunities could be identified.

Saambou fights hostile takeover

Own Correspondent

JOHANNESBURG — Saambou management is fighting tooth and nail to avert a hostile takeover bid with its latest move being a deal with independent insurance company Fedsure

Saambou MD Hendrik Sloet said "We want to send a message to the marketplace that a takeover of Saambou will not be easy"

In a joint announcement, the companies say Saambou will issue to Fedsure subsidiary Fedlife convertible debentures to the value of R55m In exchange, Saambou will acquire finance company Plant Finance from Fedlife

Fedlife's debentures may be converted into Saambou ordinary shares at any time during the next three years Should Fedlife elect to convert, it will acquire about 30% of Saambou's ordinary share capital, making it the largest shareholder in Saambou

The price at which conversion will take place will be 140c a Saambou share, plus a premium based on the increase in the net asset value of the Saambou share between March this year and the conversion date

It is believed Saambou management is fighting to avoid a hostile party from gaining too much power It is understood management sees the bid for 30% of Saambou, launched by Trafalgar Portfolio Managers (TPM), as hostile

It is not yet known who is behind Trafalgar, whose offer closed last week Trafalgar declined to comment on the Fedsure deal with MD Pieter Hougaard saying an announcement would be made this week

The weekend announcement followed last week's by Sege-Alliansie that it had acquired "a strategic stake" in Saambou This was also seen as an effort to counter the Trafalgar offer The transaction, which is valid from January 31, still has to be approved by shareholders

Asked whether Fedsure would act if a significant stake was acquired by an outside party, Fedsure CE Arnold Basserabie said "That depends on circumstances"

IDC to be restructured . . .

Cape Times 4/2/91

Multi-billion rand boost for industry

232

Own Correspondent

JOHANNESBURG — SA industry stands to get a multi-billion rand boost from the proposed restructuring of the Industrial Development Corporation (IDC), announced by President F W de Klerk in his speech in Parliament on Friday

The restructuring is expected to involve the sale of IDC's existing holdings to release funds for industrial development.

These holdings include phosphate giant Foskor (at least R330m) which is earmarked for privatisation, a 30% stake in Sasol valued at about R2bn, a major stake in aluminium giant Alusaf, a R600m investment in Iscor, and its holdings in Natsel and Indsele two listed companies with substantial investments on the JSE

Restructuring the IDC is believed to be just one of numerous initiatives aimed at reducing the state's economic involvement and encouraging private sector industrial developments towards increased beneficiation of raw materials

"We simply cannot forgo the much-needed employment opportunities this will bring about," De Klerk said in his speech on Friday

"Government places a high premium on job and income-creating growth"

Government sources said the restructuring of the IDC would make at least R3bn to R4bn available for industrial investments, at current market value

De Klerk's announcement that the IDC would be restructured to promote optimum industrial growth follows a report by retired Auditor-General Joop de Loor and a separate inquiry by Economic Co-ordination Minister Wim de Villiers

Both apparently criticised the IDC for sitting on strategic investment rather than ploughing these funds into new risk ventures

De Villiers' view is that there are sectors, such as the mining sector, that have most of the resources to turn raw materials into finished products, increasing SA's competitiveness in the export market and bolstering growth and productivity

De Klerk's announcement came as a surprise to the IDC, which appears not to have had advance warning that it was to be restructured

Government wanted to reduce its share of the economic pie and operate more as an agent in development, De Klerk said

"This includes a shift from import replacement and strategic self-sufficiency to an export-orientated strategy, involving limited protection of domestic industry, and aimed at maximum productivity and cost-effectiveness," he said

An IDC spokesman declined to comment until more details were forthcoming

The restructuring is likely to focus on freeing up some of the mature investments, making more finance available as soft loans for entrepreneurs It is also likely to speed up projects which the IDC is investigating

MD Carel van der Merwe disclosed in a recent interview that the IDC had projects valued at R21bn in the pipeline He said it could raise R10bn in the next five years to fund new industries

He said capital was not the problem if the right opportunities could be identified

Crusader pays div

JOHANNESBURG — Anglovaal's Crusader Life Assurance Corporation declared an interim dividend of 17,25C a share against nil, being R3,40m for the 12 months ended December 31, after changing its financial year-end to June 30

Dividend will be payable on March 27, registered in the company's books on February 15 — Reuter

New bank would control home loan market

CAPE TIMES 7/2/91

232

By ARI JACOBSON

A UNIFIED banking group in the Rembrandt stable — with Allied on board — would provide the Amalgamated Bank of SA (Absa) with effective control of the home loan market according to BA9 returns for the period to September

These returns, which display each market player's share, have UBS as the major force, with 22% of total home loans

The importance of the tug-of-war between First National Bank (FNB) and the UBS-led coalition is highlighted by Allied's 13,6% portion of the home loans market. FNB languish on roughly 9% (a book of a mere R3,6bn)

A successful UBS-Allied merger would provide Absa with close on 40% of the home loan market (which includes Volkskas's 3% contribution) Furthermore, UBS' backward linkages, with strategic stakes in estate agency businesses, will cement its overall control

A UBS spokesman said the prime consideration in the prospective merger had been the benefits arising from rationalisation of support services (such as computer facilities)

He said while Allied and UBS were strongly represented in the home loan market neither had a strong presence in banking-related activities such as personal loans, instalment sales, cheque account and overdraft facilities.

FNB senior GM Viv Bartlett said a tie-up with Allied would assure the banking group a well-diversified presence in the industry FNB has a 27% claim in the instalment credit market coupled with a strong banking portfolio The Permanent Building Society of SA (the Perm), with its well-documented endeavours in the black housing market, has a sizeable 18,2% of the home loan market.

Theoretically this core area of banking business could be well-spread if linkages were distributed in an equitable fashion

Take FNB-Allied on 22,8%, UBS-Volkskas alliance on 24,8%, and the Perm-Nedbank tie at 21,2% — neatly sharing the spoils in the mortgage market.

In addition intimations of a Standard Bank and Natal Building Society linkage (NBS) would enhance equality with 22,2% of the total home loan profile.

Bankorp — the only major financial institution missing — intends using the current financial year to June as a consolidation period after undergoing tough rationalisation measures

CE Piet Liebenberg said the group's 9% stake through Trust Bank home loans was satisfactory, considering the enlarged focus in commercial, industrial and mining loans

BUSINESS

McGregors open up the debate on possible SA economic scenarios

WMail 8/2 - 14/2/91. (232)

By REG RUMNEY

OWNERSHIP in the banking industry, even before the latest merger moves, was too concentrated, according to Azar Jammine, economist at independent consultancy Econometrix.

Jammine's argument is contained in a recently published book that holds up the South African economy for inspection from different angles

Concentration of ownership and the dominance of conglomerates feature prominently in the various contributions to Robin McGregor's *Economic Alternatives* (Juta). Concentration of ownership is surely one of the issues which a future government must tackle.

Jammine's argument is that concentration of ownership has meant banks have not been cautious in their lending policies because their lobbying power is too strong They have been certain either the Reserve Bank or their parent companies, such as Anglo American, Sanlam or Old Mutual, will bail them out. The rescue over the years of banks which have found themselves in difficulty — like Nedbank and Trust Bank — seems to bear him out.

Robin and Guy McGregor discuss in much detail competition theory, competition law in various countries and the possible effects of economic concentration

They conclude that bigness is not bad in itself, while the abuse of bigness is

They pose the question Is concentration necessarily a bad thing? "Do we look at concentration from a structural or behavioural point of view?" They note the Free Market Foundation has found the behavioural patterns of South African companies to be essentially competitive. "This may be so and certainly appeared to be the view of the Competition Board until recently."

However, they quote report 15 1985 of the board in which it states various practices such as resale price maintenance, price collusion, market sharing and collusive tendering did occur "fairly generally".

The McGregors come up with specific recommendations. Chief of these is a move away from the subjective approach of the Competition Board.

They suggest, among other things, that to keep state intervention to a minimum "substantive criteria" — ie a pure competition test — should be used rather than a host of other factors such as employment.

Notification to the authorities before a merger rather than after should be encouraged by limiting the number of after-the-fact notifications

The McGregors also note the takeover rule now adopted by the new stockmarket watchdog Securities Regulation Panel This obliges all holders of between 30 percent and 50 percent of the voting shares of a company to make an offer for the balance They suggest this should be made retroactive The book was published before the actual rules were published, so their hopes have been disappointed

The African National Congress, according to an "interpretation" of its policy by Professor Laurence Harris, is concerned about conglomerates but its concern does not stem from the lack of competition which generates economic efficiency

"That argument is not the main driving force behind the ANC's views on conglomerates, for the ANC does not envisage market competition as the main mechanism for allocating resources to achieve its goals of economic and social transformation."

Since this is an interpretation and not an official policy document it is difficult to know where the party line ends and Harris begins. Harris heads Economic Research on South Africa, a research and training unit within the ANC's Department of Economics, and has helped the organisation for some years on economic policy So he must in some way reflect thinking in the ANC.

Harris, unlike party members speaking to white audiences, doesn't avoid the N-word, nationalisation He discusses the pros and cons of nationalisation and public ownership extensively, summing up:

- "The ANC does include nationalisation of some private corporations as a significant element in its economic strategy
- "The extent of public ownership and its detailed implementation will be determined on a case-by-case basis in the light of the ANC's overall objectives for the post-apartheid economy. The basic goal is to overcome inequality, public ownership will be considered where necessary to achieve this in the context of economic growth.
- "Major corporations which are privatised by the present government will be returned to public ownership"

The overwhelming impression given by Harris's contribution is that the degree of state intervention envisaged by the ANC is by no means limited

On the opposite end of the scale, there is a contribution by free market ideologue Leon Louw

Though he has some good points to make, he seems at times to miss the point Black fears of the effects of an untrammeled free market, and resentment at past injustices, cannot merely be dismissed on the grounds that apartheid wasn't really capitalist.

A more non-partisan, though firmly free-market, approach is displayed by Bobby Godsell and Jabulani Maphalala in discussing growth, unemployment and the informal sector. They do not overstress the importance of the informal sector, nor do they undervalue it Instead they argue that "great and unrealistic expectations of the informal sector are misguided and dangerous"

Trans-Natal sells reserves to Eskom

CAPE TIMES 8/2/91 232

Own Correspondent

JOHANNESBURG. — Trans-Natal, which increased its after-tax profit by 5% to R60,0m (R56,9m) in the six months ended December, announced yesterday that Eskom had decided to buy its Usutu Colliery coal reserves for R109m

The Eskom board took the decision yesterday to ensure an adequate coal supply should Eskom's Camden power station some day resume electricity generation.

Usutu's operations ceased when Camden closed down at the beginning of this year The R109m payment is not reflected in today's interim report, MD Mike Salamon said yesterday.

Profit boost

Higher coal prices and increased export tonnages enabled Trans-Natal achieve an increase in profit despite a shrinking local coal demand which saw overall sales drop to 14-million tons from 15,5-million

Trans-Natal's domestic tonnages were hit by Eskom's rationalisation and lower demand from Sasol and municipal power-stations.

Coal exports accounted for 63% (about 60%) of the group's sales revenue of R712,5m (R681,0m) Inflation, strikes and a fire at Optimum Colliery pushed up the cost of sales to R607,1m (R552,4m), leaving an operating income of R105,4m (R128,6m).

Non-Eskom demand dropped to 2,7-million tons from 3,5-million.

The interim dividend was increased to 22c (20c) a share and earnings per capital unit rose to 75,3c (71,7c).

Salamon said he was optimistic about the group's future export potential. Niche marketing in Europe had already secured higher contract prices. A similar strategy was aimed at Japan, for which its marketing team left yesterday.

The group's Eskom sales dropped to 6,1-million tons from 6,9-million after the power utility's decision to mothball its Camden and Komati power stations. Usutu Colliery and the Blinkpan section of Koornfontein Mines, which were tied to these power stations, ceased operations at the begining of this year.

Discussions with Eskom regarding Koornfontein are still underway.

Mine extended

Koornfontein Mines' Gloria project was on track and already producing coal. The mine is being extended to enable Trans-Natal to fully utilise its expanded Richards Bay quota of 11,2-million tons (9,3-million) in 1994.

Optimum is to get a new lease on life by having an underground section added, estimated to cost R250m over the next three years.

Confusion grips the Allied shareholders

W/t ARGUS 9/2/91 232

From CLAIRE GEBHARDT

JOHANNESBURG. — Allied shareholders, wooed by First National Bank (FNB) and the proposed Amalgamated Banks of SA (ABSA), are thoroughly confused about the issues they face.

We selected 36 names at random from the Allied share register, found 24 phone numbers and managed to talk to 13 shareholders

Those approached for comment all expressed the desire for more information.

All believe Allied should have done more in cautioning or guiding them

Most will hold on to their shares in the hope that they will go higher

Many say they will stay loyal to whichever side has given them better service

Mr Arthur Jeffrey, 76, of Kensington, who holds 9 600 shares, says he has read all about the battle in the Press and is holding fire at the moment

"I want to get rid of my shares because I want the cash to buy a new car but I want the best price I can get for them"

He believes that neither FNB nor the UBS have explained the issue properly to Allied shareholders

"After I bought Allied shares in 1987 the bottom fell out of them We heard on the grapevine afterwards that it was because of poor management but the shareholders never got told anything"

Senior citizen Beryl Chudleigh of Bez Valley (2 700 shares) feels the matter hasn't been properly explained and says she will hang on for some clarity

"I can't get to the bottom of it and the mail doesn't help"

She doesn't feel it makes much difference which side wins as she has always had good service from the Allied

Another elderly lady who holds 2 550 shares but asked not to be identified by name is hoping fervently that FNB will come out tops.

Barbara Jamieson of Parktown North is one of the unfortunates who sold her 1 500 shares at 210c because of lack of information

"I have just received some booklet in the post but its too late now"

She made her choice because she didn't want to be caught again as she was once before when Allied went up to 280c and then plummeted back to 105c

She says she has been a loyal account holder at FNB, though her husband has tried unsuccessfully for years to get her to change

"I know it's a habit, but because I don't know the UBS I'd probably choose FNB"

Mr Douglas Barrow of Illovo (10 950 shares) says he will be staying put for the moment and will only be swayed by the cash consideration and the additional value of the shares

The man in the street probably has great difficulty in understanding what is going on and it is difficult for him to get it right, he says

Dr Marie Baikie has 3 000 shares and says she will just have to wait to see what happens

Mr Duncan Hyslop, 34, of Bramley sees any change as being good, as either way the value of his 750 shares will increase

He believes shareholders have been ill-informed and says it is very difficult for the man in the street to evaluate the implications unless he reads the financial press

Elderly Miss Annie Robb of Highlands North (2 553 shares) says it all seems to be such a mix-up that no-one knows what is going on

"One gets circulars form one crowd and then another but nothing is properly explained," she laments

"I think when the time comes I will just sell and get rid of the shares"

Favours UBS

Another senior citizen, Mrs Margaret Rosewarn of Kensington (16 500 shares), says she would like the UBS to win, as they have a good standing and seem to be going ahead very rapidly

"The fact that both are building societies is a good start."

Mrs June Hynd of Craighall Park is not quite sure what to do about her 7 500 shares She'll rely on her husband's advice. "In any event, if we sold where would we put the money?"

A Johannesburg gynaecologist, who did not wish to be named, said he was holding on to hisv2 403 shares because of rumours that there might be another offer

KreditInform joins the mating game

S/Times 10/2/91. 237

THE BUSINESS information revolution, spurred by the fear of bad debts during the recession, has taken a new turn

Companies looking for merger mates or acquisitions will benefit from a link-up between KreditInform, SA's largest corporate information organisation, and McGregor's Online Services, which compiles a specialist database covering listed companies

KreditInform has bought a 20% stake in McGregor's

Business Times Reporter

Online, making it the only non-family shareholder in the group The two companies already operate a 50-50 venture, McGregor's Research.

KreditInform managing director Ivor Jones says the stake in McGregor's Online is a natural development

"For the first time subscribers to either company will be able to get the complete picture

Bills

"McGregor's looks at a company's position on the basis of its results and share performance We look at how the company is trading and paying its bills

"In addition, our extensive database of unlisted companies will benefit anyone looking for acquisitions "

The companies are co-operating on an analysis of JSE-listed companies which is designed to give early warning of companies which could be in a precarious position

"We are looking at their financial ratios and how they are performing on purchases and payments," says Mr Jones.

A similar study of UK companies late last year showed that 26% of those listed on the London Stock Exchange could be rated "precarious"

Mining investors face lean pickings — report

Bday 11/1/91

232

LIZ ROUSE

INVESTORS in mining shares face lean times this year with little prospect of dividend improvements in 1992, according to Davis Borkum Hare's quarterly forecast of earnings and dividend yields of major shares in all JSE sectors for 1991 and 1992.

Among mining shares, except for leading coals Amcoal and Trans-Natal, the outlook for earnings and dividend growth is poor for diamonds, golds, platinums and other metals this year.

Mining houses and holdings are projected to show negative earnings and dividend growth this year and only a marginal improvement in 1992.

Insurance (Fedsure, Liberty and Southern) should be the stars in the financial sector, showing growth well above the inflation rate both this year and in 1992, followed by banks and financial services.

The Davis Borkum Hare report says leading property shares (Amaprop and Panprop) should also show good growth over two years.

Leading industrial holding shares' earnings and dividends should spurt in 1992 as will leading beverages and hotels' (Kersaf, SA Breweries and Sunbop).

Bellwether stocks in the building sector (Anglo Alpha, Blue Circle, Boumat and Pretoria Portland Cement) should show a marked earnings and dividend growth in 1992 following a rather flat 1991 Leading chemicals and oils (AECI, Engen, Sasol and Sentrachem) will achieve good earnings growth this year but will slow down to a marginal growth rate in 1992.

Electronics leaders (Altech and TSI) will not be able to improve dividend payments this year but should show strong dividend growth in 1992, Davis Borkum Hare says.

Major food shares (I & J, Premier and Tiger) are projected to achieve a growth in line with the current inflation rate this year, showing a slight decrease in growth rate in 1992.

Paper and packaging leaders (Nampak and Sappi) will suffer negative earnings and dividend growth this year, recovering in at a slow rate in 1992.

Steel and allied shares (Consolidated Metallurgical Industries, Highveld Steel and Iscor) are projected to show a marginal decline in earnings and dividend growth this year, turning around positively in 1992

Retailers and wholesalers (Edgars, Foschini, Metro, Pick 'n Pay and Wooltru) are the stars among industrial shares, possibly achieving earnings growth of 24% and dividend growth of 26% this year and next

Truce offer as Allied share price rockets

CMT Times 11/2/91

232

Own Correspondent

JOHANNESBURG. — First National Bank (FNB) approached United Building Society (UBS) on Friday afternoon hoping to strike a deal in the battle for the control of Allied, well-placed observers said at the weekend.

The flag of truce has been raised because Allied's share price rocketed to 290c at one stage on Friday, well above its net worth of just over 200c and the 250c cash offer FNB has made to Allied shareholders.

The observers speculated that FNB could make an offer to the UBS-led Amalgamated Banks of SA (Absa) consortium for its Allied shares at a price above the UBS camp's offer price, but below current market prices.

If such an offer was to be accepted, UBS would stand to make a profit of about R200m. But observers say UBS chairman Piet Badenhorst has put much work into his proposed super-bank and is unlikely to back off without a protracted fight.

A truce of sorts has also been declared in the Allied boardroom

Allied MD Kevin de Villiers was heading for a showdown with his board on Friday. It was expected that he would be asked to resign but would refuse to do so

In a statement issued after the meeting the board said it would perform its fiduciary duty to shareholders and was preparing, together with its advisors, its response to the FNB offer This is expected to be completed within the next few days

Although De Villiers was officially gagged, the board softened the blow by saying it would allow him to carry out his statutory responsibilities in terms of sections 316 and 317 of the Companies Act. These sections allow the expression of minority and diverse opinions

Sources close to the battlefield suggested that an expensive stalemate could result from the recent scramble for shares on the JSE, with neither FNB nor UBS gaining clear control of Allied

The UBS has been the more aggressive buyer of shares, but FNB has also been active. At the beginning of the battle Absa and its allies could claim about 30% of Allied's shareholding against FNB's 20%.

In the past month 14% or 41m of Allied's 295m shares have changed hands. The value of turnover has been a massive R107m at an average of R35 000 a deal, an indication that smaller shareholders are taking advantage.

Friday's trading was hectic as R32,7m worth of shares changed hands in 592 deals involving 11,5m shares. Allied shares closed at 280c on Friday, down from the day's high of 290c

Dealers believe a particularly large seller was in the market, as R6m worth of shares traded within 20 minutes in mid-afternoon This view is backed up by the average deal size rising to R55 287 from the R30 212 monthly average on Thursday

But trading came to an abrupt halt late in the afternoon, leading to speculation that a truce flag had been raised, or one of the parties had acquired sufficient shares in terms of takeover panel rules.

"Allied's share price is unrealistically high," Ed Hern analyst Alan McConnochie said on Friday afternoon. "There is no chance the bids (by the UBS and FNB camps) will near this level.

"I would advise shareholders to sell and get paid next week rather than wait months and get a lower payout," he said

Other analysts pointed out the net asset value of Allied was in the low 200c bracket, and said some large shareholders might not sell as they had promised their support to one of the parties

FNB is offering Allied shareholders 250c for cash, or an effective 262,5c, in a share swap for FNB shares

FNB MD Barry Swart was in a meeting yesterday and could not be reached for comment at the time of going to press.

BUSINESS DAY, Tuesday, February 12 1991

JSE to probe Sage's change of year-end

GILLIAN HAYNE (232)

THE change in Sage Holdings' financial year-end from December 1990 to March 1991 could have breached both the Companies Act and JSE regulations

The JSE is to investigate the change immediately

JSE GM listings and equity markets Richard Connellan said it was unusual for a company to change its year-end after the conclusion of the financial year

In the case of a year-end change, the JSE requires the company put out a set of results for the second six months of the year — which Sage has yet to do

"We specifically call for a second six-month result and will be following this up immediately," he said

The Companies Act states that a request for the change must be lodged with, and approval given by, the Registrar before the old year-end

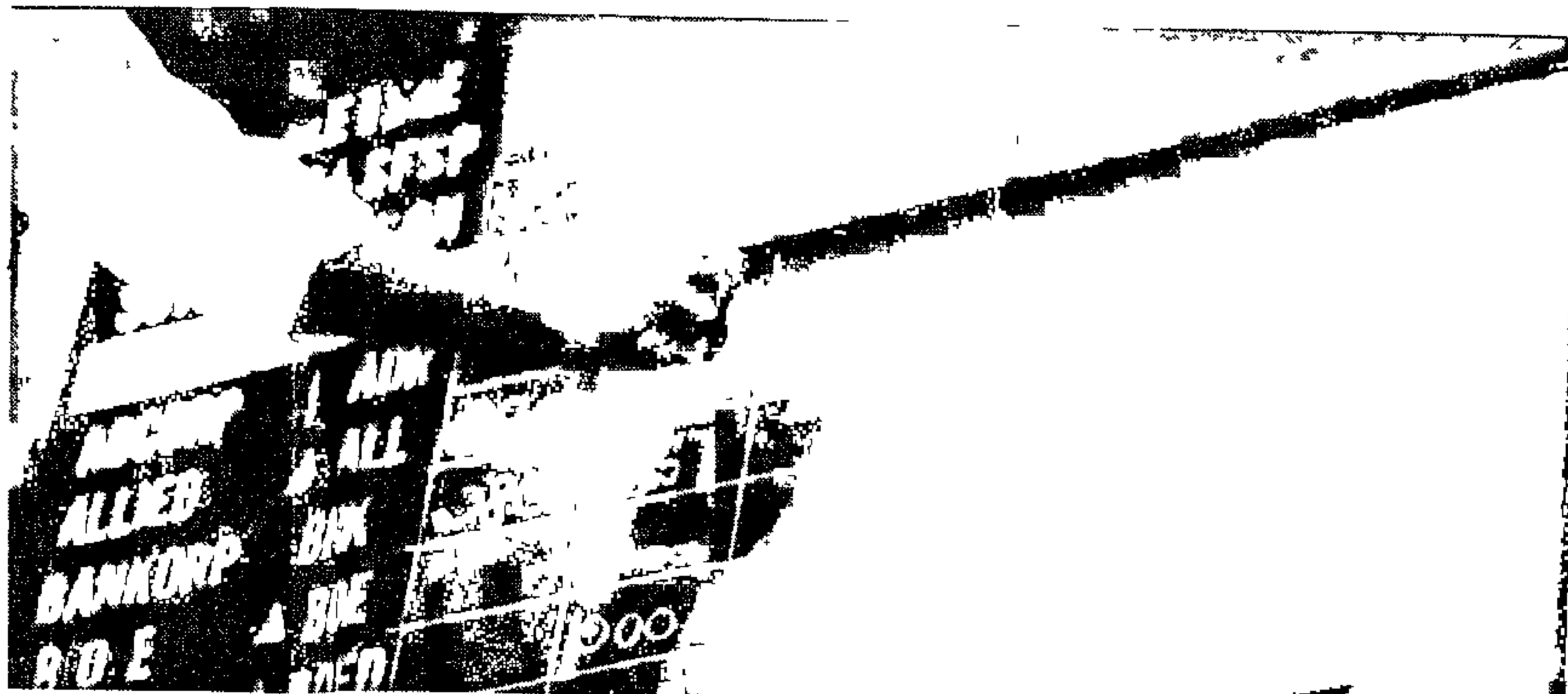
Critics in the First National Bank (FNB) camp suggest Sage is trying to hide its results until June, by which time a decision will have been reached on the proposed UBS merger with Allied, Volkskas and Sage Financial Services (SFS), forming Amalgamated Banks of SA (Absa)

Allied Group is at the centre of two aggressive bids, by UBS and its associates and FNB

Sage has a 10%, 30-million shareholding in Allied, but has aligned itself with UBS, as has the Mines Pension Fund (MPF), which has pledged itself to provide the cash underpin for 50% of the UBS offer. MPF is also a 30% shareholder in Sage Holdings.

Sage has a US liability estimated at R70m and has been frustrated in its attempts to sell its loss-making operations across the Atlantic The sale of its Allied shares to FNB would give it R75m which should cover its foreign commitment

Sage executive director Bernard Nackan said Sage did not do deals to overcome specific problems, but rather for their long-term strategic value.



Stockbrokers on the JSE were left aghast yesterday as the Allied share price scaled new peaks in hyper-active trade The share closed at a new high of 295c in hectic trade worth R36m, with 12,7-million shares changing hands.

Pictures ROBERT BOTHA

Price hits record highs . . .

R36m Allied shares change hands on JSE

Cape Times 12/2/91

232

Own Correspondents

JOHANNESBURG — The battle for control of Allied was rejoined in earnest yesterday as frenetic buying resulted in a record R36m worth of shares changing hands, pushing the share price to close at a new high of 295c

Both First National Bank (FNB) and United Building Society (UBS) camps agreed at the close of trading yesterday that the UBS camp was probably close to acquiring the maximum it may buy in terms of the new Securities Panel rules

"The UBS camp is approaching a major position," said one insider

Panel rules require individuals or people acting in concert to pay the highest price they paid for shares to all other shareholders if more than the specified maximum number of shares are purchased

In the UBS's case, sources say, this is 5%, while FNB may acquire up to 10% because its shareholding in Allied is lower The UBS has offered 240c for Allied shares, while the FNB's offer is 262,5c (cash and shares) or 250c (cash)

A breach of the rules could cost the breaching party between R56m and R100m extra to win control of Allied

"We're watching the code very carefully," a source in the UBS camp said

"A contravention would be very expensive"

JSE president Tony Norton said yesterday that there had not been any breaches in Securities Panel rules

Yesterday's activity on the JSE floor followed a FNB-initiated attempt late on Friday to calm the market and discuss a possible settlement whereby the FNB would buy the UBS camp's Allied shares

But the peace was short-lived, and the UBS response was seen in the market, as the price surged towards 300c

Trade in the shares hit a record high yesterday as 12,7m shares changed hands in 893 deals This brings the total amount traded in February to over 40m, 13,6% of the issued shares

In terms of Rule 8 of the new Securities Regulation Code, an offer has to be made to minority shareholders if the party acquires the specified percentage or more that carries voting rights in a company This is believed to be the case with FNB

This also stands for any party that holds the specified percentage and then acquires, within a year, an additional 5% of voting rights This is believed to be the case with the UBS camp.

Observers say the UBS-led group is very close to acquiring the maximum allowed by panel rules As this camp originally held more than 30% of the total shareholding, if it and its concert parties acquire another 5% then all other shareholders must be offered the highest price paid during the acquisition spree

Assuming the UBS camp holds 35% of Allied and they are forced to make an offer at 295c a share, it will cost them R567m, R106m more than the R461m they would have paid at the 240c offer price

FNB held about 20% of Allied at the beginning of the share war two weeks ago. It can boost its holding to 30% before being required to pay the highest purchase price to all other shareholders

FNB, if it overstepped the 30% mark, might have to pay R611m at 295c, R56m more than the R555m offered at 250c

Analysts say the premium is too high for either party and they will be wary of overstepping the mark.

Sources close to the UBS have suggested that Anglo American is backing the FNB bid, and that it either bought FNB shares or did a share swap to enable FNB to offer the 250c cash underpin for Allied shares

An Anglo spokesman said yesterday: "Anglo has no involvement whatsoever"

Allied shareholders take the cash and run

Star 12/2/91 (232)

By Derek Tommey

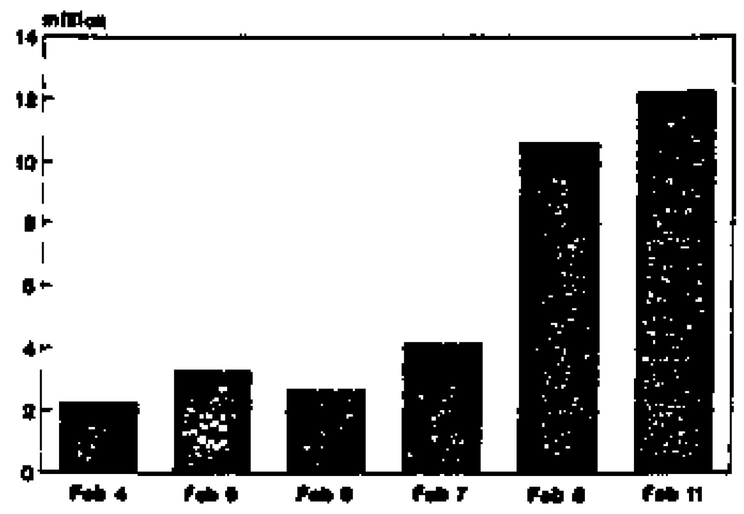
The battle for Allied flared up again on the JSE yesterday

Hectic trading developed in Allied shares and by the end of the day a record 12,3 million shares worth R36,2 million had changed hands, with the price reaching a peak of 295c

In the past six trading days 35,5 million Allied shares worth more than R100 million have been sold on the JSE

It seems many Allied shareholders, confused and undecided about the conflicting bids by UBS and First National Bank, are taking the higher price available on the market

Yesterday's closing price of 295c compares with the 240c being offered by UBS and the 250c in cash or 262,5c in shares being offered by FNB



Allied share turnover

Dealers point out that in situations where there are two parties bidding against each other in the share market, the price can suddenly collapse once both have secured their targets

But dealers are speculating that the boom in Allied shares could continue for some time

Both parties are allowed to hold up to 30 percent of Allied shares without incurring penalties

But in the past six days only about 11 percent of Allied's total share capital has changed hands — which means that a lot more shares might have to be traded before the two parties get their full shareholding

A sudden halt to the buying on Friday afternoon started speculation that the UBS had succeeded in getting its 30 percent.

But its apparent return to the market yesteday suggests it still has some way go As FNB has not been particularly active in the market until now, it might have to buy substantial numbers of Allied shares

Although FNB's offer is higher than that of UBS, it has a harder task in securing the support of enough Allied shareholders to give it control

As things are, all UBS needs to merge the Allied with UBS-Volkskas is the approval of the majority of shareholders attending a general meeting in the second half of March

Therefore the FNB must muster enough support to out-vote the UBS at the meeting if it wants to block the merger

Making life difficult for FNB is that it is unlikely to know how many shares UBS has, so it does not know how many votes it needs

Furthermore, its offer is conditional on its being able to block the UBS

This aspect of the FNB offer is causing confusion among Allied shareholders and tending to deter them from supporting FNB

But Stuart Jones, vice-president of First Corp, which is acting for FNB in the takeover battle, says "If Allied shareholders do not support FNB to block the UBS, they will not get the higher FNB offer"

POLITICS

Differences aired over Minerals Bill

B/Day 13/2/91 (232)

BILLY PADDOCK

CONTROVERSY surrounding government attempts to consolidate and rationalise the nine different mineral laws and restore certain common law rights to surface owners re-emerged in Parliament yesterday.

Major differences over the Minerals Bill were expressed yesterday in a sequel to a meeting between the Chamber of Mines and Mineral and Energy Affairs Department officials on Monday night.

The parties agreed to disagree over the controversial clause 43 of the new Bill — the alienation of state minerals.

The clause attempts to ensure government policy in respect of privatisation and deregulation is applied and entails

- The removal of regulating measures which mean the holder of mineral rights cannot dispose of his right but that the right is put out to lease by the state, as with precious stones on proclaimed land,
- The prospect of gradual privatisation of mineral rights which are registered in the name of the state, and
- The recognition of the free enterprise system.

Mineral and Energy Affairs Minister Piet Welgemoed said the chamber preferred to see a fixed formula in accordance with which state minerals were alienated while government felt market forces should be the deciding factor

The chamber is concerned about a five-year grace period for this clause to be made effective.

The chamber claims compensation is required in respect of alienated land, where someone owns the land but the state holds mineral rights and the owner may get prospecting and mining rights for a fee or may nominate a third party

The chamber position is that while the state owns the mineral rights, it has spent huge amounts of money on prospecting and putting in infrastructure, which needs to be taken into account when the sale of these rights is negotiated

DP Mineral and Energy Affairs spokesman Roger Hulley said government should allay the fears of the mining houses which held nomination rights on alienated state land, by clearly stating in the Bill they would not be worse off than before the legislation was implemented.

Disaster

MATTHEW CURTIN reports that National Union of Mineworkers general secretary Cyril Ramaphosa said the future of SA's mineral rights should be negotiated in a tripartite forum similar to that of the Labour Relations Act accord.

He said the Bill would be a disaster for the mining industry if passed in its present form.

The NUM and the Chamber of Mines had agreed in principle to approach government on reservations they had about the proposed legislation, but government had rejected joint discussions

Geologists said the Bill failed to address three crucial areas including offshore rights, game parks and communally held land and the rights to gold, silver and precious stones in the Cape, ceded to the state in a 19th-Century proclamation.

Spareco staff treatment queried

BDay 13/2/91

MARCIA KLEIN

THE conduct of creditor banks and their representative towards the ex-employees of liquidated motor spares distributor Spareco Holdings (Spareco) was questioned in the Rand Supreme Court yesterday

The banks involved are Bankorp, First National Bank and Alpha Bank, and their representative is financial management group the Reuben Miller Group

In an interim order, acting judge Mr Justice Michael Kuper said the conduct related "to the use made by this consortium of the services of the workforce of Spareco during September 1990"

232

Threats

The order follows an application to the court last week by liquidators Michael de Villiers of Deloitte Pim Goldby and Les Cohen of Westrust for directives on how to treat the claims for the salaries of Spareco's former employees

Yesterday's order questioned the consortium's use of the former employees' services, and its alleged instructions to employees who were not prepared to assist with work required by the consortium to leave the Spareco premises It also inquired about alleged threats to employees

The order questioned the consortium members' denial of any liability to reimburse staff for work done in September

The consortium has been given 10 days to explain its position and conduct

The liquidators and the Legal Resources Centre, who are representing the employees, were given a further four days to reply by way of affidavits

In last week's application, Kuper told the court it was strange that everyone — including Spareco's major creditor banks — had avoided responsibility for the payment of Spareco's employees

He asked the liquidators' advocate Cassie Badenhorst to obtain an explanation as to why the liquidators had not sought the views of the creditor banks involved about claims made by 628 ex-Spareco employees who had not been paid wages and salaries for September 1990

In September 1990, an interim order was granted against Spareco by the industrial court, ordering it to pay its employees' salaries But Spareco could not comply as its assets were held by its creditor banks

Cheques issued by Spareco to employees were taken to the main branch of Trust Bank, where they were dishonoured

Third player emerges in battle to control Allied

232

CAPE TIMES 13/2/91

Own Correspondent

JOHANNESBURG — A third major player has emerged in the battle for the control of Allied, with all indications being that it is Standard Bank Investment Corporation (SBIC)

SBIC MD Conrad Strauss said last night "it would be inappropriate to comment"

But FNB MD Barry Swart said that he was aware that there was a possible third major player He said the huge volumes of shares on the JSE in the past few days would have suggested that Securities Panel rules were breached if there were only two major buyers

"These mechanisms would have already been triggered," he said

The third party is independent of both the UBS and FNB camps as Securities Panel rules require parties acting in concert to disclose their links

Securities Panel executive director Doug Gair said yesterday he had heard that there was a third player active in the market but doubted that this player would be able to buy up 30% of Allied

In another development yesterday, a source close to the UBS camp indicated that it was likely to lift its 240c offer

"There is pressure on the UBS camp to lift its offer," the source said

Allied featured on the JSE again yesterday The share touched 300c at one stage before easing to close at 278c in active trade of R26m

Observers believe the third player is unlikely to try for control saying it is more likely that it is making the battle more expensive for the other two parties, or trying to force a stalemate where neither the FNB nor the UBS camp wins outright control This could mean that Allied remains independent

Standard's holding in Allied is not reflected in "Who Owns Whom"

The two camps bidding for Allied are providing detailed daily returns of all Allied share purchases and holdings, says Gair

He says the panel is only applying rule 8 of its Securities Regulation Code This rule obliges parties which hold more than 30% and increase their stakes in a 12-month period by 5% to pay all other shareholders the highest price paid in the open market

The same mandatory offer applies to parties which increase their holdings above 30% over an unlimited period

Gair indicates that neither the UBS nor FNB camps expected to have their bids fall within the jurisdiction of the panel

"I assume from their actions (making their bids before the beginning of this month when the panel came into effect) that they believed they would not fall under the new rules," he says

Gair says the panel has asked for lists of concert parties, adding that the panel is considering releasing the names of these parties "if the code is broken or for some other valid reason"

FNB's Swart criticised the secrecy over UBS's concert parties He said shareholders had the right to know who was supporting the UBS-led bid

GILLIAN HAYNE reports that in spite of the fact that the UBS merger proposal announced over two weeks ago, the official UBS offer document has yet to be released

FNB claims the delay is "inordinate, unreasonable and unfair" They have been pressing the JSE to make the document available

A UBS spokesman said the document would be published on February 25 He added it was unreasonable to expect the more complex UBS proposal to be finalised as quickly as the FNB offer

Cortech plans revamp after liquidation move

B/Day 15/2/91

ZILLA EFRAT

JSE-listed computer company Cortech is expected to be placed in provisional liquidation by the Cape Town Supreme Court today.

Two Cortech companies, Cortech Electronics Holdings and GIG Transvaal, were provisionally liquidated yesterday.

In addition, nine other subsidiaries, including listed CRB Holdings, have applied in terms of Section 311 (1) for compromise arrangements with creditors. The only business that will be unaffected is Cortech Systems Engineering.

The remaining businesses will trade profitably after the implementation of these moves, which are aimed at removing the group's large debt, says MD John Miller

He says the decision to make the applications was taken towards end-January, after Cortech experienced particularly poor trading conditions in November and December. The intention was to protect creditors, customers and staff.

While figures have not been finalised yet, Cortech will have made a considerable trading loss for the year to December. Its liabilities exceed its assets by about R20m, says Miller.

After the liquidation, Unidev, which had a 70% holding in Cortech, is likely to have a reduced stake because of an arrangement which involves Senbank converting its loans to equity.

Cortech minorities are expected to lose out, but CRB minorities may be able to recoup some of their losses, as some funds may remain after CRB becomes a cash shell and settles with creditors

Two non-computer companies will be sold. Hico, which installs raised floors and airconditioning, will be bought out by its management at net asset value. Two-way radio and electronic components group Hamrad has found buyers who will take it over after it settles with creditors.

Miller, who was brought in from ICL in June last year to help restore the group, says Cortech has three offices premises, but required only one. This cost the company an extra R3m a year.

232

Optimistic

Cortech was also suffering from the harsh credit terms imposed by its major creditor, a US-based company which disinvested from SA some years ago.

In addition, when the group was formed in 1987 some of its assets were bought at "optimistic" prices, Miller says.

After the provisional liquidation a new company called Sendata Control will hold Cortech's business.

Each subsidiary will be very clearly focussed on a particular target market and will be profitable in its own right.

Yesterday, Cortech traded at a low of 4c a share on the JSE and CRB at 3c a share, down from yearly high for both of 18c in July last year

Allied merger: Odds favour UBS after secret ruling

CAPE TIMES 15/2/91

BB (232)

JOHANNESBURG — The odds in the takeover battle for the Allied are stacked heavily in the United Building Society's favour after a secret Securities Regulations Panel (SRP) ruling this week

The UBS-led camp now has scope to increase its stake in the Allied substantially before triggering the panel's limits mechanism that requires an offer to be made to minorities at the last purchase price

Although no official confirmation of the finding could be obtained, market talk is that the panel decided Sage Holdings was not acting in concert with the UBS

UBS chief executive Mr Piet Badenhorst said yesterday "We asked the panel for confirmation of our interpretation of the law, and they provided it We have scrupulously observed its rules and regulations "

Asked whether the battle had been won, he said "First National has a chance, but we think we stand a good chance The battle will only be over after the Allied shareholders' meeting."

With its big stake in the Allied, the UBS-camp is favoured to gain the 51% majority needed for the "megabank" merger of UBS, Volkskas, Sage Financial Services and Allied to go ahead

First National Bank (FNB) managing director Mr Barry Swart said the bank intended to contest not only the secrecy of the SRP ruling but the finding itself

Mr Swart was unhappy about the Allied board's delay beyond Wednesday's deadline for its response to FNB's offer FNB is offering 262c (cash and shares) or 250c (cash) against the UBS's 240c offer

Late yesterday afternoon the Allied board presented FNB with an "unofficial" response that failed to choose sides clearly between FNB and UBS, according to a well-placed source The source said the board did, however, recommend in favour of the FNB cash offer

Expectations that the UBS would raise its offer faded yesterday amid rumours of the panel's ruling in favour of the UBS

Market players expressed frustration at the panel's secrecy, saying it was confusing the issue

SEEKING A STREAMLINED STATUTE

The SA Law Commission's Project 63, captioned "Review of the Law of Insolvency," aims to formulate a single statute to regulate, as far as possible, sequestration of the estates of natural persons and the liquidation of juristic persons (companies, close corporations, co-operatives and others) The statute will embody provisions common to those proceedings, eliminating needless differences, and setting out matters which relate specifically to one or more of the proceedings Insolvency law generally will be reviewed, updated and amended where necessary

The task is massive The initial investigation is being done by a project committee which issues working papers calling for public comment on various segments of the subject The papers summarise the existing insolvency law, explain problems which have arisen and outline, for comment, possible provisions of the intended unified statute

The third working paper, issued towards the end of last year — Effect of Insolvency on Assets, Civil Proceedings and Contracts — requires comment to be submitted by February 28.

Many of the matters dealt with in the third working paper are of a procedural nature and do not affect the substantive law of insolvency The committee's recommendations on these will be based on the input of lawyers, accountants, the Masters and Registrars of the Supreme Court and the Registrars of companies and financial institutions

A serious matter on which the committee is seeking comment is the delay in attachment of the assets, books and documents of a debtor, a delay that often permits the mysterious disappearance of goods and records Ideally, the attachment should take place within hours of the court order The goods and papers should be removed immediately from the control of the debtor either by transfer to storage or by locking up of premises.

The attachment is now made by a deputy sheriff of the district and there is always a long delay before he receives and carries out his instructions Furthermore, the whole process is very different from the normal function of a deputy sheriff and many of those officials do not have the knowledge, facilities nor will to make proper attachments and prepare full inventories.

The substitution of a different process would be difficult. Proposals that the provisional liquidator (which term in the working papers includes the trustee) should make the attachment are, for various reasons, impracticable A possible solution would be to establish in each province a panel of deputy sheriffs who would have the training and facilities to discharge the functions properly, on receipt of faxed instructions, within hours of a court's order The increased costs involved would be justified by the elimination of the present unacceptable position.

The Insolvency Act, coupled with the Alienation of Land Act and the Credit Agreements Act, deals with the case of sales of immovable property where payment in full has not been made, instalment sales of movables where the passing of ownership has been reserved, leases of property and contracts of employment

There are provisions regulating the rights of the parties and the liquidator on the insolvency of a party In some cases the provisions relate to the insolvency of either party In other cases only the insolvency of one party is referred to, leaving the insolvency of the other party to be governed by the common law of insolvency concerning executory contracts (for example, those in which obligations of the parties remain to be performed)

The working paper proposes certain improvements in the provisions relating to these cases but it is clear that the basic provisions should remain

Save for the cases specifically dealt with by statute, an executory contract is not automatically terminated by the insolvency of either party It is not competent for the parties to provide for such termination as this would be a departure from the law of insolvency

The liquidator of the insolvent party has the right, to be exercised within a reasonable time, to keep the contract alive. This feature, particularly where there is work which should have been done by the insolvent under the contract, often causes great prejudice to the other party. The provisional liquidator has no power to make the decision to continue the contract and — given the usual inordinate delay in the appointment of a liquidator — there may be months of uncertainty as to the future of the contract. Except for work which is relatively simple, the liquidator will not normally have the specialised skill to have the contract completed if he elects to do so and there will inevitably be disputes and litigation

These aspects are particularly relevant in building and engineering construction contracts Here the work is not being done in some distant factory but on the premises of the owner who engaged the now insolvent contractor. Buildings, roads, dams and other works stand unfinished for months, often deteriorating and obstructing the normal use of the land

In the light of these circumstances the working paper proposes simply, and appropriately, that executory contracts should terminate automatically on the insolvency of either party. Obviously it would be permissible for the liquidator, with authority from the creditors, to agree with the other party for total or partial completion of the contract, if the circumstances so warrant

Such a change in respect of executory contracts would introduce much needed certainty in an important area of contracting. The parties would be able, in their initial contract, to make suitable ancillary arrangements (not in conflict with insolvency law) with sureties, subcontractors and others

Pyramid update

S|Times 17/2/91. (232)

PYRAMIDS account for about 10%, or R38-billion, of the JSE's market capitalisation

This finding, from research carried out by McGregor's Online Information for new editions of its JSE reference books Who Owns Whom and its baby brother Quick Reference to the JSE, will fuel the debate on the wisdom of allowing the pyramid structure

Robin McGregor says the research was carried out because the existence of pyramids has raised controversy about the validity of Who Owns Whom's control figures

He says eliminating the pyramids reduces Rembrandt's control percentage because of its four-stage pyramid, but there is no significant change in any other big groups

The new market capitalisation figures, excluding pyramids, are Anglo American 44,2%, Rembrandt Group 13,6%, Sanlam 13,2%, SA Mutual 10,2%, Liberty Group 2,6%, Anglovaal 2,5%, FS Group 0,6%, Ventron Group 0,4% and Raymond Ackerman 0,3%

Rembrandt's assertion that it works in partnership with its associate investments and not in control of them would lower its percentage to 9,4% by the removal of GFSA from the table

Mr McGregor says, "Pyramids were made fashionable by Raymond Ackerman in 1981 and certainly have some justification when the loss of control of such an able entrepreneur and manager is threatened by the need for capital

"But it becomes absurd when the same practice is allowed with bureaucratic conglomerates"

Securities Panel meets on Allied takeover issues

CM-Times 18/2/91 (232)

By GRETA STEYN

JOHANNESBURG — The Securities Regulation Panel met urgently yesterday at the request of First National Bank (FNB) to clear up legal issues in the takeover fight between FNB and the UBS for the Allied Group

The panel yesterday confirmed that a meeting was being held "at the request of one of the parties" It was still under way at the time of going to press, but it is understood that the secrecy of the panel's ruling for the UBS last week and FNB's legal position were being discussed

It is believed the panel last week confirmed the UBS's interpretation of the law — a move which meant the UBS-camp could build up a much larger stake in Allied by buying shares on the market than initially thought legally possible

Allied chairman Norman Alborough has officially asked the panel to make public any rulings it has made about interpretation of the law "in the interests of our shareholders"

"We are not involved in the positions either of the two parties are taking in Allied shares, but we feel those positions should be communicated to our shareholders," he said at the weekend

The message to Allied shareholders at a press conference on Saturday was to sell in the market, unless they wanted a long-term investment. Director Joe Pamensky said "The market is telling us there is a buyer at prices higher than those stipulated in either offer"

He added that "the serious investor" had to decide which group would best take advantage of rationalisation benefits once it had taken over Allied

"The board had no time to judge the strategic merits of the FNB offer"

The message to sell in the market rather than try to decide between the two offers was further underscored when Allied Group MD Kevin de Villiers acknowledged he had sold about two million shares "when the predators were feeding"

Noting the board's difficulty in making a single decision on behalf of 47 000 shareholders on which offer to favour, Alborough said the board had set out to identify the choices without attaching a value judgment. Both offers were "fair"

But the board also drew attention to potential pitfalls in both schemes

A potential problem in the Amalgamated Bank of SA (Absa) offer was that shareholders could be left with a fragmented investment consisting of some Allied shares and some Absa shares This would be the case if a special resolution was not passed with 75% in favour at the Allied general meeting in mid-March

The resolution was needed to reduce Allied's share capital Shareholders would end up with only 50% of the shares and cash they would have received otherwise, with the balance made up of Allied shares

A potential pitfall of the FNB offer was that it could result in no effective control of the Allied The only condition attached to FNB's offer was that the Absa offer be rejected at the shareholders' meeting

Alborough disclosed that FNB's original intention to make an offer had contained a condition that it succeeded in acquiring a minimum of 50% The Allied Board had convinced FNB to drop the condition

"On one hand we had a firm proposal to form Absa, and on the other hand we had FNB's intention to make an offer with conditions that the board found unacceptable It is signifcant to note that the condition of a minimum 50% was not included in FNB's final offer," Alborough said

But while the board did not formally choose sides, only two directors — De Villiers and alternate director Angus Prentice — were in favour of the FNB offer

CM/ 1/97S (80) 232

uesday, February 19 1991

SA reserves sold to cover social needs

Political Staff

THE Minister of Finance, Mr Barend du Plessis, has confirmed that the government is selling off stockpiles of strategic resources to raise funds for socio-economic development.

Details of what was being sold and how much was being raised could not be established, nor could it be confirmed if the resources included oil.

In response to inquiries last year, Mr Du Plessis said it would be highly irresponsible to sell off the country's oil reserves

He told parliament yesterday that the R319,4 million spent in buying land for black urbanisation and education had come from the National Supplies Procurement Fund

He said the change in international attitudes towards South Africa had reduced the need for strategic stockpiles

Minister of Trade and Industry Mr Kent Durr said non-oil items were being pared down

However, Minister of Mineral and Energy Affairs Dr Dawie de Villiers, who is responsible for oil, could not be reached for comment last night

It had been intended that socio-economic spending would be met through privatisation, but no progress had been made towards this end

Mr Du Plessis said that last year he had expected R1 billion from privatisation for social spending. This was to have been used to eliminate backlogs in education and buy land

Only R319,4 million had been spent If the balance was used in the coming year, it would be covered by the Additional Appropriation for 1991/1992

State debt, which already exceeded defence spending in the budget, had increased more than had been expected

Of the R479,1 million that exceeded the Contingency Reserve, R418 million was the result of servicing public debt.

However, no extra taxes would be imposed or loans raised

Mr Du Plessis said that although parliament had passed an extra R2,8 billion yesterday, it was expected that departments would surrender R250 million in unused funds from their budgets

The Democratic Party's spokesman on finance, Mr Ken Andrew, said the Additional Appropriation was a failure in term of Mr Du Plessis's yardstick of reducing spending

"The 1990/91 budget has been overspent by R2,8bn or 4% — the worst performance in at least three years and not a good omen at a time when pressures to overspend are going to be greater than ever."

ANC 'rethink' on economy

CAPE TIMES 21/2/91 (232)

Own Correspondent

JOHANNESBURG — Nationalisation could create a national debt problem, a flight of skills and economic insecurity, according to an ANC discussion paper which signals a new debate within the organisation on state ownership.

Excerpts of the paper appear in this month's edition of the ANC journal Mayibuye. The paper itself is being distributed widely in ANC circles

It lists the advantages and disadvantages of nationalisation and says nationalisation "is not a simple clear-cut issue"

Although ANC economic policy is still apparently in a formative stage, nationalisation has been a central plank of policy since it was adopted in the movement's Freedom Charter in 1955

The discussion paper notes that while nationalisation could ensure essential services, better working conditions, increased social expenditure and the "democratisation of the economy", "we cannot have the view that nationalisation will give a new democratic government the means to provide us all with jobs, houses and education"

"If we are going to nationalise, we need to borrow the money to pay for the companies we buy We will have to pay back this money with interest. This money will be spent without creating a single new job

"If we are unable to pay back because the government does not make enough profit from that particular nationalised industry, we will be increasing our debt problems This happened in some countries where the government nationalised the mines, for example, and then ran into many difficulties"

Nationalisation could lead to investor insecurity and a fall in foreign investment. The paper notes "the impact on the economy when financial sanctions were introduced in 1985"

The policy could end up benefiting only the few who ran the industry and were employed by it.

The paper says it could be argued "we cannot afford the R70 billion it would cost to nationalise the mines" It argues instead for higher mining taxes, worker safety laws and mineral rights leases

Unit trust total 'soared by over R2bn'

LESLEY LAMBERT

CAPE TOWN — The R8bn unit trust industry took off in 1989 as the value of total assets increased by more than R2bn (51,2%) to R6,64bn, the 1989 report of Unit Trust Companies Registrar Piet Badenhorst said.

Badenhorst said in his report, tabled in Parliament yesterday, the growth was remarkable in view of the sharp drop in prices on the JSE on October 16 1989 After a large rise in units repurchased during the year, the net inflow of new investment capital was R565,5m.

Last year, the industry's total assets grew by a further R1bn to R7,6bn, while the number of accounts rose from 568 000 to 736 000, latest figures show. The net inflow of R1,12bn was almost double that of the previous year, indicating continued momentum in the growing investor interest in unit trusts (232)

Four new general equity trusts and two specialist equity trusts were launched in 1990, bringing the total number of trusts in operation to 37.

For a total of R31m cash . . .

Pepkor buys 47% stake in Smart Centre

232

CMT Tims 22/2/90

By AUDREY D'ANGELO
Business Editor

PEPKOR has bought Tradegro's 47% stake in fashion chain Smart Centre for 192c a share — a total of R31m in cash — with effect from March 1 The dividend of 3c a share due to be paid before the end of March will also accrue to Tradegro

Pepkor will make a similar offer to minority shareholders, but it intends to continue running Smart Centre as a listed company

Christo Wiese

Announcing this yesterday Pepkor chairman Christo Wiese said Smart Centre was a well managed and soundly based business which met his group's criteria for growth potential

Smart Centre — with 151 outlets all over the country under the names of Smart Centre Kappa and Patrick Daniel — caters for the middle to upper-income market and has a large black client base

Pepkor's target market has been mainly the lower income group

Wiese said yesterday that the Smart Centre chain would "complement and extend our existing retailing operations, which are geared to the mass market."

Pointing out that about 50% of clothing sales in SA are on credit, he said "Until now we have not been in that market. But we have been looking, for years, for a well managed and clearly focused credit chain."

He thought Smart Centre could grow to between 300 and 400 outlets So far it was mostly in the PWV area but more branches would be opened in the Cape

"We shall grow it here We shall open more outlets in areas where it is not yet well represented"

The sale of Smart Centre is part of the "unbundling" process of Tradegro and more announcements are likely in the next few days, including management buyouts

Wiese confirmed that Pepkor was interested in at least one other Tradegro company — "there are other aspects we are talking to them about"

Smart Centre would continue to be run as a new division within Pepkor and would not be merged with any of its existing operations Its management and staff would be retained and "no rationalisation of its branch network is envisaged"

Wiese said one of its major attractions for his group was that it had "a very well entrenched and stable top management"

He was very happy with the way its credit operation was being handled. "Their selection processes and monitoring are very good"

Pepkor financial services director Carel Stassen said it was "definitely not negotiating for Checkers"

The other acquisition it might make from Tradegro was "a very small company"

● Smart Centre lifted attributable profit to R7,3m (R6m) in the six months to December 31

This was achieved on a turnover of R101m (R72,1m) Operating profit was R17,1m (R14m) After-tax profit was R8,3m (R6,5m)

IMF experts to advise govt on VAT

Own Correspondent

JOHANNESBURG — An IMF team of experts has flown in to help advise government on how to implement VAT, including the rate at which to set the new tax.

The experts will also offer advice on the final drafting of the VAT legislation, which will take effect in October

The IMF team will meet more than 20 groups across the political spectrum before making its report in about two weeks' time It has been handed a copy of recommendations by the government-appointed Vatcom, whose report is due for release next week.

The three-man IMF team led by Ved Ghandi, arrived on Sunday on a separate flight to that of MD Michel Camdessus, who was on a stopover visit.

The IMF's input may affect this year's Budget since VAT will be a revenue earner for the fiscus from October

Government will also introduce schemes to alleviate poverty, and if VAT is included on foodstuffs, additional provision will have to be made to aid the poor

An interim report on poverty alleviation has been completed which envisages a nutrition intervention programme or "life net", but the financing of the programme could depend on the final recommendations by Vatcom and the IMF

Food may still get a zero rating or a reduced rate. If VAT is charged at the full rate then substantial food subsidies are likely to be introduced

Asked yesterday if the team's presence suggested links between SA and the IMF were improving, Deputy Finance Minister and Vatcom chairman Org Marais said he hoped it would strengthen the relationship

The visit follows an invitation by Finance Minister Barend du Plessis to the IMF at the annual meeting in September

Marais said IMF principles had been closely followed, but Africanised "We've taken their principles and married them to SA conditions," he said.

Cathy Bayliss has been appointed manager of Wellcome Diagnostics.

Ivan van Heerden has been appointed manager at Tygerberg Cluster Administration of the Standard Bank of SA

(232)

Head of trading operations at Investec, Simon Shapiro, says whatever product is chosen it should take into account the limitations of the SA futures market

☐ Convergence between the spot and futures contracts and their capacity to trade at fair value (the theoretical price at which a future should trade);

☐ Inability of non-JSE broking members to arbitrage because of non-level playing fields between brokers and others — the MST and non-negotiable brokerage give brokers an advantage,

☐ Shortage of liquidity, and

☐ Absence of overseas participation

With futures now trading at 2 000 contracts a day, well below the 3 000-4 000 budgeted for, Safex needs R100 000-R150 000 a month to return to a break-even situation It has suggested imposing a levy of R2 500 monthly on non-active members Those not trading to this amount each month would make good the shortfall

Criticism from members has prompted Safex to consider other measures Says Rees "This will include cutting costs, increasing the *haircut* on the interest rate we pay to members on margin moneys we hold (now 0,5%) and the introduction of a modest minimum transaction fee" ■

FUTURES FM 22/2/91 (232)

UNDER CONTRACT

Safex hopes to introduce a new contract this month to push up volumes and increase liquidity in the SA futures market It was initially designed as the Weekly All-Share Index (Wasi) future which would roll over each week in perpetuity However, in re-

FM 22/2/91 (232)

sponse to requests for comment from members, adjustments were made

National Futures and Options' Brett Stacey says "The major criticism was there would never be any sellers, the institutions would just buy in and this would inhibit volume rather than increase it.

"The roll-over aspect is now to be scrapped and the future will be closed out every Friday afternoon This should stimulate arbitrage between the Wasi and the longer-term contract "

A spokesman for a large institution says "If it has reasonable volume, like the standard All-Share Index future, it could be a useful tool, though I see it as more of a position-taking tool than a hedge "

Safex CEO Stuart Rees says the new contract and alternatives will be discussed at a meeting on February 20

ECONOMY & FINANCE

Head of trading operations at Investec, Simon Shapiro, says whatever product is chosen it should take into account the limitations of the SA futures market:

☐ Convergence between the spot and futures contracts and their capacity to trade at fair value (the theoretical price at which a future should trade),

☐ Inability of non-JSE broking members to arbitrage because of non-level playing fields between brokers and others — the MST and non-negotiable brokerage give brokers an advantage;

☐ Shortage of liquidity; and

☐ Absence of overseas participation.

With futures now trading at 2 000 contracts a day, well below the 3 000-4 000 budgeted for, Safex needs R100 000-R150 000 a month to return to a break-even situation. It has suggested imposing a levy of R2 500 monthly on non-active members Those not trading to this amount each month would make good the shortfall.

Criticism from members has prompted Safex to consider other measures. Says Rees· "This will include cutting costs, increasing the *haircut* on the interest rate we pay to members on margin moneys we hold (now 0,5%) and the introduction of a modest minimum transaction fee " ■

Firms should insure against credit risks

Star 22/2/91

232

In an increasingly robust business environment, credit control has grown in importance.

Latest liquidation statistics — which show an increase in the number of liquidations, but even more alarmingly, a sharp increase in the value of default and consent judgments — imply worsening liquidity problems for South African companies.

Although the actual number of liquidations last year was only marginally higher than 1989, the value of default and consent judgments will probably total R180 million for 1990 — a disturbing rise of 59 percent.

Perhaps the most reliable way of controlling a credit risk is to insure that risk. It is also prudent to investigate the credit rating of future clients and to monitor the creditworthiness of debtors.

Credit Guarantee Insurance Corporation offers SA's most comprehensive portfolio of credit management services and its policy holders benefit from Credit Guarantee's considerable resources

Established in 1936 by a consortium of leading insurance companies, financial institutions and banks, Credit Guarantee is an underwriting firm which specialises in export and domestic credit insurance.

Credit Guarantee relies on its own library — the largest of its kind in South Africa — containing more than 100 000 confidential debtor files on businesses in South Africa and abroad.

Broadly speaking, the company offers two main kinds of export credit insurance cover. The most common export credit insurance policy (roughly 90 percent) of export policies fall into this category) is Export Short-Term which provides cover for export transactions where credit terms do not exceed 180 days.

Medium to long-term export credit insurance, dubbed "Projects" by Credit Guarantee, underwrites risks where credit terms are offered for between two to 10 years

JSE firms 'place profit above jobs'

232

Star 24/4/91

By Shareen Singh

The top 100 JSE-listed industrial companies produced a 21,3 percent increase in dividends last year, but only increased employment by 0,1 percent, according to Labour Research Services.

Some of the biggest companies chose to grant shareholders significantly larger dividend payments and cut employment during 1990, LRS said.

Employment creation should be a major concern for South African companies, it added.

But instead of expanding employment opportunities and making economic growth a priority, "these companies and their directors preferred to keep shareholders happy with large dividend payments", the research body said.

Profits of the top 100 companies increased by 15,8 percent, just above the average 1990 inflation rate of 14,3 percent. Despite the recession, these companies managed to increase sales by 18,3 percent.

Sales per worker rose by 17,3 percent, suggesting improved worker productivity.

Listed companies in the engineering sector recorded, on average, a 45 percent increase in profits last year — the largest increase in profits of the JSE sectors surveyed.

Profit increases for some of the big five conglomerates might have been poor in 1990, the LRS said, but they still earned large returns on their shareholders' investment. Anglo American earned the largest return of 24 percent.

Barlow Rand's profit attributable to shareholders fell by 14,2 percent in 1990, but the company still earned "a very respectable" 22,4 percent return on shareholders' investment.

Barlow Rand group public relations manager John Cammell said the company had not increased its dividend payout.

Despite a 14,2 percent decline in attributable profit for 1990, the total wealth created by the group increased by 6,3 percent to R8,5 billion. Of this, 54 percent was distributed to employees compared with 49 percent of R8 billion in 1989. The proportion distributed to shareholders remained unchanged at 4 percent, he said.

A spokesman for the South African Chamber of Business, of which most of the top 100 companies are members, said the organisation was studying the report and may respond later.

DEREGULATION (232)

BUREAUCRATS RESIST

Local authorities in Natal continue to resist the scrapping of most business-licence requirements and trading-hour laws, but this is unlikely to stop parliament from pushing ahead FM 22/2/91

The Business Bill, now being debated by the parliamentary Joint Committee on Trade & Industry, would replace the interim measure that took effect on January 1 1990 that eliminated licence requirements except for escort services and businesses that process or handle food They also allowed unrestricted trading hours every day except Sunday and religious public holidays.

But Natal was temporarily exempted from the deregulation because the provincial government depends on licence fees for income (*Business* December 15 1989). Municipal bureaucrats, fearful of losing their licensing department jobs and power to restrict businesses, also opposed the measures, especially in Cape Town

Jimmy Sadie, director of the Pretoria-based United Municipal Executive, which represents local authorities throughout the country, says there is now a difference of opinion between members in Natal and the other three provinces. This makes it a "sensitive issue" and the executive doesn't want to comment, particularly because it may be called to give evidence to the committee.

As a smokescreen for their real complaints, local authorities objecting to the Bill argue that it will lead to chaos and a drop in standards. But Brian Goodall, the DP spokesman for Trade & Industry and one of the staunchest supporters of the measure, says the deregulation has been in place for more than a year "and the sky hasn't fallen on our heads"

He says the Bill is particularly beneficial to small business and the informal sector because it removes many restrictions on their

continued →

(232)

activities "Government has talked about deregulation for years This is the opportunity to put its money where its mouth is If parliament doesn't pass this Bill, then all the talk of deregulation will have been meaningless If we are serious about free markets and free competition, then this measure must go through" FM 22/2/91

Goodall says deregulation is an even more important issue than privatisation "We have a simple choice, we either adjust wealth discrepancies through the tax structure — and this will play a role — or through economic structures by allowing the marketplace to eliminate the discrepancies" ■

New challenge to Takeover Panel

S Times 24/2/91

232

THE NEW Securities Regulation Panel meets tomorrow to hear an appeal against its ruling in the Allied Group takeover battle.

The appeal has been lodged by First National Bank which is competing with a UBS-Volkskas-Sage Financial Services consortium for control of the Allied. The panel has come under heavy fire for the secrecy surrounding the first test of its powers to protect minority shareholders.

By IAN SMITH

A renewed surge of buying Allied shares followed the panel's ruling at its first meeting last week that UBS and its consortium partners Volkskas and Sage Financial Services were not "concert parties" operating in co-operation with one another.

The UBS alliance's offer of 100 shares in a new banking giant to be called Amalgamated Banks of SA (ABSA) for every 320 Allied shares values them at 240c — the price of a cash underpin for half the Alied shareholding

FNB countered with a share swop offer valuing Allied shares at 262,5c, or 250c cash

While the legal issues were being hotly debated confused minority shareholders in Allied became sellers again as the share price rose on Friday to 290c, not far short of the 300c at the height of the stock scramble The shares later traded at 287c.

The effect of the panel's ruling would enable the ABSA parties to continue buying Allied shares at higher prices in the market without having to offer the top price to other minorities

The original UBS application was heard by three members of the 18-man panel — chairman Mr Justice Cecil Margo, executive director Doug Gair and JSE president Tony Norton

Tomorrow's appeal will be heard by five members of the panel, but the three who made the original decision will not be among them

It has been authoritatively learned that the panel consulted the London Takeover Panel about the problem and its view is that the ABSA partners are indeed "concert parties" — directly contradicting the decision of the three-man executive committee last Friday

This raises the question of what will happen if the panel reverses its decision tomorrow If the ABSA partners have exceeded the 30% stake they they were allowed to buy on the market without needing to increase the offer to all minorities in Allied they could be reqauired to raise the general offer

Even if only 100 shares were bought at the top price the ABSA partners would have to offer the same price to every shareholder

At one stage Allied shares changed hands at 300c If ABSA paid that price, the cost of acquiring Allied would rise from about R720-million to nearly R900-million

However, the alliance could claim it acted in good faith, opening the way to lengthy litigation between it and the panel

Block

Allied shareholders who did not follow managing director Kevin de Villiers' example by selling their stock will be courted as the protagonists seek their proxies for the meeting due on March 21

The resolutions on which shareholders will have to vote will be sent by Allied in a few days

A decision on an ordinary resolution approving the sale of Allied's assets to ABSA can be carried by a simple majority

However, a special resolution to reduce the Allied's capital so that it can be absorbed by ABSA requires 75% approval of "shareholders present in person or by proxy"

Many analysts believe that FNB has sufficient Allied shares to block this resolution

This would effectively fragment the ABSA offer and leave shareholders with a mix of Allied and ABSA shares and a reduced cash offer from ABSA

FNB managing director Barry Swart said the bank would deal with this issue in its formal response to the Allied board's takeover document issued last weekend

Until then, he said, Allied shareholders should be careful about signing proxy documents

FINANCE

Foreign buyers knock at SA industrials door

Star 24/2/91 (222)

FOREIGN buying of JSE-listed industrial shares although at this stage limited, promises to open up a new dimension — with major ramifications — for Diagonal Street

Indeed, the State President s political initiatives, together with the crumbling of sanctions and boycotts, may prove to be the trigger for foreign institutional and private investors to review their stance towards South Africa

During the past year or so foreigners have become less worried about the long-term political risks of investing in South Africa

Little of substance on economic philosophy has yet emerged from the ANC, but many foreign investors now suspect the organisation's talk of wholesale nationalisation is no more than a political bargaining chip

Taking a line through the numerous overseas reports that regularly come across my desk, more than just a smattering of foreign investors are projecting

Potential

● A discernible increase in buying programmes for South African equities — buying that will be fuelled by expectations of an economy boosted by withering trade and capital sanctions and more emphasis being placed on expansion of the private sector

● The immense potential of a country of 30 million-plus people, where many are economically inactive but perfectly able, given time and opportunity, to acquire financial and industrial skills.

● Black infrastructure, such as housing and education, will attract substantial government spending over the next 10 years, stimulating economic growth

● Rising black economic activity will be focused on the industrial sector rather than mining, providing industrial shares with outstanding long-term growth potential

Overseas portfolio investors are distinctly underweight in South African industrial shares and the instability in the Soviet Union and, more particularly the Middle East, means that there are now fewer havens for long-term equity funds than a year ago

A change in policy by foreign institutions could exert a dramatic effect upon the JSE, since the South African share market is insignificant in global terms, amounting to less than one percent of world stockmarket capitalisation

Negatives

The negatives should not, however, be ignored. Thus

● Japanese financial institutions are barred — at least formally — from investing here, while American investors may not buy any securities issued after October 1986

● The younger generation of international investment managers has largely ignored the JSE for years, owing to political inhibitions Disinterest may remain the order of the day

● Historically only British investors have taken any active interest in South African industrial shares

UP and DOWN DIAGONAL STREET

John Spira

About 20 years ago, British investors played a dominant role in the JSE, but in the past decade they have drastically reduced their holdings of industrial shares

If British purchases of industrials are to increase significantly, this will involve new participation by institutional investors Unfortunately, there are obstacles in the way of such investment

At the end of 1989, roughly 52 percent of UK pension funds by value were run with a prohibition on share investment in South Africa, according to a survey conducted in 1989 of 29 of Britain's top pension-fund managers, who controlled $30 billion (47 percent) of British pension-fund money

The same general situation prevailed among British insurance companies.

Although these obstacles are beginning to recede, any new buying will almost certainly be restricted to a limited number of counters

In general, the marketability of South African industrial shares is poor, with only a handful of blue chips offering adequate liquidity to British investors

Higher ratings

It should also be remembered that whereas some 75 local industrial shares were quoted on the London Stock Exchange 30 years ago, today the number is only around 20

Even so, any new foreign buying of industrials could easily intensify the two-tier nature of the local share market in the sense of precipitating even higher ratings for blue-chip counters

This may force local financial institutions to look further afield for equity investments, in the process lifting a whole host of counters currently labelled second-line

The brakes are still on but you can start revving up

Star 24/2/91

CONDITIONS in the motor industry are expected to deteriorate further this year in the face of the continuing downswing, high interest rates and anticipated increases in fringe-benefits tax

Above all, however, the industry is highly sensitive to interest-rate movements, so conditions could improve later when the long-awaited decline materialises Accordingly, depressed motor shares warrant close consideration

Total vehicle sales in 1990 amounted to 352 629, a decline of 5 percent on 1989 and the lowest in four years

The severity and duration of the downturn will be a major determinant of the industry's 1991 performance, with short-term prospects influenced by socio-political factors and events in the Middle East

Sales are now well below the historical trend, which means replacement needs of the existing vehicle population will tend to limit the scope for significant further declines in new-vehicle sales

The latest industry projections are for no growth in 1991 Yet investors should now start to anticipate the next upswing

Unfortunately, soaring prices have largely eliminated individual buyers from the new-car market — a factor which, together with an unsettled labour situation, detracts from the shares of manufacturers

This points to the advisability of focusing on motor-retailing shares, where McCarthy and Saficon offer attractive yields and above-average medium-term growth potential.

In the year to June 1990 McCarthy's earnings shed 5 percent to 58,6c a share and lost a further 19 percent in the six months to December While the vehicle and industrial sides of the business did reasonably well, associated motor-parts company Midas suffered a sharp setback

Even so, the company is expanding its market and there are signs that its used-car sales are turning upward

Profits in the second half of the current financial year should therefore stabilise at the levels achieved in the six months to June 1990, so that profits for the full year could fall by as little as 10 to 15 percent.

The dividend for 1990-91 looks like remaining unchanged at 20c, plus a special one-off centennial payment of 2,5, for a generous 6,9-percent yield

Saficon is involved in vehicle trading, materials handling equipment and the manufacture of motor components The group also has a substantial investment in building materials group Boumat.

In the year to March 1990, Saficon earned 149c a share against 147c in the previous year, while the distribution was 43c (42c)

In the six months to September 1990, earnings a share fell by 65 percent, while the interim dividend was cut by 46 percent to 11c

The disappointing figures stemmed from the cessation of the supply of Mercedes-Benz and Honda vehicles from the plants for more than a month, poor used-car sales, weak results from Boumat, and some dilution in earnings a share owing to the conversion of debentures

Management warned that difficult trading conditions were expected to persist in the final six months and it accordingly forecast a decline in earnings and dividends of 53 percent for the year to March 1991

The remaining debentures will be converted on July 1, resulting in an 8-percent earnings a share dilution for the year to March 1992

However, some improvement in the vehicle supply situation and a revival in used-car sales could see earnings of this quality-managed group recovering strongly, helped by a fall in interest rates.

The shares are on a prospective dividend yield of 3,8 percent — a touch on the low side but a return which by no means discounts a major earnings advance during the next economic upswing

New salvoes in baffling bank war

Star 24/2/91 232

John Spira

EVENTS in the Allied takeover saga are still moving at bewildering speed, with United, Sage and Volkskas yesterday releasing a tough statement to counter First National Bank's claims that the United-led bid for Allied contained a major pitfall.

"Nothing could be further from the truth," states the joint announcement.

To be successful, the United-led ABSA (Amalgamated Banks of SA) bid would require a capital reduction in Allied for which approval of 75 percent of shareholders would be required.

Implied

FNB had implied that it could block such a resolution, in which event Allied shareholders would end up with less cash and shares than they would have received in terms of the ABSA offer

But United now points out that should the special resolution authorising the capital reduction not be approved.

- Allied shareholders would receive a dividend in the form of 56 ABSA shares for every 320 Allied share held, and Allied would retain as its only asset the remaining 44 shares relating to each holding of 320 Allied shares it would otherwise have distributed to shareholders.
- Allied shareholders would retain their existing Allied shares.
- Allied would become an investment holding company with an important block of ABSA shares.

Such a situation, says the statement, may actually be to Allied shareholders' advantage.

In addition they would own the 56 ABSA shares which they would receive and hold directly for every 320 Allied shares held. And those who opted to retain their Allied shares could sell them on the JSE.

Such an eventuality would only arise if FNB voted against the special resolution.

The United-led consortium goes on to suggest that the FNB counter offer is flawed and adds that should the ABSA bid be defeated the major shareholders in Allied would be deadlocked, thus frustrating long term development prospects for Allied within either ABSA or FNB"

Further, there would be no potential for rationalisation benefits.

Meanwhile, furious behind-the-scenes activity is taking place following the publication in a Johannesburg morning newspaper of allegations relating to contraventions of the Companies Act by Allied's chairman, Norman Alborough.

The allegations relate to his 500 000 shares in Allied

Mr Alborough was not available for comment but Joe Pamensky, an Allied non-executive director, told the Sunday Star that the Allied board was taking a "very serious" view of the comments.

Sources close to Allied suggested that the information, drawn from confidential minutes, was leaked to the paper

In another development, the Sunday Star learned that Allied staff were informed on Friday that the board had decided to allow them to exercise their share options immediately

This effectively means:

- An immediate increase in the number of shares in issue and, therefore, a higher target for a takeover participant.
- The possibility that the share price will drop if Allied staffers decide, as did managing director Kevin de Villiers, to sell their newly-acquired shares into the market.

The number of shares involved are believed to be in the region of 13 million which the employees holding options would be entitled to buy at average price of around 180c each.

Tidy profit

They would then be free to sell them in the market (current price 290c), in the process making a tidy profit.

Many of the options could not otherwise have been exercised until 1992.

As the JSE closed on Friday evening, brokers noted that renewed heavy buying of Allied shares was taking place. The identity of the buyers was a mystery but some dealers speculated that the buying could have come from Standard Bank.

If so, another spoke would be thrown into a wheel which has emerged as the largest, most hotly contested and confusing takeover bid in South African stock market history

DOING A BOOGIE songstress Mara Louw finally met ANC leader Nelson Mandela face-to-face, and immediately got him on the dance floor at Friday night's Press Club dinner Winnie Mandela claps her hands in the background Picture Alf Kumalo

Marike, Winnie not too friendly

THE personal chemistry evident between State President F W de Klerk and ANC deputy president Nelson Mandela did not seem to filter across to their wives when the couples met at a banquet hosted by the Johannesburg Press Club on Friday night.

While the political leaders warmly greeted each other and exchanged laughter, before their addresses to a select crowd at the club venue, Marike de Klerk and Winnie Mandela kept a palpable distance from each other

At a pre-drink session before the entourages of both parties moved into the dining hall, Mrs de Klerk merely greeted Mrs Mandela, exchanged a few words and promptly moved to meet other guests

Emerging from the private room, Mrs Mandela and Mrs de Klerk remained about 10 paces apart as they strolled to the banquet hall.

On entering the hall, Mr Mandela and Mr de Klerk constantly smiled and chatted to each other, but their wives were shown to their places independently

Up until the delivery of the speeches Mrs Mandela and Mrs de Klerk did not speak to each other — they were seated about five paces apart.

It was the first time the two women had met publicly — Sapa.

Anglo still king of the corporate castle

LIZ ROUSE

ANGLO American Corporation remains the biggest, by far, in market capitalisation terms in SA's corporate structure, says the latest edition of Who Owns Whom — The Investor's Handbook.

Anglo makes up 44,2% of JSE market capitalisation, followed by Rembrandt group's 13,6% (9,4% if GFSA is excluded), Sanlam's 13,2% and SA Mutual's 10,2%

The rest come well behind — Liberty group has 2,6%, Anglovaal 2,5%, F S group 0,6%, Ventron group 0,4% and Raymond Ackerman 0,3%

These nine comprise 87,6% of total JSE market capitalisation

Editor Robin McGregor says these figures reflect the removal of all pyramid companies. B[illegible] 28/2/91.

The market capitalisation of these pyramid companies amounts to R3bn, or 10% of the total JSE market capitalisation

232

MERVYN HARRIS

Safex takes strong action to survive

TUMBLING volumes have forced the SA Futures Exchange (Safex) to take drastic action in a bid for long-term survival

The urgent measures include staff cutbacks and increased rates for the market's trading members as volumes have plummeted from the budgeted 3 000 to 4 000 contracts a day to the critical level of 2 000 BDay 25/2/91

MD Stuart Rees said, as a result, Safex was operating at 1 000 contracts below break-even point "We have, therefore, been losing money"

Declining volumes in futures trading have been in line with falling trade on other financial markets, which is not only a local but an international phenomenon

When Safex took over the clearing function from Rand Merchant Bank last April, volumes were expected to rise and they did reach a high of 5 000 contracts a day in August (232)

Although trading in futures is a zero sum game — for every loser there is a winner — perceptions of the market were damaged by the collapse of futures trading company DRS, although no clients with open positions lost money as a result of the

□ To Page 2

Safex BDay 25/2/91

(232) □ From Page 1

failure of the firm

Referring to talk in the market that Rand Merchant Bank — which operated as a clearing house for futures trading for three years from April 1987 to April 1990 — might be asked to resume this function, Rees said this was one of the options.

"The major concern of Safex is that the futures market should survive and prosper, even if this involves shifting the clearing function to another clearing house.

"We have been discussing the possible merger of our clearing operation with that of Unexcor, the proposed central clearing organisation owned by the major clearing banks If this would be to the advantage of the market, we would consider it," he said

He added that measures being adopted should enable Safex to pursue the purpose for which it was founded.

Four groups control 80% of JSE capital

232

By Tom Hood

More than 80 percent of the market capitalisation of the JSE is controlled by only four major groups.

This is calculated by analyst and author Robin McGregor in the latest edition of Who Owns Whom

Extending the list, he calculates 87,6 percent is controlled by nine groups.

Just over 44 percent is controlled by Anglo American Corporation

Star 25/2/91

No 2 spot

The Rembrandt Group has moved up the list to the No 2 spot, owning 13,6 percent, though this stake falls to 9,4 percent if Gold Fields of SA is excluded.

Sanlam is estimated to control 13,2 percent of the JSE, ahead of Old Mutual with 10,2 percent

The other major groups are listed as Liberty with 2,6 percent, Anglovaal with 2,5 percent, FS Group with 0,6 percent, Ventron Group with 0,4 percent and Pick'n Pay with 0,3 percent

Pyramid

"These figures reflect the removal of all pyramid companies, whose market capitalisation amounts to R38 billion, or 10 percent of the total JSE capitalisation," says Mr McGregor.

The latest edition of the book contains several new features, including a breakdown of the holdings of the six major groups — Anglo, Rembrandt, Old Mutual, Sanlam, Liberty and Anglovaal Holdings

CAPE TIMES 26/2/91 (232)

Govt sells stake in Sasol 3

Own Correspondent

JOHANNESBURG — Sasol has bought the Central Energy Fund's (CEF) 50% stake in and loans to Sasol 3 in a deal worth R2,9bn which it will fund from internal resources.

The synfuels and chemical giant also announced yesterday a 29,2% rise in attributable earnings for the six months to December, largely due to higher oil prices and increased production volumes

Mineral and Energy Affairs Minister Dawie de Villiers said in a statement yesterday the funds received would be used by CEF to finance Mossgas and other energy related projects

Sasol chairman Joe Stegmann said at a press conference the negotiations for Sasol 3 had been "tough", but both parties described the price as fair

The full value of Sasol 3, which had cost R3,3bn to build and was commissioned in 1982, had been set at R3,5bn

Stegmann said the acquisition was in line with a contractual commitment between the state and Sasol entered into at the time of Sasol's privatisation in 1979

In terms of this agreement Sasol had acquired the stake it did not hold in Sasol 2 in 1983

It was agreed yesterday that Sasol would buy all the shares it did not hold in Sasol 3 and redeem the loan made by the CEF to Sasol 3 with effect from July 1 1990

Sasol would acquire the CEF equity in Sasol 3 for R617m in cash It would also redeem its R2,4bn loan by paying R133m in cash, followed by four annual payments of R400m each and a final payment of R550m

Sasol MD Paul Kruger added there had been discussions on the Industrial Development Corporation's (IDC) sale of its stake in Sasol, but nothing was firm.

Kruger said the acquisition would not affect Sasol's future capital expansion programmes At present, capex of R1,3bn has been committed It had, however, pushed gearing up to 40%

He said the acquisition would initially have a relatively small but favourable effect on Sasol's earnings a share because the loss of the dividend previously received on the investment in Sasol 3 would be compensated for by the consolidation of Sasol 3's profits

However, in the longer term earnings a share would increase concomitantly with a reduction in interest payable as the loan was redeemed

In the six months to December, Sasol's attributable earnings, which included those of Sasol 3, rose 29,2% to R464,8m (R359,7m) or 82,5c (63,8c) a share.

However, Sasol's profit growth in the second half is expected to go down because of the expected lower average oil price

A dividend of 32,5c (27,5c) a share has been declared, up 18,2% and covered 2,5 (2,3) times

Kruger said for most of the period under review international crude oil prices, as well as petroleum product prices and refining margins, were considerably higher than for the comparable interim period

With the inclusion of Sasol 3's contribution, turnover excluding excise duties and levies jumped 69,5% to R4bn (R2,4bn), but operating profit was up 59% to R974,2m (R613,1m)

The group received R200 000 in dividends, compared to the R25m in the period before the acquisition of Sasol 3

It paid R204,5m in interest compared to the R4m it received the previous year This led to pre tax profits rising 19,9% to R769,9m (R642,1m)

Sasol's tax rate increased to 38,9% (19,5%) because of the change in the method of accounting for depreciation As a result, taxed profits were 8,9% lower at R464,8m (R513,7m)

But the group made no transfer to its internal equalisation reserve following the R154m transferred the previous year

Allied shares . . . a most taxing problem

BDay 26/2/91. 232

JIM JONES

THE controversy over the allocation of 500 000 Allied Group shares to non-executive chairman Norman Alborough grew over the weekend as Allied shareholders and employees questioned the allocation, Alborough himself told the weekend Press that any comment had to come from the Allied board, and Joe Pamensky went in to bat for his co-director

No sooner had Alborough returned to his office yesterday after a week's break on his Natal Midlands farm than he was closeted with one of Allied's senior investment managers. His task was, in part, to advise on strategy after JSE chairman Tony Norton was reported on Radio 702 last Thursday as saying the JSE would be referring the matter to the Registrar of Companies.

According to company insiders, Alborough remains undecided about how to handle his share allocation, though he has said he will accept the UBS merger offer Accepting UBS's offer seems to have been a recent decision, apparently based on tax considerations The first public disclosure of Alborough's shareholding came in the February 16 takeover statement by Allied

Early that week Alborough had been advised by Pamensky to sell his shares in the market, as Pamensky has said, because the market price was right and sending a strong message. Midweek he sought the advice of tax consultant Eddie Broomberg, among other things to estimate his likely tax liability if he sold.

The main tax determinant in these types of transactions is whether the taxpayer is classified as a sharedealer Normally in takeover situations the Receiver of Revenue takes a lenient approach to inadvertent profits made by participants in corporate share option schemes And this is likely to be the case with the hundreds of Allied employees who participated conventionally in their company's share option scheme

Allied's employees can reasonably expect a favourable response to their legitimate argument that they should not be taxed if they have to accept one or other of the UBS or FNB bids The rules of Allied's share option scheme made them long-term investors in their company — a takeover by Absa or FNB makes them inadvertent sellers which is justification for not being taxed as sharedealers

Tax experts say the situation is less clear-cut in Alborough's case Unlike the general public, he was aware of the pending UBS merger bid on September 24 when the Allied board voted him his shares This, in turn, raised the question of whether he would be an inadvertent seller of Allied shares or deemed to be dealing in shares and therefore taxable. Certainly, had he followed Pamensky's advice and sold in the market his tax liability might have been very uncertain He would be better advised, tax experts believe, to hang on and accept UBS's offer. The profit, in that case, might not be taxable.

Alborough was not contactable last week and did not return telephone calls to his office yesterday. However, in a statement to the Sunday Times at the weekend, he said he had nothing to add and that it was up to the Allied board to respond to Business Day's article of last Thursday The Allied board is not planning to make any statement, putting the ball in Alborough's court

In the Sunday Times report, Pamensky justified the allocation by saying Alborough was entitled to the shares as he was an executive director of Allied Holdings Pamensky made the point that Allied Holdings is destined to be one of the group's principal holding companies with completion of a current restructuring made possible by the stamp duty moratorium The newspaper appears to have misquoted Pamensky by saying Allied Holdings was established in terms of the stamp duty moratorium restructuring of the Allied group

That was not altogether correct The stamp duty concessions were first granted in the Budget of March 1988 Allied Holdings was incorporated with a capital of R6 (not R2 as a typing error had us saying last week) on August 17 1987 with the registration number 87/03847/07 In other words, Allied Holdings was not established as part of the moratorium restructuring, as the Sunday Times reported Pamensky as saying

Alborough became executive chairman of Allied Holdings only on October 1 1990 — Hugh Boonzaier was appointed Allied Holdings' chairman at its inception on August 17 1987 and was still in the chair in June 1990 when Alborough was appointed chairman of Allied group Boonzaier had to step down before Alborough could be installed

Pamensky was also reported as saying the explanation for a R30 000 dividend being paid to Alborough six weeks before he paid for the shares was that it took time to process the share issue. That might be misleading — the shares were allotted to Alborough as fully paid up on November 19, the very day Allied declared its 6c interim dividend

There were few bureaucratic delays. The allotment return was in the hands of the Registrar of Companies on November 27 and the application to have the shares listed on the JSE was in the hands of the JSE on November 19 The only major delay was in Alborough's payment for the shares

Now the question to be answered is whether the share allocation was intended to give Alborough a tax-free benefit. That will be for the Receiver to decide

LETTERS

Allied battle: 13,3m more shares freed for the chase

232

CT 27/2/91

By GRETA STEYN

JOHANNESBURG. — The number of shares chased in the Allied takeover battle between First National Bank (FNB) and a UBS-led camp rose by a substantial 13,3-million after Allied executives this week got the right to exercise their share options.

The prices at which the options can be exercised vary from about 140c to just over 200c The share peaked recently at 300c and has been trading in a band between 265c and 285c.

The potential profit margin for executives who want to sell in the market narrowed yesterday as the Allied share price shed more than 5% to 265c and volumes dwindled to their lowest levels since the takeover battle started

The market is waiting for a crucial Securities Regulation Panel decision on FNB's appeal against the panel's earlier finding placing the UBS in a favourable position

An announcement is expected before the close of the market today

With Allied trading at 265c yesterday, speculation that the panel might force a UBS offer to minorities at 300c faded

In terms of the original employee share option scheme, executives would only have been able to exercise a quarter of their options in June this year.

The decision to bring forward the exercising of the options is understood to be because the scheme was not carried over to the UBS-led ABSA takeover proposal.

The new bloc of shares held by the executives represents a substantial 4% of the capital. It immediately dilutes the holding of the two predators with FNB's stake falling below 25% of the shares in issue But FNB has made no move to pick up the new block, saying such action would depend on the outcome of the panel meeting.

FNB is understood to have asked for the panel to consider "the spirit and not the letter" of the Takeover Code, whose ambit is bypassed by the UBS offer's structure

In terms of the UBS offer, all that is needed is a majority vote by shareholders present at next month's shareholders' meeting in favour of selling all the assets — regardless of the number of shares represented at the meeting FNB opposes this, saying "the substance of the deal, and not the form" should be the crucial issue

Yesterday the JSE approved the terms of the Absa merger agreement, details of which are in the process of being prepared and sent to all relevant shareholders, an announcement today says

AVI overcomes low margins, high interest

B/Day 28/2/91 232

MATTHEW CURTIN

ANGLOVAAL Industries (AVI) shrugged off reduced margins afflicting markets served by the group, and a still heavy interest bill, to post a 5% increase in earnings in the six-months to end-December

Attributable earnings climbed to R103m (R98m), equivalent to 363c (346c) a share After-tax profit rose 10% to R168,8m (R152,8m)

AVI's packaging and rubber sector contributed most to the growth, with a 9% increase in its contribution to group interim earnings

All five business sectors contributed to bottom-line earnings, but the construction and electronics and diversified businesses sectors' contributions fell by 3% and 7% respectively.

MD Jan Robbertze said last night the performance of the construction and electronics sector reflected the reasonable conditions in the building industry, but a tighter situation facing civil engineering

Profit gains in Consol's rubber division and National Brands were offset by lower contributions from Grinaker Holdings and the group's textile businesses

He said commercial electronics faced difficult times Grinaker Electronics had lost a significant component of defence spending, and was refocusing its operations

Robbertze said the company's non-defence business was picking up — it had won antennae contracts from the SABC — and with the easing of overseas market conditions it was likely to raise its contribution to group earnings by financial year-end

Revival

Textiles were hit by government's structural adjustment programme, which had promoted imports.

AVI's businesses had been less badly affected than its competitors', but their revival would depend on government re-evaluating its approach to the industry.

Consol's rubber division fuelled 12% of the 19% increase in group turnover to R3,656bn (R3,060bn)

AVI's interest bill fell 10% in the interim to R43m (R47,6m), compared with a total bill of R100m at year-end 1990 (R44,8m at year-end 1989)

Operating profit was boosted by a 26% increase in investment income to R331m (R308m)

The directors said for the next six months earnings would match interim results, although recessionary trading conditions were expected to continue

Negotiations were in progress which, if successful, would result in AVI increasing its interest in Grinaker Holdings to 51% (now 46,5%) When the transaction was completed, AVI planned to transfer its entire Grinaker Holdings equity into direct ownership by AVI, eliminating the need for intermediate holding company Avgrin Holdings, which would be deregistered

AVI had signed a conditional agreement whereby National Brands would — on April 2 — acquire the local business of Yardley of London (Africa)

Directors said the group's capital expenditure was reduced to R83,3m (R119,9m) in the half-year Authorised capital expenditure stood at R149,7m (R119,7m), of which R83,6m had not been contractually committed

Chairman Basil Hersov said last year AVI had budgeted R1,1bn in capital expenditure over the next three years

Former FSI men take Unidev stake

(232)

BDay 28/2/91

ANDREW GILL

INVESTMENT holding company Unidev and its pyramid holding company Unicon have been taken over by former FSI executives and Senbank Both are due for a major shake-up through a rights issue and asset disposal programme.

In a deal likely to have cost the buyers very little, control has fallen to outgoing FSI Corporate Services MD Alan Chonowitz and Teamcor deputy MD Jon Brett They hold 60% of Unicon holding company Top-Hi while Senbank has come in with a 40% stake

It was bought from a consortium consisting of Geoff Grylls, Ian Hirchson, Steve Phelps, Ronnie Stein and Lionel Willmore

The new management team of Brett and Chonowitz has planned a R15m rights issue as well as the disposal of non-core assets which should raise "a conservative" R15m

The group, which has been battling with a severe gearing problem in the past few months and has seen the liquidation of subsidiary Cortech, has kept its five major interests These are Medicor (a 50% stake), Equikor (40%), Prestige (80%), Hyperette (33%) and Rusfurn (23%)

Chonowitz said those interests might be increased in the future

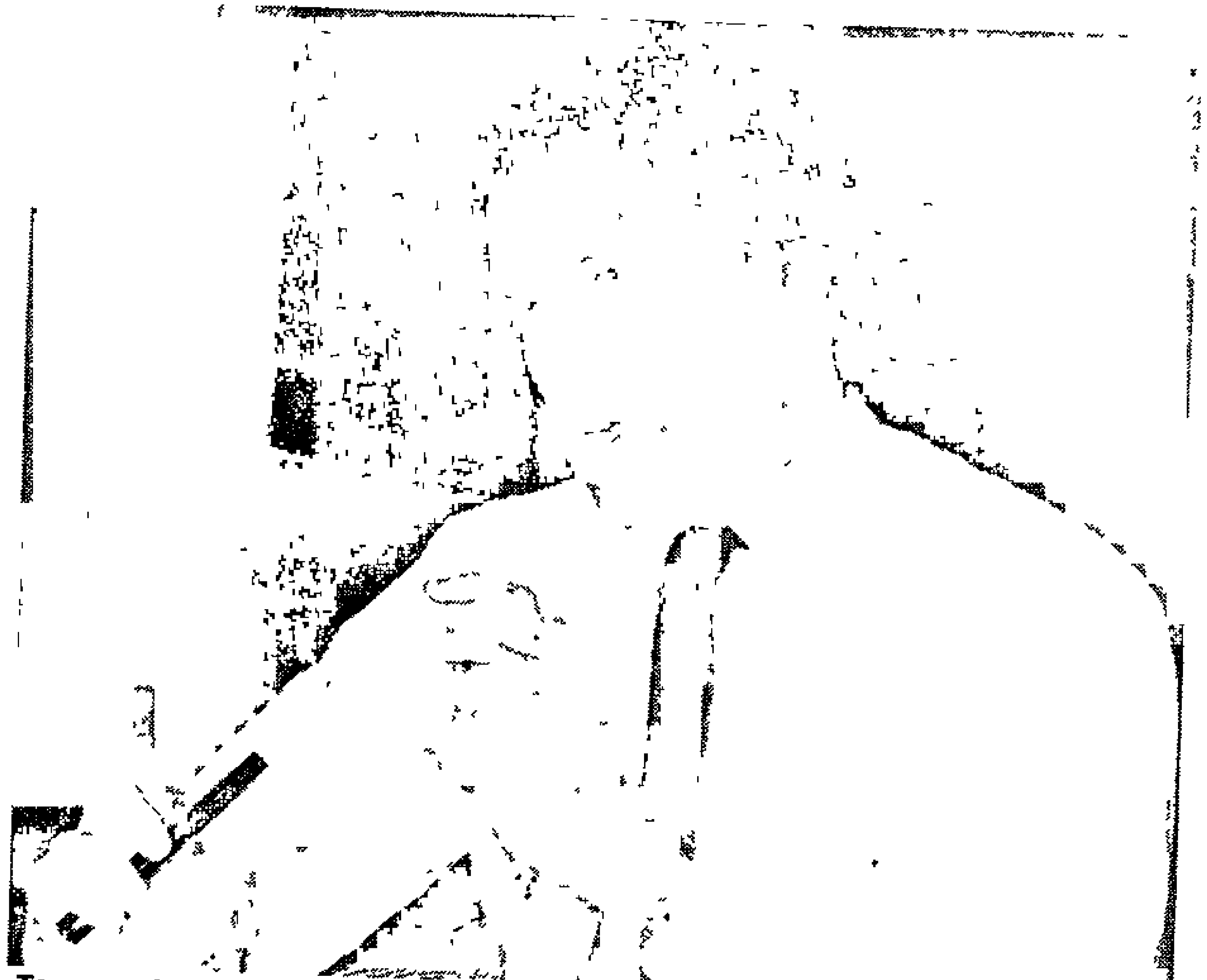
New acquisitions might be made, he said, but nothing specific was planned at the moment If any new purchases were made, Brett said, they were likely to be for control of the targeted acquisition as opposed to another minority interest for Unidev

The capital raised from the rights issue and disposal of non-core assets will be used to slash the debt burden and start the new-look group off with a clean slate

The rights issue will be made at "roughly the market price", probably 30c to 40c, said Brett

The share had fallen to a new low of 25c on the JSE over the past two days but news of the restructuring put it back up at 30c yesterday An analyst said it could be looking at reaching 50c shortly

The group would still have a R44m book debt as a result of the 23% Rusfurn stake but this "should pay for itself"



Teamcor deputy MD Jon Brett outlines the plans the new management team has for investment holding company Unidev at a Press conference yesterday. Picture CATHERINE ROSS

Iscor shareholders in for a letdown

232

Star 1/3/91

By Derek Tommey

The 222 000 investors who hold shares in steelmaking giant Iscor will be disappointed with the company's earnings for the six months to December

Attributable profit fell by 29,3 percent from R426 million to R301 million, and the dividend has been reduced by 16,7 percent from 5,4c to 4,5c a share

But Iscor s shareholders have one consolation

Most of the world's other major steel producers faced difficult times last year and are also reporting poor profit figures, according to profit comparisons

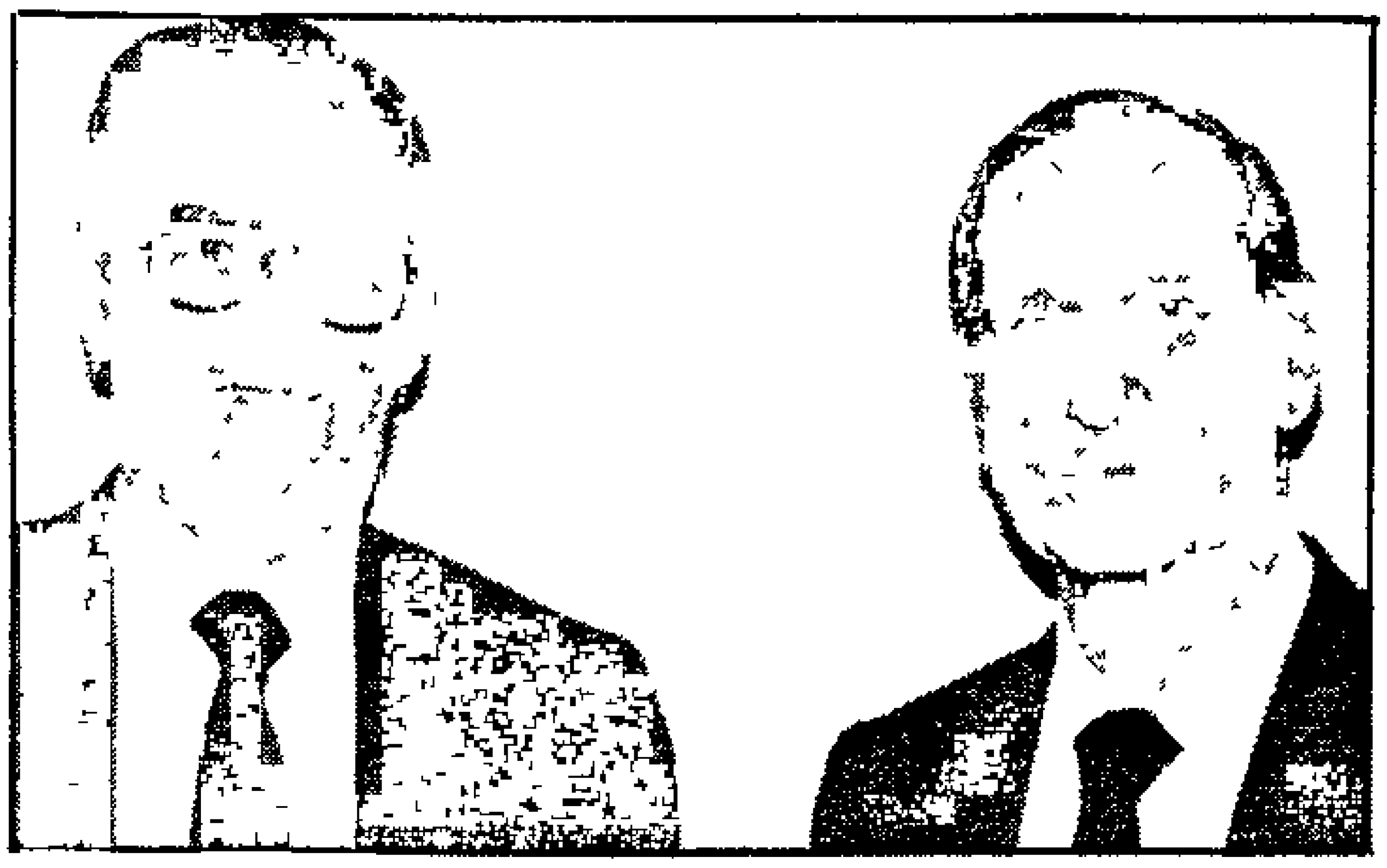
The main cause of Iscor's woes was a 12,5 percent cut in local steel sales as a result of the mounting recession

Offset

Iscor tried to offset the losses with increased exports and was extremely successful, with export sales rising by 54 percent

This, together with increased coal sales to Eskom and record iron ore exports, helped push total sales up by 17,2 percent from R3.1 billion to R3.6 billion

However, the lower prices received for exports, together with the firmer rand and easier dollar, were not enough to offset the loss of income from reduced local sales



Iscor managing director Willem van Wyk (left) and chairman Marius de Waal

Income before financing costs and tax dropped 27,3 percent from R601 million to R437 million

These earnings were further trimmed by a rise in interest paid from R49 million to R108 million

However, Iscor's heavy investment programme resulted in a sharp drop in its tax liability

Increased investment allowances enabled the company to cut its tax bill from R127 million in the second half of 1989 to R24 million in the second half of last year

Net income attributable to shareholders was R301 million — equal to 16,1c a share

This was a drop of just under 30 percent from the R426 million — equal to the 23c a share — earned in the second half of 1989

Managing director Willem van Wyk, discussing prospects, sees little immediate change in market conditions from those in the six months to December

World steel production and international trade in steel started to turn down in 1990 and Iscor expects the trend to continue this year

In fact, Iscor thinks conditions will be worse that the 1,2 percent decline in world steel trade forecast for 1991 by the International Iron & Steel Institute

However, the heavy investments made by Iscor are expected to start showing increased operating efficiencies and encourage the development of new products

The full commissioning of the modernised Vanderbijlpark blast furnace in the first half of this year should increase plant throughput and enable exports to be maintained at levels, thereby optimising efficiency

Moreover, the capital expenditure programme has peaked and the benefits will gradually become available as projects are completed

Looking farther ahead, Iscor expects that the European Community and the US later this year to lift sanctions

Opportunity

Iscor still has its sales representation in Europe and the US and believes lifting sanctions will offer the opportunity to broaden its export base

It should enable Iscor to sell value-added products, which are forming a steadily increasing proportion of its output, to more lucrative markets, says Mr van Wyk

But he is adamant that Iscor will not rush into Europe or the US when sanctions go

"We will look carefully at these markets, but would not want to disturb the existing situation," he says

Rights offers boost Anglovaal

Finance Staff Star 1/3/91

Anglovaal has reported a 28 percent increase in profits in the six months ended December while its investment and exploration company, Mid-Wits, reports an increase of 101 percent.

The main reason for the improvement in both cases was interest received from the funds raised through their respective rights offer

In spite of the 39 percent increase in Anglovaal's issued share capital, its earnings per share were only 8 percent lower, while the growth in MidWits' individual share earnings was 50 percent after its 33 percent increase in equity.

Anglovaal's consolidated earnings rose to R135,3 million from R105,6 million in the year-ago period This follows a 30 percent gain for the 1989/90 financial year as a whole

Furthermore, the board anticipates that the current year's earnings will continue to grow but, again because of the increased number of shares in issue, earnings per share are expected to decline

In addition to the interest received factor, Anglovaal received a modest increase in contributions from **Anglovaal Industries (AVI)**, which has reported a 5 percent rise in earnings Most markets served by the AVI group reported reduced margins and restricted consumer spending

AVI is currently conducting negotiations which, if successful, will result in it increasing its 46,5 percent indirect interest in **Grinaker Holdings** to a direct ownership of 51 percent of equity Furthermore, the subsidiary, National Brands, will acquire the South African business of Yardley of London on April 2

Mining investment income in the current year is expected to decline, but this will be more than offset by the higher interest received

Lower base and precious metal prices led to a decrease in the profitability of the mining division and this, in turn, led to reduced dividend receipts and equity-accounted earnings — particularly in the case of **Associated Manganese Mines**

In line with the gold mining industry, Anglovaal mines continued to be adversely affected by lower real-terms rand gold prices

MidWits' earnings reflected a rise to R23,2 million (1989 R11,5 million), the higher interest income being offset to some extent by lower dividends from the company's mining investments and reduced equity-accounted earnings

The group's exploration programmes for gold in the Sun and Oribi areas is continuing with the emphasis remaining on the southern part of the Sun area where the current drilling phase is further delineating ore body boundaries, as well as both reef and grade continuity However, drilling delays have led to a further postponement of the current exploration phase

During the half-year, Anglovaal's share of exploration costs — including mineral rights purchases — amounted to R36 million (1989 R41,5 million), most of which was incurred on the Sun and Oribi areas

AFEX (232) F/M 1/3/91

INVESTING ABROAD

Activities: *Holds investments, mainly in mining, property and farming, in Africa, Australia and the US*
Control: *Conafex (registered in Luxembourg) 52,4%*
Chairman: *D C Marshall*
Capital structure: *3,8m ords Market capitalisation R26m*
Share market: *Price 680c Yields· 3,5% on dividend, 18% on earnings, p e ratio, 5,6, cover, 4,3 12-month high, 750c, low, 625c Trading volume last quarter, 4 000 shares*

Year to Sep 30	'87	'88	'89	'90
Return on equity (%)	—	6,8	9,2	8,5
Turnover ($m)	12,4	18,8	20,7	31,1
Pre-int profit ($m)	2,0	3,4	4,0	3,9
Pre-int margin (%)	16,0	18,1	19,4	12,5
Interest cover	3,1	4,0	4,4	3,0
Earnings (USc)	(2,0)	27,3	49,6	42,9
Dividends (USc)	8	9	9	10
Net worth (USc)	448	400	541	506

For local investors, Afex's investments in hard currency economies have long been the prime attraction in the share The rand hedge qualities should continue to outweigh the recent setback in profitability, particularly as there are plans to strengthen the hard currency exposure

Plans were announced this week to raise up to US$3,2m by way of a rights issue Chairman David Marshall says the effect of restricted remittances from currencies with foreign exchange control has resulted in a greater proportion of the group's assets being within so-called soft currency countries than is considered wise

By raising new equity capital, the board wants to increase the weighting of assets held outside southern Africa In particular, funds will be made available to develop the group's interests in the US and Europe Funds received in SA will be lent to the local subsidiary, Sussex Securities, to invest

The rights issue will comprise an offer of just over 2,1m new shares of $1,50 on the basis of 55 new shares held in Afex at $1,50 per share The dollar/rand exchange rate ruling on February 22 will be used in determining the amount to be subscribed by shareholders on the SA share register

Of total net assets of $21,4m held at last year-end, 65,6% was in SA, 6,9% was in Zimbabwe and 27,5% was in the rest of the world At the end of the previous year, net assets totalled $20,7m, of which 59% was in SA, 6% in the rest of Africa and 35% in the rest of the world

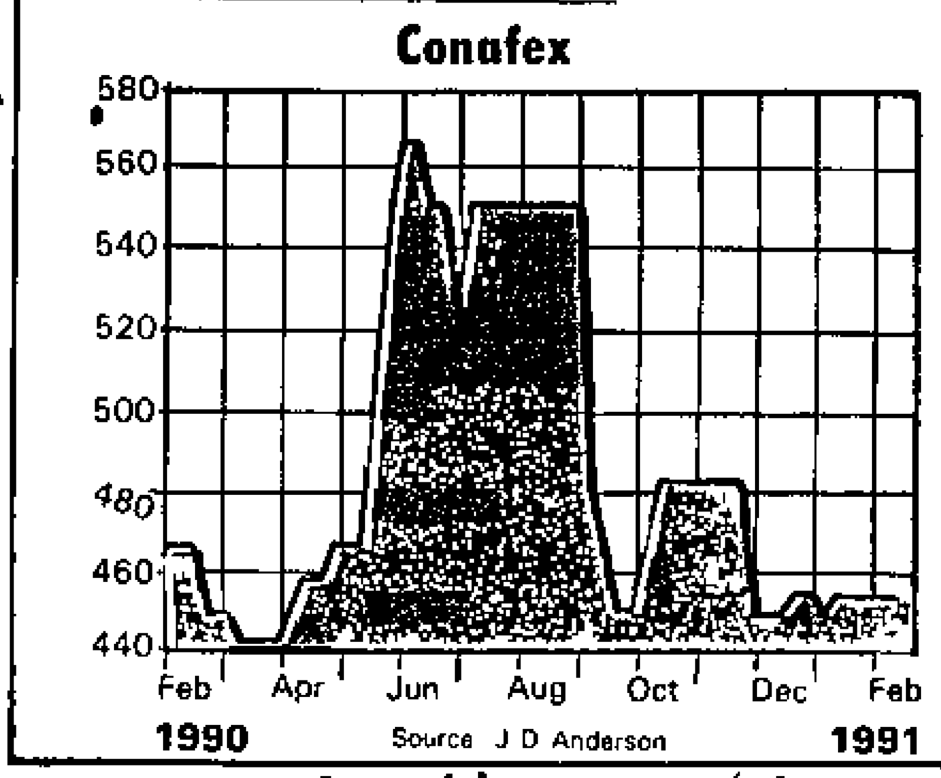
Results for 1990 fell below expectations, mainly because of the recession affecting the distribution activities Pre-tax profit dropped from $3,1m to $2,6m, though this is partly because there was no contribution from the lead and zinc mine sold in June 1989

Trading profit increased strongly in SA and Zimbabwe, but fell into a loss in Australia and other countries, and was eliminated in Namibia Dividend income dropped from $3,3m to $2,6m In the US, the value of the portfolio of stocks and shares — largely in leading listed American corporations — stood at $2,25m at year-end, compared to a cost of $2,2m, and both dividend income and surpluses on realisations increased

Various changes were made to the SA interests, including the purchase of a controlling stake in a poultry farm, and some operations were sold In Zimbabwe, profit from the farming investments more than doubled to Z$2,6m, while the gold mining activities held by Falcon Mines swung into a profit after the previous year's loss A trading loss of Aus$211 500 was made in Australia after the group acquired a majority interest in Queensland Tool & Machinery, which was previously accounted for as an associate company

The yield remains thin at 3,5%, but the share remains interesting for those who want a long-term holding in a group with significant exposure to investments listed abroad

Andrew McNulty



F/M 1/3/91 (232)

DATES TO REMEMBER

Last day to register for dividends:
Friday Mar 8: AfexSA 25,3c, BTRDun 105c; Cafca 32,61c, Cashbil 5c; Conafex 13,92c; Conshu 11,5c; Ind Selec 5,5c, Kersaf 58c; Natsel 6,5c, NTC 34c, NTH 17c; Otis 4c; Sun Bop ■46,75c, Transun ■11,69c; Wayne 1,75c.
Meetings:
Monday Mar 4: Nova (S) (Cape Town)
Tuesday Mar 5: Abacus (S) (Wadeville); Falcon (S) (Bulawayo)
Thursday Mar 7: Afex SA (Luxembourg); Conafex (Luxembourg).
All meetings are in Johannesburg unless otherwise stated.
S = Special meeting
■ = Net after non-resident tax.

UNIDEV FM 1|3|91 232

REFUNDING PLAN

Embattled Unidev — now counting the cost of the liquidation of its Cortech electronics subsidiary and flat results from Rusfurn — is expected to announce this week its long-awaited refunding plan

As expected, Unidev and its Unicon parent are to participate in rights issues, to be underwritten by Senbank, which will raise about R15m When the *FM* went to press the

FM 1|3|91 232

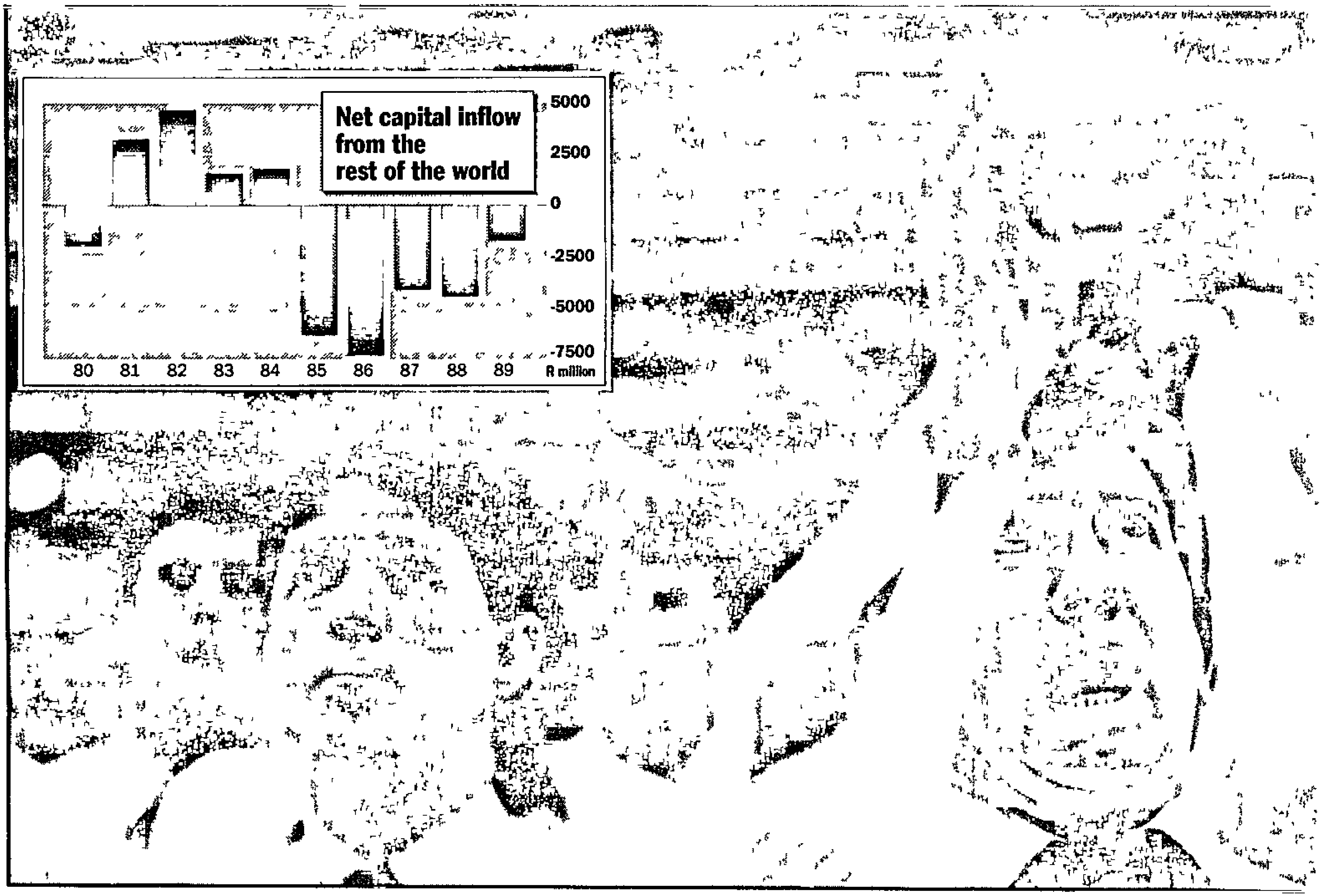
number of shares to be issued had still to be decided The group's last rights issue, in September 1989, raised R20m and increased Unidev's issued shares from 17,4m to 30,7m Unidev's share now trades at 33c, on a historical dividend yield of 42,4%, while Unicon's price is 170c, yielding 4,7%.

Proceeds of the rights issue will be used to help trim Unidev's substantial debt Additional funds for this purpose will be raised by disposing of what the group describes as non-core assets These assets, mainly properties, are expected to bring in a further R30m As no financial accounts have been published since the 1989 annual report, the group's present gearing level is difficult to gauge However, the recapitalisation of Unidev should ensure that cash flow is positive.

In addition to these measures, a major clean-out of the Unidev board is expected, with all but chairman Henry Vorster and MD Ronnie Stein likely to be replaced

Simon Cashmore

If you're tempted to cut and run, thi



Read writing on th

Star 2/3/91. (232)

JOHN SPIRA

FEELING gloomy lately about South Africa's political and economic outlook?

Think again, for the writing on the wall suggests that things aren't nearly as bad as suggested by the pessimistic outpourings of so many of the nation's apparently respected commentators

At the present juncture of the country's evolution emotions are understandably running high

Negative predictions of what lies ahead are frequently tinged with sensationalism, partly since comment of this ilk makes good newspaper copy

Dire forecasts of a new government bent on nationalisation wholesale wealth redistribution Third World economic policies and retribution for past injustices are the order of the day

Authorities on the unfolding South African saga can be found on every street corner

Considered opinions are readily forthcoming from all and sundry And distinguished think tanks are being given wide coverage

But when push comes to shove, these views are just that Seldom are they reinforced by anything but a belief based on the author's subjective assessment of how he or she sees a situation so complex that the myriad variables cannot possibly be distilled into a meaningful objective conclusion

Crystal balls

How, then, does one predict the future when reliable crystal balls are in such short supply?

By reading the writing on the wall

The scribblings of the moving finger are far from confidential, they're clear, unequivocal and hidden only from those who don't understand the language in which they've been written — or from those who don't wish (or aren't able) to interpret what they see

So where is this graffiti and what does it say?

A convenient starting point is the Johannesburg Stock Exchange Stock markets the world over are renowned for their facility of reflecting not the present but the hereafter

In this sense, stock markets act as barometers rather than thermometers

They are anticipatory mechanisms which pool the combined expectations of their participants and reflect the results in the form of share prices

And since, when investors commit their hard earned money (or the money of those who have entrusted them to do so) to the stock market, they necessarily weigh up their decision with a great deal of care

The end result of this amalgam of expectations is informed and, almost invariably, reliably predictive

The nitty gritty?

In the past five months, the JSE industrial index (a measure of the action in industrial shares) has risen a full 16 percent to hit an all-time high

It's a performance that has been recorded against a background of economic recession, a war in the Middle East declining world economies and repeated ANC urgings against the lifting of sanctions

'The Moving Finger writes, and having writ,
Moves on Nor all thy Piety nor Wit
Shall lure it back to cancel half a line,
Nor all thy Tears wash out a word of it'

— The Rubaiyat of Omar Kayyam

If share prices have been so buoyant in so negative a context, surely the future cannot be as bleak as the popular observers would have us believe

Financial rand

Had South Africa been heading down the road to disaster, the share market would be plunging as investors foresaw irreperable damage being done to the economy by a new politico-economic system emulating the failed Eastern European and African models

We in South Africa, of course, are right on top of the action often making it difficult to see the wood from the trees

Foreigners are therefore perhaps better qualified to look into South Africa's hereafter

How, then, are these foreigners voting? Not those who vote with their heart but those who vote with their heads and their cheque books

An unerring indicator is the financial rand

Because of South Africa's strict exchange control regulations (following the debt standstill of 1985), investment capital may only be withdrawn from the country via the financial rand By the same token, investments from abroad enter South Africa via the financial rand

Ever since that time the financial rand has been worth less than the commercial rand — simply because the demand for the financial rand has been weak, owing to the minimal desire of foreign inves South African shares

They haven't ... Africa's prospects ... which is why they've be sellers rather than ... financial rands

In fact, the value of ... cial rand has become ... tion of overseas ... the lack thereof) in ... ca's future

If right now that futu... ceived to be more neg... it was a few months ... value of the finan... would be falling

Capital outflo...

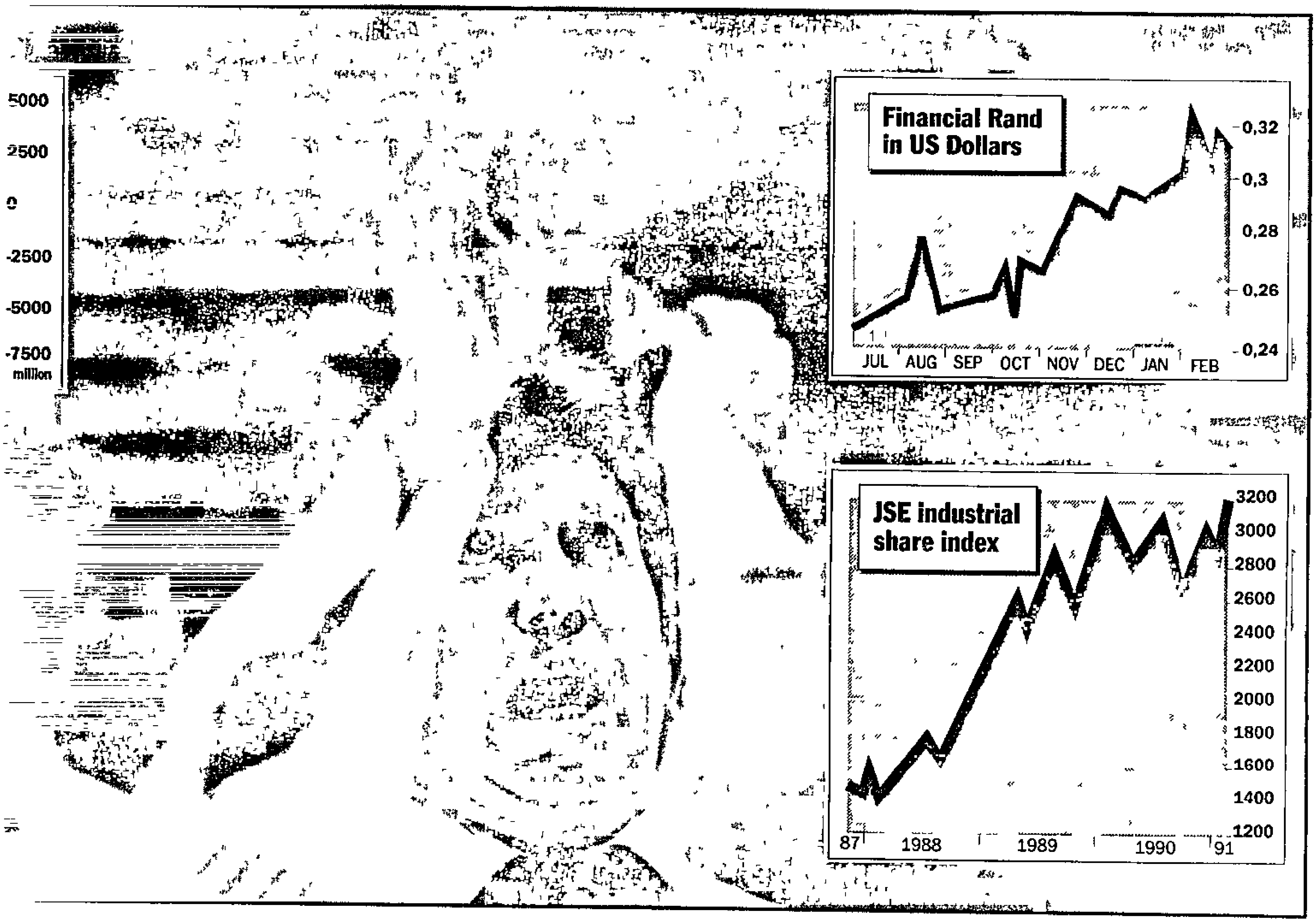
If, on the other hand ... was positive the finan... would be rising

It might therefore ... surprise to many that ... cial rand's value has ... vancing strongly

Four months ago, ... have taken R3,74 to ... dollar earlier this ... quired only R3 14

Looked at another ... seas confidence in ... has risen by nearly ...

empted to cut and run, think again



iting on the wall

> *'The Moving Finger writes; and having writ,*
> *Moves on. Nor all thy Piety nor Wit*
> *Shall lure it back to cancel half a line,*
> *Nor all thy Tears wash out a word of it.'*
>
> — The Rubaiyat of Omar Kayyam

markets the renowned for of reflecting not the hereafter stock markets rather than

mecha- the combined of their partici- the results in prices when investors hard-earned money of those them to do market, they up their deci- deal of care of this amal- is informed , reliably

y?

five months, the index (a measure in industrial a full 16 per- high that has against a back recession, a East, declin- and re- against the lifting of sanctions

If share prices have been so buoyant in so negative a context, surely the future cannot be as bleak as the popular observers would have us believe

Financial rand

Had South Africa been heading down the road to disaster the share market would be plunging as investors foresaw irreperable damage being done to the economy by a new politico-economic system emulating the failed Eastern European and African models

We in South Africa, of course are right on top of the action often making it difficult to see the wood from the trees

Foreigners are therefore perhaps better qualified to look into South Africa's hereafter

How then, are these foreigners voting? Not those who vote with their heart but those who vote with their heads and their cheque books

An unerring indicator is the financial rand

Because of South Africa s strict exchange control regulations (following the debt standstill of 1985), investment capital may only be withdrawn from the country via the financial rand By the same token, investments from abroad enter South Africa via the financial rand

Ever since that time the financial rand has been worth less than the commercial rand — simply because the demand for the financial rand has been weak owing to the minimal desire of foreign investors to buy South African shares

They haven t viewed South Africa s prospects favourably — which is why they ve tended to be sellers rather than buyers of financial rands

In fact, the value of the financial rand has become a reflection of overseas confidence (or the lack thereof) in South Africa's future

If right now that future is perceived to be more negative than it was a few months ago, the value of the financial rand would be falling

Capital outlflows

If on the other hand, the view was positive, the financial rand would be rising

It might therefore come as a surprise to many that the financial rand s value has been advancing strongly

Four months ago, it would have taken R3 74 to buy an US dollar earlier this week it required only R3,14

Looked at another way overseas confidence in South Africa has risen by nearly 20 percent since the beginning of November 1990 — hardly the harbinger of the doom and gloom scenario being so graphically sketched at present

Underlining the rosier South African spectacles being donned by investment managers based abroad is the trend observable in capital outflows

Pending disaster would have induced foreigners to take their money and run

Indeed, this is precisely what many of them did in 1985 through to 1988

Since then there s been a change of heart, with the outflows having dwindled to a trickle Some economists are even predicting an inflow in the current year The trend reflected in the accompanying graph certainly points that way

Some of the writing on the wall is in small type

To read it one needs to scratch beneath the surface

Upon doing so you'll find a message penned by Dr John Herselman, executive chairman of Batepro a South African engineering contracting and project management group with operations throughout the world

Here s what it says We ve noted a sharp increase in inquiries from companies wishing to establish projects in South Africa

Most heartening is the fact that foreign businessmen seek us out They ve recognised the successes we ve achieved abroad They appreciate our expertise and the efficiency with which we get things done

The moral

They reason that if this is the way South Africans do business the country is bound to be a worthwhile one with which to trade and in which to invest

Etched thereunder is a postscript by the leader of a high powered British business delegation currently visiting South Africa If the EC and the Commonwealth opt to retain sanctions on South Africa we ll go it alone We ll bust sanctions

The moral? If you re tempted to cut your throat to pack your bags and run and utterly despair for the future study the writing on the wall

DIAGONAL STREET

by JULIE WALKER

Bright boys in salvage attempt

232

SI Times 3/3/91

SENBANK and two of FSI's bright boys are to tackle the challenge of salvaging Unidev

A consortium of the bank, Alan Chonowitz and Jon Brett has bought control of Unicon It did so through buying Top-Hi, which owns 79% of the Unidev pyramid

It was sold by a consortium comprising Unidev directors Ronnie Stein, Steve Phelps, Ian Hirschson, Lionel Willmore and former director Geoff Grylls.

Operations will move from Cape Town to Johannesburg, from big debt to clean slate, and from short-term trading of investments to longer-term business development

Senbank will underwrite the R15-million to be raised through rights offers in Unicon and Unidev Unicon shares were offered at 160c — they should theoretically be 86% of the Unidev price — and Unidev's lost another 5c to hit a low of 25c before rallying 10c to 35c after news of the deal The pitch prices have yet to be arrived at

Head-office debt in Unidev is about R30-million out of a group total of R128-million at the last balance sheet to December 1989

Head-office debt should be cleared by the sale of assets and property Likely to be retained are the interests in Medicor, Equikor, Prestige, Hyperette and Rusfurn

Mr Chonowitz and Mr Brett are long-time colleagues

Mr Brett, who was deputy managing director of Teamcor, will be more active on the operations side of Unidev FSI Corporate Services managing director Mr Chonowitz will focus on the corporate side They expect to run a tight ship

Senbank chief Hennie van der Merwe says that FSI company W&A half considered taking Unidev aboard, but decided against it.

The deal is a good one for Senbank, which stood to lose plenty if heavily borrowed Unidev had been beyond rescue It also gives Unidev shareholders a chance They might otherwise have shared the same luck as did members of Cortech

A payout plan for those left in lurch by the AA Mutual

LIQUIDATORS of the AA Mutual short-term insurance business have successfully applied to the Supreme Court in Pretoria to enter into a settlement with creditors.

By DIRK TIEMANN

Metrust liquidator Henry Gunn said yesterday: "The time and cost involved in settling 18 Supreme Court cases would have been huge. It is in the creditors' interest to settle the claims. Creditors have received 30c in a rand so far. The seventh liquidation account will give them another 25c and a final total dividend of 90c is expected — if we can sell 27 Diagonal Street for R70-million

232

Assets

"The application was justified because the liquidators were saved liabilities of R130-million. High dividend payments were saved and expedited by a few years."

Major creditor Federated, which has a R35-million claim against several parties, will get R27,5-million in all, according to Mr Gunn

Syfrets liquidator David Rennie said the five liquidators, of whom he was one, may now pay out of the assets under their control a sum of R12-million to settle with Federated.

He said the liquidators were currently holding the money on behalf of the creditors. S/Times 3/3/91

In February 1986 the Federated group agreed to buy a controlling stake in AA Mutual from subsidiaries of Kirsh Industries and the Automobile Association, worth R35-million

Huge underwriting losses then emerged and Federated pulled out of the deal AAM's short-term business was wound up in June 1986.

Foreign listings will depend on 'gold and SA politics

BDay 4/3/92 232

MARCIA KLEIN

INTEREST by foreign companies in listing on the JSE might be rejuvinated if a political settlement was reached and the gold price improved

This was said by Davis Borkum Hare director George Joubert at a Webber Wentzel seminar on the listing of foreign companies in SA and SA companies listing overseas

The 29 foreign companies listed on Diagonal Street had a market value of R36bn — about 9,2% of the total capitalisation

In terms of foreign ownership of SA companies, 24% of the gold sector was foreign held and 22,8% of De Beers, which was often referred to as a currency stock as it was easily tradeable overseas and had an enormous market capitalisation, Joubert said.

However, foreign ownership had decreased in recent years Only when there was a turnaround in the political situation, sanctions and the gold price, would SA see more trading from overseas, Joubert said

JSE president Tony Norton said the 29 companies on the JSE registered abroad fell into two categories those whose lead exchange was the JSE and which were registered in neighbouring states, and the truly foreign companies The 17 with a lead exchange outside SA were mainly from London, Luxembourg and Harare

He said the JSE could hardly claim to be an international exchange.

As far as the JSE was concerned, there were no formal requirements for a foreign company to list, but if the JSE was the lead exchange, the foreign company would have to meet all the JSE's requirements.

Most of the foreign companies listing on the JSE did not see it as a place to raise money, and in most cases the listing "was on a corporate finance tidy-up basis".

In terms of SA companies wishing to list abroad, Norton said most wanted access to capital, foreign banking allowances and paper, and visibility

"We have regrettably experienced a selling back in the last few years due mainly to gold", he said

The JSE would like to continue its policy of encouraging investment even if it was only in the form of paper to begin with, because other things flowed in besides money, like technology

Webber Wentzel's Luxembourg partner Steven Georgala said a SA company would want to list overseas to raise capital in a foreign market, because a more attractive share price would stimulate the value of share-for-share swops and acquisitions, and to make a name for the company

However, there were downsides, it was expensive in rand terms to list, there was the possibity of more stringent requirements, management time was wasted obtaining and maintaining the listing, and other markets which were anti-SA could cause shares to trade at a discount

There was also an immense cost involved and a large amount of market capitalisation was required

'Texas auction' mooted for Allied settlement

232

Cit-Times 4/3/91

Own Correspondent

JOHANNESBURG. — The battle for control of Allied was marked by a series of last-minute weekend meetings to thrash out a settlement ahead of the secret ruling which comes into effect today

At the time of going to press, no settlement had been reached between the UBS-led Amalgamated Banks of SA (Absa) and First National Bank (FNB)

The two warring camps spent the weekend trying to put together a formula acceptable to both parties

A settlement might be reached through a "Texas auction" where the best bids are placed on the table and the highest bidder gains the option to take out the lower, a source said yesterday.

The Securities Regulation Panel (SRP) has asked the parties fighting to control Allied to present a settlement by this morning

If they cannot resolve their differences, details of the panel ruling, which to date have been kept under wraps, will be announced

There is also the possibility of legal action, sources say, but which parties would be taking action remains unclear at this stage

The details of the ruling are known only to the FNB and UBS camps

A source speculated that this ruling must either be favourable or partially favourable to FNB, or the UBS stable would not be talking to FNB.

Another source said it was probable the UBS camp had about 40% of Allied and that FNB held about 25%

On this basis, FNB would be able to block any special resolution of Allied and could become a problem to the UBS group in the future But FNB would be a relatively powerless minority in Allied.

"It is not unusual to use a Texas auction when two parties both want control," a participant said yesterday

The auction could be very expensive for the party that wins control, as the price paid is likely to be extended to minorities.

Allied shares were suspended from trading on the JSE on Thursday at 260c a share The settlement price could be at a substantial premium to the original FNB and Absa offers, and be very costly to the winning party.

UBS share sheds 7%

Cape Times 5/3/91

232

Own Correspondent

JOHANNESBURG — The UBS share sheds 7% yesterday, signalling the market's belief that the group was paying too much for the Allied in a new offer made to minorities to form Amalgamated Banks of SA (Absa)

The fall in the UBS share price reflects the dilution in earnings and dividends per share because of the new offer

Since more Absa shares are issued than in the first offer, the projected earnings per share is reduced by 5% to 84c a share

UBS, which closed at 705c yesterday, will pay about R100m more for the Allied than the original consideration of about R712m.

The offer of 100 Absa shares (equivalent to UBS shares) for every 260 Allied shares values the Allied at about 270c

Shareholders can also elect to cash in half their shares at 275c — a substantial premium over the UBS's first offer of 240c and well above the net asset value of just over 200c

First National Bank (FNB), the loser in the battle for the Allied, has indicated it has no immediate plans to set its sights on another small bank or building society

An obvious target would be the NBS

Senior GM Viv Bartlett said the group would "get on with its business and grow organically"

He added that FNB had wanted the Allied "at a certain price" ~~and~~ that at a higher level, it became too expensive

The UBS is to address the question of staff morale at the banks in the new group in the next few days The group is expected to allay fears of massive retrenchments

The Securities Regulation Panel yesterday broke its silence over its rulings and explained why it had upheld FNB's appeal against an earlier ruling

The panel agreed with FNB's argument that "substance should prevail over form" when considering a transaction

It found that its executive committee had considered the matter "from a narrow specific point of view"

But "matters of this nature" could not be "confined to narrow specifics when there are other wider transactions being undertaken"

Explaining its decision to uphold FNB's appeal, the panel said "Great stress was laid in the submissions of UBS Holdings . on the panel being constrained by the definitions in the rules

The panel accepts this constraint but, as envisaged in the rules, has the right to interpret those definitions in the spirit of the rules."

'No losers in Allied takeover'

Cit Times 10/3/91 232

By ARI JACOBSON

THE dramatic saga of the war for possession of the Allied Group has finally been resolved, says the chairman of the SA Shareholders' Association, Issy Goldberg.

Goldberg says in his opinion an equitable solution has been found.

"The panel, which was setup to protect minority shareholders against unfair treatment in the takeover of companies, was thrown into the deep-end as the arbiter of the conflict between two giant financial institutions."

Better deal

Goldberg says the end-result is that minority shareholders have been awarded a far better deal than originally offered by the United Building Society (UBS) and associates or First National Bank (FNB).

"A contested bid of this significance is without precedent in SA corporate history — with a price tag of almost R1bn. Minority shareholders have now been offered an almost 20% improvement for their shares."

For each 260 Allied shares surrendered they will now receive 100 Amalgamated Banks of SA (Absa) shares. The original offer was 320 Allied shares for 100 Absa shares. Further, half the Absa shares will now be convertible to cash at an effective 275c an Allied share.

"There has been much criticism of FNB's appeal being upheld, thus reversing the original decision by the panel's executive which permitted UBS to buy shares freely without invoking Rule 8 — requiring the top price paid in the market to be passed on to minorities.

According to published reasons for the judgment of the appeal panel, "the explanation of the reversal of the decision by the appeal panel is that certain facts including important provisions of "the merger agreement" unknown to the Executive surfaced later and came to the notice of the appeal panel."

New factors

He says the appeal panel took into consideration the new factors at their disposal and came to a different decision upholding the FNB appeal.

Goldberg says it is important to note that the spirit and general principles which form part of the rules must be applied in the interpretation.

"The appeal panel accepted the constraints submitted by eminent counsel acting for UBS and associates, that the definitions laid down in the rules were of primary importance and should be respected to the very letter.

"The appeal panel, however, felt it had the right to interpret those definitions in the spirit of the rules without abusing its intentions."

And so, says Goldberg, the appeal panel ruled that the merger agreement between UBS and associates resulted in a concert party being created with the totality of their shares exceeding the specified 30%.

"Following on the appeal panel's ruling the parties came to agreement whereby a new formula was extruded and FNB opted to resile from the contest"

"There are no real losers with those not having sold shares on the market — given a better deal.

Profitability

"FNB will be reimbursed for expenses in opposing the deal (R16m), while UBS has created a tremendous financial services giant amounting to R50bn The hundred million extra cost is unimportant in a billion rand transaction."

Goldberg says minorities in Allied could consider "staying for the ride" with the Absa rationalisation promising much profitability over the years.

"It of interest to debate what FNB will do with their 25% or 75m Allied shares. They must be given the same deal as minorities which could translate into a substantial 10% of Absa."

Brokers expect another tough year on the JSE

B/Day 6/3/91 · 232

DECLINES in the volume and value of shares traded and, in particular, a sharp fall in the number of deals on the JSE put the squeeze on the broking community in the past year.

LIZ ROUSE

Value of shares traded in the JSE's financial year to February decreased to R21,02bn from the previous year's record of R23,7bn, while volume of shares traded declined to 2,54-billion from 2,88-billion

The number of deals plummeted to 332 185 from 932 275, reflecting in part the withdrawal of small investors from the market and in part the caution of institutions, some of whose liquidity levels were the highest in 10 years. Liquidity levels were at 24% in the December quarter

Taking a 15% inflation rate into account, brokers' returns took a knock In addition, the outlook for 1991 is not favourable on current factors and some brokers are preparing for another fall in turnover this year.

Having started with big expectations following President F W de Klerk's breakthrough speech, brokers enjoyed a short-lived spurt in market activity, which slipped dramatically after four months of good going

Most brokers were happy to survive, said Frankel Max Pollak Vinderine broker David Shapiro

The industrial sector was flat and gold's disappointing performance failed to rescue the market as it had done in the past, he said

Rationalisation took place in large firms — salary and staff cuts, and the merger of Max Pollak & Freemantle and Frankel Kruger Vinderine

Peter Allen of Edey Rogers said business perked up in the past month, but fears were that the current level of market activity would not be maintained He said the industrial market was not cheap and brokers were sceptical about gold's prospects

However, Shapiro said he was hopeful about the forthcoming year because there had been more interest by corporations than in the past

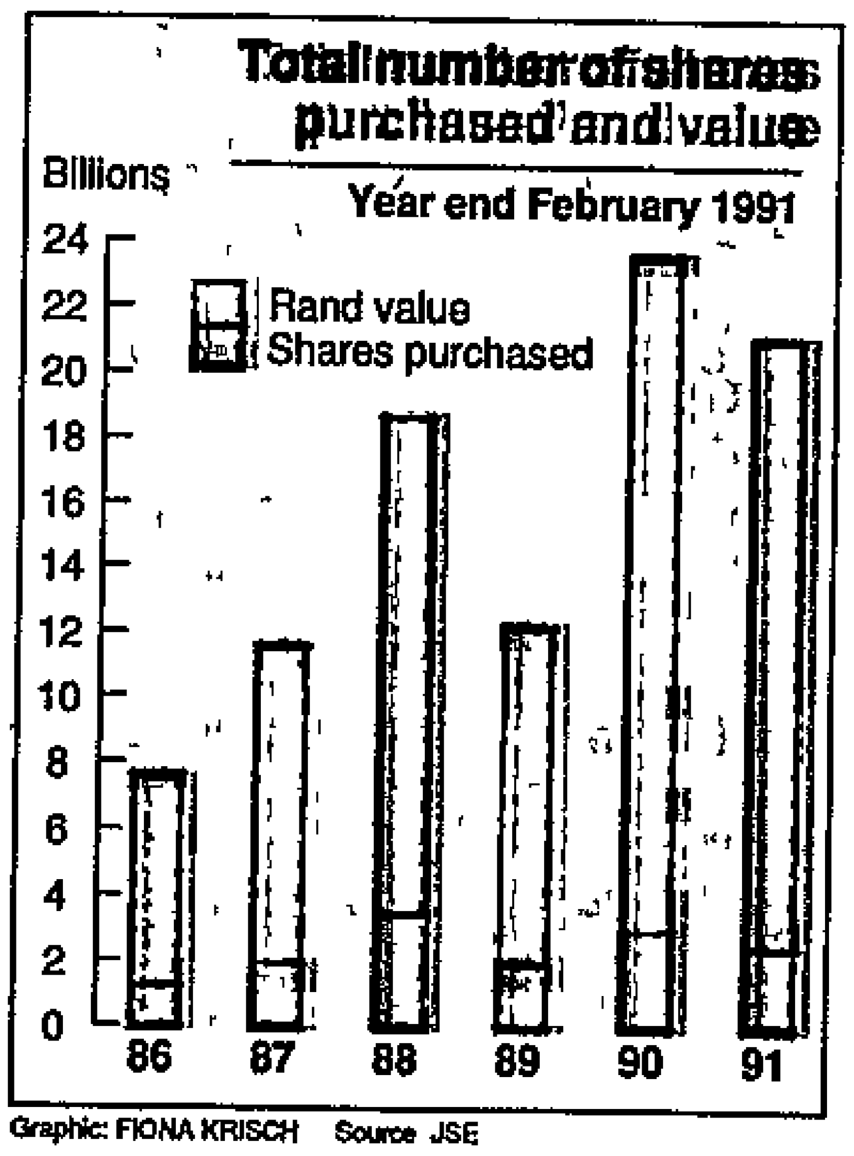
Richard Jesse of Martin & Company said firms which depended on small investors had suffered.

However, institutions were liquid and could be expected to invest their funds in selected equities this year

However, the highflyers in the popular consumer sector were looking too expensive, with Pick 'n Pay on a PE of 20 Institutions might well have to look towards sound second-liners with PEs of around 6

Jesse also foresaw market leader De Beers coming into its own Although diamond sales might still lag this year, the early endto the Gulf war indicated better international growth prospects and De Beers' price might, in the second half of the year, start discounting improved diamond sales in 1992

Bill Yeowart of Simpson McKie said his firm was looking at a further slowdown in business this year and was projecting a JSE turnover of R18bn.



Graphic: FIONA KRISCH Source JSE

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

B/Day 7/3/91.

BEVERLY HUCKLESBY

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

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

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

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

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

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

This followed Aquanaut's heavy losses. 232

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

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

Manserv minorities receive share offer

MARC HASENFUSS 232

AFTER a year-long struggle, minority shareholders in suspended Management Services Corporation (Manserv) have secured an offer to purchase their shares.

At a meeting yesterday the Isle of Man-based Financial Ltd, which acquired an 89,9% stake in Manserv in February last year, offered minorities 106c a share, JSE president Tony Norton confirmed

When Financial bought the controlling stake in the R15,4m cash shell it undertook to make a similar offer to minority shareholders, but did not do so after falling foul of Reserve Bank regulations on the use of finrands. B/Day 7/3/91.

Financial's deposit at UAL Merchant Bank for payment to minorities came in through the finrand without the Reserve Bank's permission

Norton said the Bank had released the R1,5m deposit it had held while Financial was investigated in connection with alleged forex fraud He praised the Reserve Bank for putting the interests of minorities above other issues.

In January the JSE threatened to institute legal proceedings against UAL Merchant Bank if the Reserve Bank did not unblock the deposit

Norton said it had cost the JSE at least R100 000 in its bid to protect minorities This figure excluded the cost of legal fees, which have not been finalised

Manserv minority shareholder Trevor Nel told Business Day he was extremely relieved the battle was over

Circulars informing minorities that they have 21 days to register their share certificates will be posted tomorrow

JSE moved first, says Norton

232

New details widen net in Mutual probe

6 1024 7/3/91

ANDREW GILL and LESLEY LAMBERT

THE investigation into suspected dealing irregularities by individuals at Old Mutual and the JSE shifted gear yesterday, coinciding with a wave of disclosures which shed further light on the scope of the suspected illegal activities

JSE president Tony Norton said the suspected scam had first been exposed by the exchange, which had notified the Mutual about "some deals that had looked unusual" The Mutual had acted immediately by initiating its own investigation and suspending two senior employees

Old Mutual's chief operating officer Gerhard van Niekerk repeated yesterday that the men were suspended because they were in responsible positions and that they were not necessarily involved

After three weeks of declining to comment, Norton said the JSE had been investigating the matter since it was noticed, first with Old Mutual and now with the state-appointed investigative team headed by Attorney-General Frank Kahn

Major broking firms have apparently been under scrutiny at the JSE Norton said although the exchange's inspectorate was combing through thousands of deals, evidence seemed circumstantial at this stage He pointed out that no conclusions had yet been reached

"No stone will be left unturned," he said, and if anything was found, people would be punished under the full spectrum of rules, laws and the code of ethics.

In Cape Town yesterday Van Niekerk said it was clear the investigation needed to be extended beyond Old Mutual, and that a criminal investigation might be warranted.

The companies whose pension funds may have been affected had been informed by Old Mutual.

The transactions which Old Mutual had investigated internally had been JSE share transactions Fewer than 10 share transactions were currently under investigation and the amounts concerned were insignificant

The transactions had appeared normal when studied in isolation, but suspicious coincidences had emerged as Old Mutual's investigation had delved further back in time, he said

He knew nothing about financial rand transactions or forex fraud If there had been any they would have been outside the realm of Old Mutual

Brokers said the likelihood of an offshore link was strong, raising the question of how deeply involved some individuals or stockbroking firms had been.

Van Niekerk added that as yet Old Mutu-

☐ To Page 2

Mutual

6 1024 7/3/91

232

☐ From Page 1

al had not acted against any brokers by withdrawing business He said this would only happen when the investigation had been completed and any guilt had been established

Kahn's investigating team and the JSE inspectorate have been hard at work Stockbroking firms mentioned as being involved have promised full co-operation and have emphasised the need for getting to the bottom of the investigation

Deals by Frankel Max Pollak Vinderine had been investigated by the JSE, joint MD Geoff Rothschild said yesterday He added that his firm had carried out its own internal investigation

Rothschild said the internal investigation had not disclosed any deals that appeared questionable in isolation, but accepted that some might be seen to be so if put into what Van Niekerk called "a complex jigsaw puzzle"

He was unaware of any investigation of his firm by Kahn's team However, Norton said no inference should be drawn from this It would not necessarily be required that the team visit any broking firm's premises as it would have full access to the JSE's own records

Ed Hern Rudolph director Johann Blersch confirmed one deal, which appeared to him to be "bona fide", was under investigation

Blersch was reported by the Financial Mail as saying deals put through by as many as 10 firms were being investigated However, when asked to identify them yesterday he would not

Wit Nigel deal 'prejudicial'

ROBERT LAING

BD 7/3/91

THE Registrar of Companies believes Wit Nigel's minority shareholders were prejudiced in the takeover of their company by Joe Berardo's Johannesburg Mining and Finance in August 1987.

The finding contradicts that of an earlier investigation by the JSE

In addition, the report sharply criticised the JSE, saying it had not performed its duty as watchdog for the investing public and had not, in its investigation, been even-handed in its treatment of Wit Nigel's former chairman Peter George

The minorities, led by George, had claimed they were prejudiced because an offer by JMF to exchange one Consolidated Modderfontein S share for 3,177 Wit Nigel shares excluded them The offer was made by a group led by Wit Nigel director Michael Tatz, who then sold the Wit Nigel shares to Berardo

JMF's failure to make an offer of R4,50 per share, coupled to the JSE's failure to insist that JMF make such an offer in terms of its rules and procedures, severely prejudiced Wit Nigel minorities, the ~~Regis~~trar's report said (232)

Registrar investigator Deloitte ~~Pim~~ Goldby's Peter Wilmot, who was appointed by the Trade and Industry Department, said he found "difficulty in apportioning blame between the JSE and JMF" and recommended both be held equally responsible for the costs of the investigation

Yesterday, JSE president Tony Norton

□ To Page 2

Wit Nigel

BD 7/3/91

(232)

□ From Page 1

said he had great respect for Wilmot, but disagreed with his findings

"I am comfortable the JSE acted correctly After auditing twice, we found no cash element in the takeover It was done through a share swop"

Wilmot said although JMF had obtained Wit Nigel shares by exchanging Cons Modder shares, it should have extended the offer in cash to the remaining shareholders based on the highest price paid, namely R4,50 a share

The report also includes a reproduction of a stockbroker's receipt to show there was a cash element in the takeover

Copies of the report have been sent to the Attorney-General for possible prosecution of JMF for contraventions of the Companies Act and to the Register of Financial Institution with a view to contesting the actions of the JSE

The report was instigated by an application made two years ago by minorities representing 27,5% of Wit Nigel shareholders In 1987, JMF engaged in a secret takeover which culminated in Berardo unseating George at Wit Nigel's AGM Berardo subsequently lost Wit Nigel to Southgo

With regard to findings that actions by the JSE supported the view that it was not even-handed with regard to George, Norton said he was "fond" of George and it was not in his nature to be rude to anyone

Industrial index at six-year high

Star 7/3/91 (232)

By Jabulani Sikhakhane

The JSE industrial index shot up 46 points to a six-year high of 3260 yesterday.

Dealers said local institutions were the main buyers with overseas investors nibbling at selected stocks, like SAB

Although most industrial blue chips are considered over-valued at current levels, dealers said shortage of scrip and high institutional cash flows seeking an investment home could push the industrial market higher

Institutions were also turning their attention to second liners and cyclical stocks. Some institutions were taking a long-term view and looking at the next economic upswing which should benefit cyclicals. "Shares like AECI, Sappi and Sentrachem are beginning to move," one analyst said

The continued strength of the industrial market, coupled with good demand for market leader De Beers helped boost the overall index by 35 points to 2863 — its highest level since last September.

In the industrial market, AMIC showed the highest percentage gain of 5,1 percent to R82 with only 12 993 shares changing hands in 18 deals. The Rembrandt group of companies continued on their upward trend with Remgro up 4,4 percent to R17,75

Companies in the Barlow Rand stable attracted good demand with Barlows itself touching its highest level since mid-May last year with a gain of 150c to R40 Cgsmith,. CGSfoods, Tiger Oats, Adcock Ingram, Rand Mines were also higher.

Sapa-Reuter reports from London that shares there closed sharply firmer, buoyed by optimism over the end of the Gulf war and the prospect of further interest rate cuts.

"The strength of this rally is pretty much unparalleled in recent years," said Richard Kersley, equity strategist at Barclays de Zoete Wedd.

He said a stock shortage and the large cash pile that institutions have to spend on shares underpinned the rally.

The FTSE 100 index closed 39,8 points higher at 2 459,9, on a very high share volume of over one billion shares Earlier the FTSE hit a record high of 2 480,6, beating the previous record of 2 479,4 set on January 4 last year However the market could not sustain that level and soon fell back.

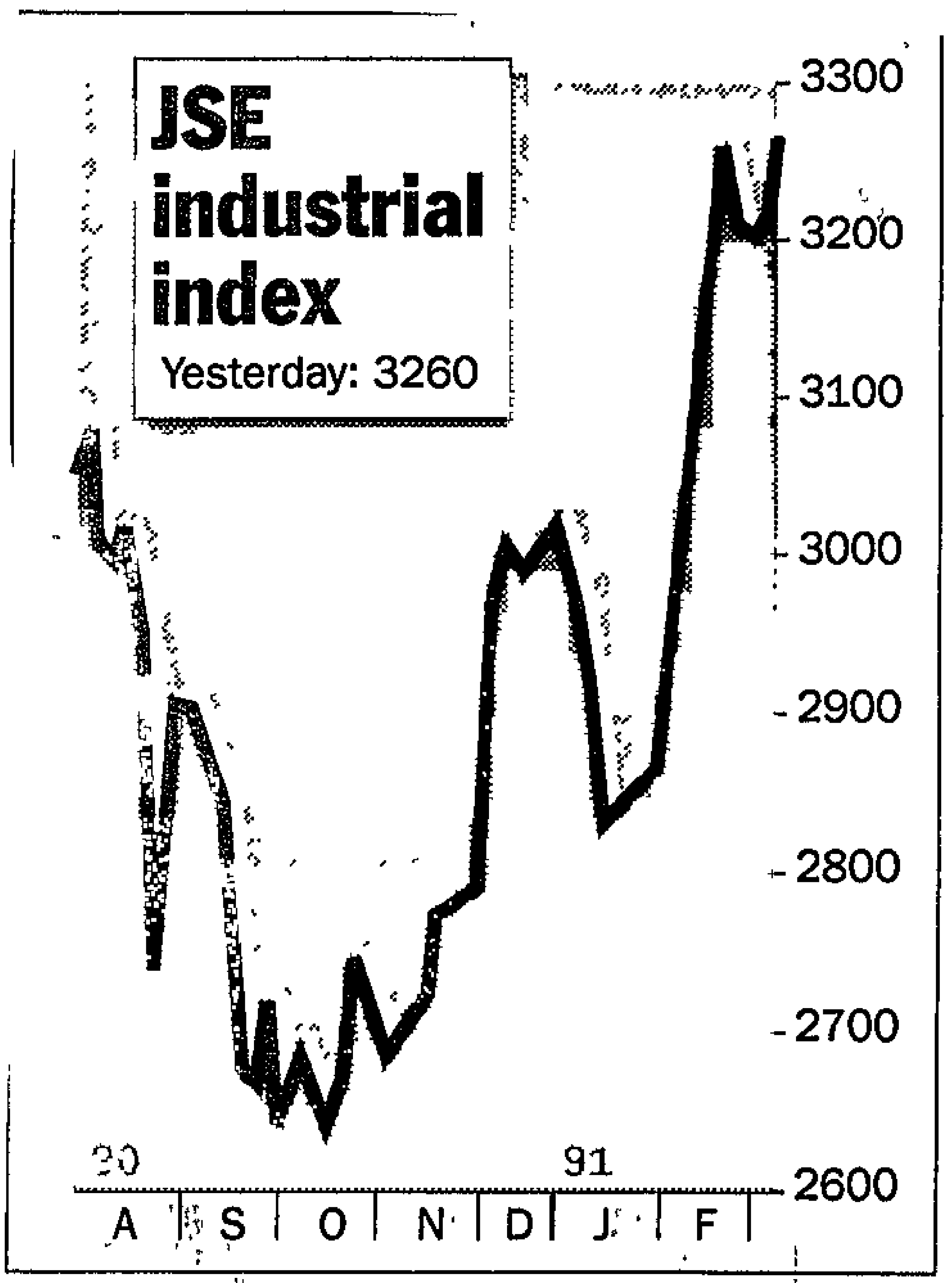
"It's quite a big psychological barrier to get through," said Bob Semple, equity strategist at County NatWest.

Share prices on the Tokyo Stock Exchange rebounded sharply on general euphoria triggered by a surge on Wall Street overnight, with high-tech blue chips leading the rise. The key 225-share Nikkei index rose 469,51 points or 1,81 percent to 26 382,99.

A flood of foreign orders swept German share prices higher as stock market euphoria in New York and Tokyo passed along to Europe. The 30-share DAX index rocketed 54,06 points to 1 594,32

In Paris French shares trimmed gains in late profit-taking but still closed at a new seven-month high, with the greatest volume traded since mid-January

The bourse in Zurich closed sharply higher in moderate trading as the strong showing of overseas markets and gains on other European bourses boosted share prices



Pepkor to take over Frasers stores for R13m

BDay 8/3/91 (232)

MARCIA KLEIN

PEPKOR is to make its second acquisition of a Tradegro company

Pep Limited, in the Pepkor fold, is to acquire the assets of the 42-outlet Frasers mine stores chain from Tradegro subsidiary Metro at net book value of about R13m, Pepkor chairman Christo Wiese announced yesterday.

This follows Pepkor's R31m acquisition of Tradegro's 47% interest in retail clothing chain Smart Centre Holdings on February 21

The mine store chain is part of Metro's conventional wholesaling and mine store arm D & D H Frasers, whose management failed on Monday last week in its bid to buy out the company The new acquisition will be effective from March 25.

Frasers mine stores sell clothes, textiles, hardware and toiletries at mines on the Witwatersrand and in the Free State, and the combined turnover of the 42 stores is about R36m a year

Last week Metro executive chairman Donald Masson said Metro's rationalisation would include "closure of the conventional wholesaling division and disposal of the mine stores and other small businesses", and would include reduction of borrowings through asset liquidation

He said yesterday that disposal of the mine stores was in line with Metro's stated intention of concentrating on its core business, which was cash and carry wholesaling through Metcash, and was part of an "overall plan to reduce overheads and liquidate assets"

Wiese said yesterday that the acquisition "would expand and complement Pep Stores' existing activities by providing it with a new niche within the framework of its mass market operations"

The mine stores had a well-established trading identity, efficient housekeeping, administration and control systems.

"By integrating these outlets into Pep's purchasing and management structures, we envisage considerable cost saving and expansion opportunities," he said

Frasers' identity would be maintained and the stores would be managed as a new region within Pep Stores retail. Regional store management and store personnel would be retained

In Metro's annual report for the year to June 1990, former MD Tony McDiarmid said the mine stores had an exceptionally good year in the light of the unrest and retrenchments experienced on the mines

At the December 1990 interim stage, Masson said that Frasers had turned in a "disappointing performance"

Process of deregulating building industry begins

B/Day 8/3/91 (32)

LESLEY LAMBERT

CAPE TOWN — Major deregulation has started in the building industry which could eventually remove the need for local authority approval of building plans

The first stage of the process is the introduction of a newly rationalised, less prescriptive set of national building regulations, published in today's Government Gazette

The rationalisation streamlines the regulations substantially, reducing the space they occupy in the gazette from 700 pages to 38

The amended regulations will standardise the fragmented system of separate municipal regulations and ease formerly prescriptive building requirements without compromising safety and health standards, Trade and Industry Minister Kent Durr said in a statement issued yesterday

They are aimed at allowing developers and their designers more freedom to introduce innovative building methods and alternative materials in order to contain costs

Further down the line is the possible introduction of a system of self-certification of building plans by architects and engineers Durr said the matter was under consideration

The SA Bureau of Standards would conduct an opinion survey among local authorities, the Institute of Architects, the Institute of Civil Engineers and the Association of Consulting Engineers before any system of self-certification was adopted

Durr said the amended building regulations were universally applicable Further guidelines for users were provided by SABS codes of practice

He said special rules could be developed by the SABS to accommodate different building materials

Special provision was made in the amended regulations for disabled people, who made up more than 12% of the population

Land reform paper is ready for tabling

B/Day 8/3/91

Political Staff

CAPE TOWN — Government's White Paper on land reform is to be tabled in Parliament on Tuesday

The paper will outline government's approach to land reform following the scrapping of the Land and Group Areas Acts

Government is expected to provide protection for communally owned land in rural areasand to pave the way for peasant occupation of the 1,2-million hectares of land owned by the SA Development Trust

This land, bought in terms of the 1936 Development Land and Trust Act, was originally intended for transfer into the homelands

Government is expected to give a green light to plans drawn up for black farmers' development on this land by the Development Bank of Southern Africa

Development Aid Minister Jacob de Villiers said arrangements for the disposal of this land would appear in the White Paper

Settlement board 'a waste'

Political Staff

CAPE TOWN — The DP has criticised government for the "grotesque waste of money" resulting from the formation and operation of the two-year-old Free Settlement Board B/Day 8/3/91

Planning and Provincial Affairs Minister Hernus Kriel has disclosed board chairman Hein Kruger was paid R243 671, while the cost of the board's formation, functioning and hearings was R739 541 More than R150 000 was paid to other members of the board

Lester Fuchs (DP Hillbrow) said yesterday that, even after President F W de Klerk's speech on February 2 last year, government "continues merrily to spend taxpayers' money on a process which is clearly on the way out"

Pepkor takes over Frasers mine stores

(232) (60)

By Ann Crotty Star 8/3/91.

Just two weeks after announcing the acquisition of Smart Centre, Pepkor has announced the acquisition of a second Tradegro operation.

This time it is the assets of the 42-outlet Frasers mine stores chain It is being bought from Metro at net book value of approximately R13 million

The stores (which have a combined turnover of approximately R36 million per year) retail clothes, textiles, hardware and toiletries at mines throughout the Witwatersrand and the Orange Free State.

The stores are part of the D&DH subsidiary of Metro, which in turn is a subsidiary of Tradegro

D&DH, which has an annual turnover of around R320 million, is to be considerably trimmed down as part of a plan to refocus troubled Metro.

Last week Metro management announced that a management buyout offer (from the D&DH management team) had been turned down because the sum offered fell way short of the net asset value of the group as reflected in the Metro accounts.

Referring to the mine stores acquisition Pepkor chairman Christo Wiese said it would expand and complement Pep Stores' existing activities by providing it with a new niche within the framework of its mass-market operations

Mr Wiese said the Frasers' mine stores identity would be maintained and the stores would be managed as a new region within Pep Stores Retail

Given the massive retrenchments being effected by the mines, the next few years could be tough for the stores in their traditional form

Privatisation a major factor in the redistribution of wealth

Star 8/3/91. (232)

By Des Parker

Privatisation of state-owned industry may be unfashionable in South Africa at the moment - but it will be looked at afresh if the words of the head of a visting British trade delegation fall on receptive ears

Sir Keith Stuart is chairman of Uksata (UK South Africa Trade Association) and is heading an influential trade delegation to this country

In addition, he chairs the board of Associated British Ports Holdings, which in 1982 was one of the first public-sector bodies to be privatised in the UK after the Conservative Party led by Margaret Thatcher was returned to power in 1979

Interviewed yesterday Sir Keith said he understood the caution he had heard expressed on the question of privatisation in South Africa

"When I talk to organisations on the left of the political spectrum about the drawbacks to nationalisation, I am asked, 'What other means are there to redistribute wealth?'," he said

"I point to the considerable increase in wealth of the ordinary man and woman in Britain through the medium of share-ownership in privatised facilities.

"Just as happened in South Africa, there was initial opposition from the trade unions to the concept and to the distribution of shares among workers, but when there was acceptance for it among the people and the benefits could be seen, the unions changed their approach"

Significant

Sir Keith said it was "very significant" that the Labour Party in Britain was no longer proposing re-nationalisation

"Even if there is a change of government, Labour would leave the vast majority of privatised industry in the hands of the public"

As the biggest ports authority in Britain, Associated British Ports owns 22 of the major ports in the country, or about a quarter of the total Its share price has increased eightfold since its flotation nine years ago

"By far the most important aspect of privatisation is the emphasis on share-ownership among employees in order to overcome misguided accusations that it is all a capitalist plot," said Sir Keith

At a lunch of the SA British Trade Association in Durban yesterday, Sir Keith told guests he believed the British government would move "over the next few months to remove sanctions, even if the Commonwealth and the EC drag their feet"

The "euphoria" over the emancipation of communist Eastern Europe had waned, and South Africa was once more in contention among British companies as an investment opportunity and a destination for exports

However, Sir Keith cautioned, wariness about the country's constitutional future and at the ANC's stated views on nationalistion meant there would "not be a flood of pounds in the short-term"

He warned too that while South African exporters had high-quality, saleable products to sell, they were not "aggressive or determined enough" to make the most of their marketing opportunities in Britain — one of the most open markets in Europe

"The quality of your products is good, but the quality of the marketing effort that we have seen is way behind that of people like the Japanese, the Germans and the Italians If you go out and hard sell — particularly now that politics is no longer on the agenda — the results will be most gratifying," Sir Keith assured his audience

South Africa was a traditional trading partner of Britain which had once again become the second biggest exporter of goods to the Republic

Two-way trade last year grew 25 percent to R11 billion

Sir Keith said he would tell British exporters on his return home to concentrate on traditional markets, like South Africa, and "not to be obsessed with strange new worlds like Rumania"

Privatisation a major factor in the redistribution of wealth

Star 8/3/91.

(232)

By Des Parker

Privatisation of state-owned industry may be unfashionable in South Africa at the moment - but it will be looked at afresh if the words of the head of a visting British trade delegation fall on receptive ears

Sir Keith Stuart is chairman of Uksata (UK South Africa Trade Association) and is heading an influential trade delegation to this country

In addition, he chairs the board of Associated British Ports Holdings, which in 1982 was one of the first public-sector bodies to be privatised in the UK after the Conservative Party led by Margaret Thatcher was returned to power in 1979

Interviewed yesterday Sir Keith said he understood the caution he had heard expressed on the question of privatisation in South Africa

"When I talk to organisations on the left of the political spectrum about the drawbacks to nationalisation, I am asked, 'What other means are there to redistribute wealth?'," he said

"I point to the considerable increase in wealth of the ordinary man and woman in Britain through the medium of share-ownership in privatised facilities

"Just as happened in South Africa, there was initial opposition from the trade unions to the concept and to the distribution of shares among workers, but when there was acceptance for it among the people and the benefits could be seen, the unions changed their approach"

Significant

Sir Keith said it was "very significant" that the Labour Party in Britain was no longer proposing re-nationalisation

"Even if there is a change of government, Labour would leave the vast majority of privatised industry in the hands of the public"

As the biggest ports authority in Britain, Associated British Ports owns 22 of the major ports in the country, or about a quarter of the total Its share price has increased eightfold since its flotation nine years ago

"By far the most important aspect of privatisation is the emphasis on share-ownership among employees in order to overcome misguided accusations that it is all a capitalist plot," said Sir Keith

At a lunch of the SA British Trade Association in Durban yesterday, Sir Keith told guests he believed the British government would move "over the next few months to remove sanctions, even if the Commonwealth and the EC drag their feet"

The "euphoria" over the emancipation of communist Eastern Europe had waned, and South Africa was once more in contention among British companies as an investment opportunity and a destination for exports

However, Sir Keith cautioned, wariness about the country's constitutional future and at the ANC's stated views on nationalistion meant there would "not be a flood of pounds in the short-term"

He warned too that while South African exporters had high-quality, saleable products to sell, they were not "aggressive or determined enough" to make the most of their marketing opportunities in Britain — one of the most open markets in Europe

"The quality of your products is good, but the quality of the marketing effort that we have seen is way behind that of people like the Japanese, the Germans and the Italians If you go out and hard sell — particularly now that politics is no longer on the agenda — the results will be most gratifying," Sir Keith assured his audience

South Africa was a traditional trading partner of Britain which had once again become the second biggest exporter of goods to the Republic

Two-way trade last year grew 25 percent to R11 billion

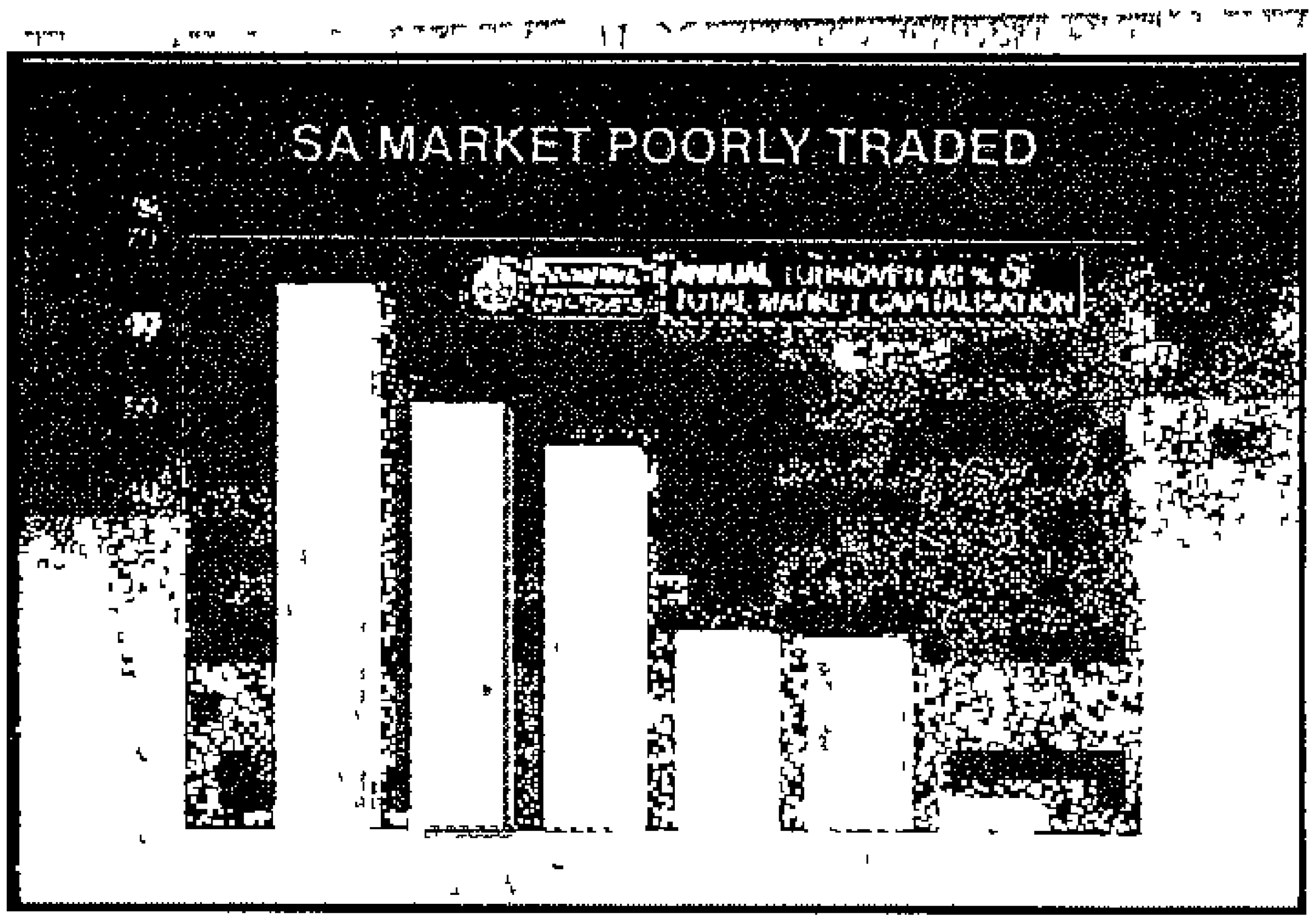
Sir Keith said he would tell British exporters on his return home to concentrate on traditional markets, like South Africa, and "not to be obsessed with strange new worlds like Rumania"

JSE scrip is cheap by world standards

232

Star 8/3/91

By Derek Tommey



Although trading on the Johannesburg Stock Exchange is lowest of all the major bourses, it could all change in the new South Africa.

The lifting of sanctions could see foreign investors showing interest in the local stock market, says Mr Adrian Allardice, a senior portfolio manager with the Old Mutual.

At present South African shares are cheap relative to those in the major international markets when price/earnings ratios are compared.

The current p/e of the All Share index is 9,3 and of the financial and industrial index 9,9. This is roughly the same as in Britain and Hong Kong but well below the 14,9 in Australia, 13,6 in Germany, 15,5 in the United States and 37,9 in Japan

Mr Allardice told a seminar in Johannesburg yesterday that although share prices have risen on the JSE there are still shares worth buying He added that they were not all in the industrial list.

He said that mining financials such as Anglo American offered as much value as the best blue chips. He also does not rule out the purchase of gold shares.

He said that the gold mining industry had at last faced up to its problems The milling grade has been raised in the December quarter for the first time since 1974 Costs were being cut, the emphasis was on putting its house in order. As a result, when the gold price start rising, gold shares will be interesting.

Mr Allardice says the gold price moves in large cycles It has been underperforming since 1980.

Negative rates

One reason has been that interest rates have been real since then. However, the American authorities, in their bid to push the American economy along, have allowed interest rates to become negative for the first time since 1980.

Mr Allardice said that Old Mutual's unit trust investors had criticised its policy of remaining pretty fully invested at the present time, when other unit trusts had become liquid and some extremely liquid.

Philosophy

He said the Old Mutual's philosophy was that it was selling equity performance Therefore it had to keep most of its cash in shares in depressed market conditions, otherwise it would not be able to perform well when the market was running

He said investors should start considering how they should invest in the "new" South Africa. There was considerable uncertainty in the market at the moment over possible future political developments. Markets were moved by sentiment and fundamentals. But in the long turn it was the fundamentals counted

The Old Mutual had been studying the outlook for investment and had concluded that share investments would do well in the coming years

ANGLOVAAL (232)

VALUE-ADDED? FM 8/3/91

Anglovaal's interim results were in line with market expectations but the question uppermost in analysts' minds is just how much value, if any, the share shows at its current price of R46

Traditionally, shares in mining houses trade at discounts of up to 20% to their net asset value, providing broking firms with a perennial reason for convincing investors to buy in That's in spite of the fact that the discount is virtually never eliminated, no matter what the market conditions are

At R46, Anglovaal's share price is just above the 12-month low of R43 hit in October, but it equals the net asset value shown at December 31, prompting some analysts to argue the share price looks expensive in relation to other mining houses

The counter argument is that it's a question of how you measure the assets and the current balance sheet does not reflect the value to the house of two major projects in the pipeline — the Venetia diamond mine now under construction in the northern Transvaal and the huge gold exploration venture under way in the Sun and Oribi areas of the northern Free State.

One analyst argues that Anglovaal stands at a discount of about 20% to net asset value if one attributes a value for the Venetia project. Anglovaal directly, and through associate Middle Witwatersrand Areas (Mid Wits), has an 87,5% interest in Saturn Mining, which holds the mineral rights to the mine.

De Beers is paying for the development of the mine which will cost around R1,1bn Saturn will receive a minimum royalty of 12,5% of the mine's operating profits, to the point when the capex has been fully recovered, after which Saturn and De Beers will split the profits equally

Putting in a value for the Sun/Oribi prospects is virtually impossible given the paucity of real information, like drilling results, published by Anglovaal The date by which some

Continue ->

(232)

FOX FM 8/3/91

EARNINGS DIP

Six months to	**Dec '89**	**Jun '90**	**Dec 90**
Turnover (Rm)	3 184	2 906	3 843
Pre-tax profit (Rm)	287,9	347,9	412,9
Attributable (Rm)	105,6	132,6	135,3
Earnings (c)	247	283	227
Dividends (c)	30	62	30

(232)

hard facts may be issued has just been pushed back by another nine months, from mid-1991 to the first quarter of next year, because of drilling delays

Also, no go-ahead seems likely until there is a radical improvement in market sentiment towards deep-level gold projects — otherwise any rights issue to fund the mine, which will cost at least R2,5bn, could flop as badly as the Target Exploration offer held by Anglovaal's Loraine gold mine

Main reason for the 28% rise in attributable earnings to R135,3m was the interest earned on the proceeds of last year's R822m rights issue Income from investments was 34% down and equity-accounted earnings were 32% down because of lower dividend income from the house's gold mines and a sharp drop in profits at manganese company Assmang.

Industrial arm Anglovaal Industries (AVI) increased its earnings by 5% and for the full year to end-June expects to at least match the previous year's earnings despite the recession in the SA economy

Within the diversified AVI group, increased profits from the rubber division of Consol, the dry food and beverage sector and the frozen food sector were offset by lower contributions from the construction and electronics and textiles sector Irvin & Johnson maintained its contribution to group earnings.

AVI is currently negotiating to increase its stake in construction company Grinaker Holdings to 51% from the present 46,5%

Anglovaal's 28% increase in attributable earnings for the six months should be maintained or even improved on for the full year, but EPS will be lower because of the increased issued capital following the rights issue The dividend should be maintained

Brendan Ryan

Unit trusts can play futures market

Star 9/3/91

SVEN LUNSCHE 232

A WIDE-RANGING financial bill, published in Parliament yesterday, has paved the way for unit trust investments in the futures market.

The Financial Institutions Amendment Bill will also provide for the establishment of Advisory Committees for the unit trust industry and for pension funds, in line with recommendations by the Melamet Commission

A memorandum attached to the Bill says the definition of "securities" in the Unit Trust Control Act will be amended to provide for investments by unit trust schemes in the futures market

The Registrar of Unit Trusts will also be authorised to grant exemptions to the Act if this is recommended by the new Advisory Committee on Unit Trusts This would, inter alia, promote self regulation by the industry, the Bill states

The Pension Fund Advisory Committee will have a similar function, but will focus in particular on safeguarding "the reasonable benefit expectations" of investors in a pension fund

The Committee differs in function from the private sector committee, appointed by the Government this week, to investigate the public sector's R27 billion pension fund

The memorandum to the Bill also facilitates the division of long-term and short-term insurance business if they are conducted by the same company

The Bill also announces substantial changes to the Stock Exchanges Control Act

In order to improve liquidity on the JSE the Bill says it is necessary to shorten the periods of compulsory purchase and sale of securities by a broker

Other changes to the Stock Exchanges Control Act proposed by the Bill include

- The exemption of certain bear sale transactions from the Act
- Provide for civil fines under the same Act for failure to disclose information in time
- Place it beyond all doubt that dealings in options as defined in the Act are not affected by common law on gambling

Finally, the new Bill will enable the Registrar of Financial Institutions to cooperate with the Registrar of Deposit-Taking Institutions if the latter uncovered any irregularities

W/C Argus 9/3/91

BUSINESS

OM still buying Iscor shares

232

By BLAISE HOPKINSON

OLD Mutual is still buying Iscor shares in spite of the steel giant's 30 percent drop in earnings for the first half.

Mr Rowland Chute, Old Mutual's assistant general manager, investments, said this week the share remained a good long-term investment.

"It is often worth taking a closer look when a market is down. There might just be something you have missed," he told a media briefing.

He added: "In the long term Iscor is a real growth asset."

He warned that South Africans had to expect a bouncy ride for the economy.

"There is an environment for an upswing in industrials but be cautious, it is going to be a bouncy ride."

He said Old Mutual's unit trusts had attempted to remain largely invested in equities in the past year instead of taking better advantage of relatively high money market rates.

He added the overall scrip shortage was caused by a low annual turnover of equities on the JSE.

It would take, for example, a month to build a R10 million position in blue chips like Barlows, Lonrho, SAB or Sasol while the same amount would take more than 18 months to invest in companies like NBS, Volkskas and Amaprop.

He said the Old Mutual had invested heavily in equities last year for its mutual fund and pension portfolio and was therefore well placed for the projected growth in equity prices.

Old Mutual is bullish on the prospects for industrial shares which are currently in a "neutral" phase — in that they are neither overbought nor oversold.

Regulating the futures exchange did little for investor confidence

Star 9/3/91

(232)

DAVID BULLARD
Director, Johannesburg Options Market

SOME time ago I wrote a piece for The Star which, among other things, attempted to highlight the folly of spending vast amounts of money to "regulate" the South African financial markets

The main argument was that regulators assumed that trading volumes in South Africa would be able to sustain the huge costs of regulation The piece ended with an ominous warning that jobs in the industry would be lost if rising costs continued to make financial markets unviable

Most of what I and others have written over the last year or two seemed no more than common sense What a pity then that no one appreciates the damage now done to a hitherto flourishing financial market

Take SAFEX for example The futures exchange was only licensed for a few weeks when one of its carefully vetted broking members, DRS, went belly up taking private investors' money with it

Nobody really worried because the oft-trumpeted checks and balances of the guarantee system seemingly assured the private investor that he was fully protected Unfortunately in the real world where lots of money goes AWOL people tend to overlook the small print.

In this case it appears the client's money was only protected when it was invested in futures. Bad luck Joe Public! Serves you right for not reading the SAFEX rules

All of which presumably means that, as a client, when you sell out of your futures contract you had better be on your broker's doorstep pronto to collect the proceeds

This is hardly the stuff of investor confidence and it has virtually destroyed the private client business of the well-run brokerage firms

However, the rules of SAFEX, which are obviously not the last word in legal draughtmanship, would appear to support this strange state of affairs

If this is the case, how on earth did they get the approval of the Registrar?

Under the requirements of the Financial Markets Control Act 1989, the Registrar should have satisfied himself that the rules adequately protected the public Obviously they did not and still do not and so the futures market is unlikely to flourish until some sign of equitable treatment for clients is evident

Even if DRS had never happened there were plenty of warning signals on the horizon that futures would struggle to get going in South Africa

The whole business of whether or not to have floor trading has now reached its weary denouement with the closure of the trading floor

The market had signalled its preference for screen trading over two years ago but I suspect the reason the overwhelming vote for screen trading was ignored was because the JSE just happened to have a vacant building so the embryo futures market was co-erced into taking space

Now the floor stands unused by futures traders but the massive bill still has to be sorted out So, firms who have never and will never use the trading floor will have to pay for something they didn't want in the first place

Volumes

As far as trading volumes are concerned the story is just as bad Even the most modest forecasts of growth have not been met in the futures industry, perhaps because they were optimistic guesses at best, but more likely because there were perilously uninformed projections put out by inexperienced consultants with an eye for the main chance

After all, you can hardly flog someone an expensive computer system if you predict that the market will shrink, now can you?

The only real surprise is that SAFEX board members were gullible enough to fall for this ruse without checking out their own figures Of course, it has been suggested by heretics that the possibility exists that most of the board members didn't even read the lengthy reports that thudded onto their desks with monotonous regularity In their defence, I can hardly blame them.

So, as I predicted in this newspaper in 1989, volumes are now debilitatingly low because the local market is not large enough to cope with serious institutional orders This is a chicken and egg situation because if the institutions were involved obviously volumes would rise.

However systems have to be installed, trustees educated and, most importantly, fund managers have to see some profit in the venture before they start playing around with policyholder's funds

Of course it's all the fault of the private investor Private clients were supposed to be the backbone of the market providing an everlasting line of speculators to help the market's liquidity and it is here that the consultant's demographics may have gone a little awry

The future

Strange as it may seem, people who don't have running water and electricty tend not to be major players in futures markets, a fact conveniently ignored by the exchange's rather expensive early advisers That leaves a few rich whites, most of whom seem to have been ripped off already and are not keen to repeat that wonderful sensation

There are still a handful of whackos who believe that the market will improve when foreigners come in, although quite why an international investor would want to come into a badly run and thinly traded market in a country riddled with political uncertainty and boasting neither a time zone advantage nor the ability to replicate deals in other international markets, for the moment escapes me

So, having sunk this low, where to now? Hard to say because most of the expensive mistakes still have to be paid for out of future profits, if there are any

World exchanges are experiencing liquidity problems and the price of trading seats is falling; that includes SAFEX which has become rather coy about the real price of seats. After all, in the price of the seat is factored your share of costs If the exchange is in poor shape financially who has to bail it out? The members

Volumes are likely to remain low until more players come into the market That depends greatly on the level of protection offered to investors by SAFEX

Institutions are showing a little more interest but there is simply not enough depth to the market for it to be anything more than a pleasant and not particularly profitable diversion for most institutions

A combination of unnecessary start up costs, poor quality regulation and a bear market haven't helped the chances of the SA futures market.

However, the question should be asked Can we afford a formal futures market in South Africa? If the answer is yes then the project has to be led by properly qualified personnel who understand both markets and costs

If the answer is no, then maybe we should return to the informal market that worked perfectly well at a fraction of the cost

Mum's the final word in AA Mutual's settlement

SiTimes 10/3/91 (232)

By DIRK TIEMANN

POLICYHOLDERS of the defunct AA Mutual short-term insurer will probably never know all the details of the confidential "Overall Settlement Agreement" between a few major creditors and the liquidators

The liquidators and creditors who hold copies say it is confidential and has nothing to do with the policyholders or other ceditors

"We have agreed that nobody will talk to anybody," says Mr Natie Kirsh

Mr Kirsh was originally a major shareholder in AA Mutual who, with others, sold his share to the Federated Group in 1986 for R35-million After discovering huge underwriting losses Federated attempted to cancel the deal and sued for the return of the money

What is known of the agreement is that Federated will receive R27,5-million of the R35-million it originally claimed Some R10-million will be paid by Mr Kirsh and the Kirsh group The remaining R12-million will come from the the assets of the estate to be distributed among AA policyholders and other creditors

Mr Justice Daniels, who granted the settlement says the matter was handled in open court and no confidentiality order regarding the agreement was given But so far there has been no move by other creditors to gain access to the details

Clear

The settlement comes five years after the AA Mutual was put into liquidation It ends a dispute in which the liquidators have settled "a multitude of actions" arising from alleged misrepresentation by the sellers of the AA Mutual to Federated

The way is now clear for final liquidation, in about 18 months time

Liquidator Hendry Gunn says although Nathan Kirsh may have received the better part of R35-million for the sale of his shares, he had liabilities to cover

"The liquidators are satisfied that the Kirsh subsidiaries, Sunsept and Namlac, only have R10-million"

Should the liquidators be paying R12-million to repay Federated, when subsidiaries of Kirsh Industries and the Automobile Association were the major shareholders?

Mr Kirsh did not want to talk about the Overall Settlement Agreement

The liquidators' payment to Federated will reduce the ultimate dividend to creditors by 5,4c, but the liquidators for the short-term business of the AA Mutual are patting themselves on the back for a job well done

In an application to court made on February 28, they say the R12-million paid to Federated has "discounted potential claims against the business totalling more than R200-million (capital plus interest)

The settlement proposed by the liquidators and approved by the Pretoria Supreme Court, means that in one fell swoop, more than 18 claims and counter-claims are withdrawn Each party will pay its own legal costs

Meanwhile, creditors can expect a 25c dividend at the end of May 1991

The liquidators say they realise "that any payment made from the assets of the liquidation will adversely affect the creditors' dividend"

The liquidators also feared that three actions worth R75-million might be decided againts them This would cut the final dividend by 23c in the Rand They say "On this scenario the ultimate dividend would be cut to 70c"

Saved

Currently creditors can expect 91c, notwithstanding the R12-million payable in terms of the settlement This would include the sale of 27 Diagonal Street for a minimum of R55-million, net of the R4,8-million the liquidators owe when they purchased the ground The five liquidators say tremendous legal costs were saved and the dividend payment will be expedited

The dirty deals of the filthy rich

SI Times 10/3/91 232

By JULIE WALKER

BACKHANDERS in brown envelopes could be at the bottom of a share-dealing investigation by Cape Attorney-General Frank Kahn

A tip-off by the JSE to the Old Mutual about a pattern of at best unusual, at worst inspired share dealing led to an internal investigation by the giant financial institution

The JSE itself was alerted to the deals by a stockbroker It would not have tipped off the market's biggest customer for trivial reasons

Old Mutual undertook an internal investigation "to establish whether we were dealing with a string of coincidences or with improper practices and whether it was an internal matter or something that required the attention of one or more public authorities' according to a statement

Employees Marco Celotti and David Schapiro were suspended They have faced no charges The Old Mutual has stressed that their suspension does not imply blame or guilt

It informed the authorities that a criminal investigation might be necessary and this has been rapidly convened

Old Mutual wanted the special investigation because such investigations by the SA Police Commercial Branch often take a long time

Old Mutual is reluctant to say exactly what irregular dealings might be suspected

Small amounts to the Old Mutual could be large amounts to individuals Markets this week were full of talk of foreign homes, works of art and racehorses

Risk

Brown envelopes or backhanders from stockbrokers to institutional fund managers could be one possible explanation for the investigations Stockbrokers are in the business of generating brokerage by getting more traders preferably institutional - to use their services

If the cost of a brown envelope is not out of proportion to the amount of brokerage it buys it probably outweighs the risk of being found out

There is an undrawn dividing line between real banknotes and sweeteners such as trout-fishing weekends and helicopter rides

A second possible route to riches involves collusion between an institution and a stockbroker to manipulate the price of shares, particularly those which move on small volumes

This is especially possible where an institutional investor knows the buying policy of his employer By front-running — putting in orders ahead of the institutional biggie — stock can be secured at a low price That price rises when a big buyer emerges The colluding party sells out and the spoils are shared

This ploy can be extended to the use of a London broker through whom shares are bought in sterling on personal account The intention is never to pay, because the buyer banks on the expectation that share prices will rise when a large buyer becomes evident

Not only is this a breach of integrity it breaks the laws governing foreign exchange transactions

Gold's failure to behave as expected in the Gulf War may have been the undoing of parties using this ploy

Such parties may f example, have gone long gold shares and lost heav when the gold price dropp during the war instead of r ing

Frank Kahn heads a tea of blue-chip investigators what could become SA's b gest witch hunt

Clean-up

One dealer says the inv tigators are looking back six-year-old deals, and th there are a lot of nervo people around at both insti tions and stockbrokers

"The good guys on the m ket welcome this It should marketed as a clean-up the JSE," said one.

Yet two things are in t favour of anyone who fa under scrutiny Is it illegal front run or just ve naughty? And how diffic will it be to prove major coincidence?

JSE studies new index

B/Day 11/3/91

CHARLOTTE MATHEWS

(232)

THE JSE is researching the possibility of introducing a second-tier index to reflect the performance of medium-sized companies, currently lost within the JSE Actuaries Indices.

JSE researcher Renier Buss is to make a presentation to the Investment Analysts' Society on March 14, partly to sound out analysts on the selection of companies for the index

Buss said he began a study on a second-tier index about seven months ago. He found the top 20 companies on the JSE made up about 50% of the exchange's market capitalisation. The JSE all share index was heavily weighted by these firms because of their market capitalisation factor.

Buss looked at companies which fell below 20% of the total JSE market capitalisation, and with his team selected 200 companies with that, financial performance, ratios and leverage in mind

An index for the past 12 months was created and compared with the top 20 companies During this period, second-tier companies starting at 100 ended at 93 The top 20 companies ended at 76

Buss said the next step would be to canvass opinion from analysts and modify the selection of companies for the second-tier index

The findings of the study will be presented to the JSE's general committee.

Premier's one cent has no monetary value

Star 12/3/91 (232)

Diagonal Street

ANN CROTTY

Analysts believe that there will be an accommodation between Sankorp — Tradehold's controlling shareholder — and Premier over the issue of the one 1c redeemable preference share that Premier holds in Tradehold This accommodation may centre around plans for Metro following any unbundling of Tradegro

The one 1c preference share appears to play a frustrating or nuisance function for the management of Tradehold and has no role in the day-to-day running of the organisation

The share, which was originally issued by Natie Kirsh's Kimet group to Premier has been passed on through the various restructurings and is now part of the Tradehold share capital. According to notes in the annual report the preference share is redeemable in July 2002 at par

"The holder is entitled before that date to 16,364 percent of the surplus, after repayment of all capital and premium on all preference and ordinary shares on the winding up of the company

"The share carries no other dividend or voting rights except that the shareholder is entitled to vote at any meeting of the company on a resolution which affects the rights attached to such share in which event the share carries voting rights equal to that of the total number of ordinary shares in issue at the time of such meeting"

Kimet help

The share was apparently issued to Premier as part of a deal which involved Premier lending Kimet R9 million to help it fund the acquisition of the Metro group back in the '70s It appears to have been done with the intention of frustrating any action that might subsequently have been taken to wind up Kimet.

Last week it was announced that "consideration was being given to distributing the assets of Tradegro and Tradehold" later this year. After the payment of all liabilities Tradegro and Tradehold will distribute to their respective shareholders Tradegro's surplus cash resources and certain investments.

Unless there has been a marked and inexplicable change from the balance sheet position at end-June last year it is unlikely that after repaying all capital and premium on all preference and ordinary shares, there will be anything else left to distribute.

According to the end-June balance sheet Tradehold's distributable reserves were in deficit. So the 16,364 percent surplus attached to Premier's share has no monetary value.

This cannot be definitely ascertained until the actual distribution date when Tradehold's various investments will be valued and calculations involving hundreds of permutations are completed.

Voting rights

If there was any dissension between Premier and Sankorp, analysts believe that a court would view the planned distribution in species and capital reduction as a winding up. However it is uncertain whether or not Premier would be able to enforce its voting rights in meetings called to discuss an unbundling

But for the moment all of this is hypothetical Although there have apparently been no direct communications between the two groups, indications are that they have an amicable relationship and both are keen to resolve the unbundling situation satisfactorily.

But as Premier is reported to be interested in the future of Tradegro subsidiary, Metro it is possible that it may be able to strike some sort of bargain This is likely to be an offer of last right of refusal which means that Premier would have the opportunity to match any offer made for Metro

Options left open for Tradegro minorities

232

B/Day 13/3/91

MARCIA KLEIN

MINORITY shareholders of retail giant Tradegro and its pyramid holding company Tradehold will be in a position to choose which of the group's companies they wish to remain invested in following the unbundling of the group

Sankorp GM investments Etienne Le Roux said in an interview yesterday that the unbundling would result in investors holding shares "directly in the group's individual companies instead of via controlling companies".

In terms of the unbundling, the group's investments — including Tradegro's cash — in its underlying companies would be proportionally distributed among all Tradegro and Tradehold shareholders

After unbundling the control pyramids, Sankorp intends selling its interests in Checkers, Metro, Coreprop and Stuttafords/Greatermans "We intend disinvesting if we get acceptable offers, but Cashbuild is not for sale," Le Roux said

He said the offers to minorities would have to be made by any purchaser of Sankorp's interests after unbundling so that minorities "could make their own decisions"

After unbundling, Tradegro would own only Checkers and Coreprop, which would be effectively listed, and Tradegro's name would probably be changed to Checkers.

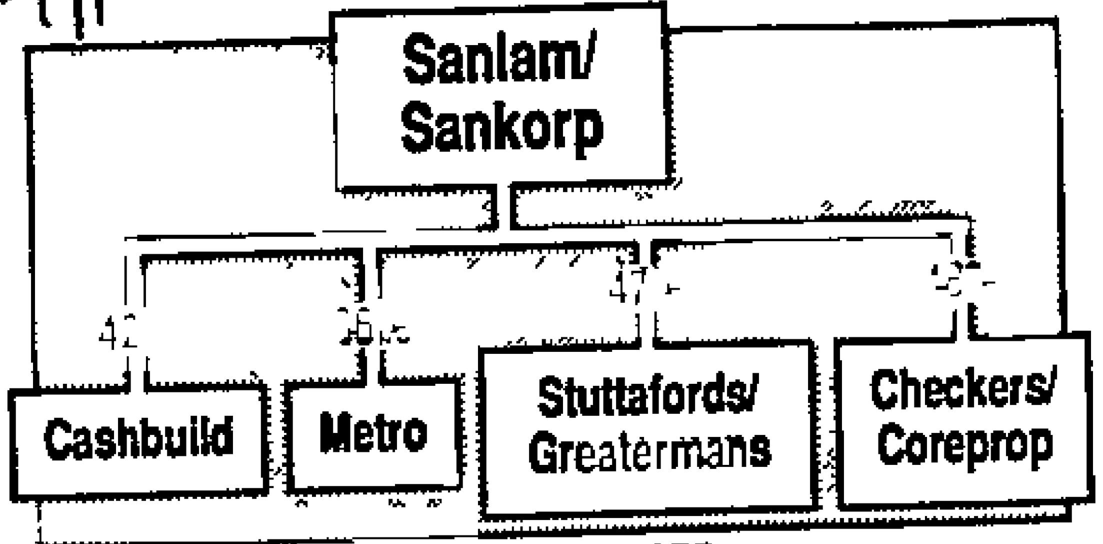
Stuttafords/Greatermans would be recapitalised in the unbundling process and would also be listed

Sankorp planned to complete the unbundling before June 30 — which is Tradegro and Tradehold's financial year-end

By this stage Sankorp would hold 42% of Cashbuild, 36% of Metro, 47% of Stuttafords/Greatermans, and 48% of Checkers/Coreprop

If Sankorp's interests in the companies were sold, "it would be a prerequisite that the buyers make an offer to minorities", Le Roux said.

Sankorp was negotiating with interested parties



Graphic: FIONA KRISCH Source SANKORP

for the sale of individual companies, but no offers had been made. Although quite a few people had expressed interest the sales were not going to happen overnight, he said

Le Roux did not think any buyer would asset strip any of the companies as had been suggested "To do an asset strip of Checkers is not easy, and this would be the worst prize for any buyer"

He believed the "Israeli consortium" interested in Checkers/Coreprop was actually an SA-based consortium with overseas financing Despite the interest, no offer had been made yet because the parties were still investigating the company, he said. The consortium had assured Sankorp that it did not want to asset-strip Checkers.

Le Roux said if the consortium bought Checkers and Coreprop, management would probably be kept on "The interested party was not in the business and would need SA management," he said.

However, "if we do not get acceptable offers, we will do what we can to get certain operations back to profitability".

Le Roux said following the unbundling, he would expect the various boards of the different companies to be reconstituted over time. In all probability Tradegro CE Donald Masson would retire

Le Roux said a problem with unbundling was that marketable securities tax — of 1,5% on the value of shares unbundled — was a hindrance However, Sankorp had decided to go through with the unbundling

Liblife forges ahead

Star 14/3/91. 232

By Ann Crotty

The Liberty group shares are deservedly rated as the bluest of blue-chip investments

Results for financial '90 show excellent advances in both earnings and dividends during a period when corporate performances in all sectors were hampered by adverse economic conditions

These conditions were further aggravated by social and political considerations

In the 12 months to end-December Liberty Holdings reported a 20,4 percent hike in earnings to 316,3c (262,8c) a share and paid a total ordinary dividend of 220c a share — 46,7 percent up on the previous year's 150c (In addition there was a special ordinary dividend of 120c a share declared last August)

Liberty Life Association increased its net taxed surplus by 20,5 percent to 102,1c (84,7c) a share in the same period and paid a total ordinary dividend of 86c — 36,5 percent up on the previous year's 63c (There was also a special ordinary dividend payment of 50c a share)

FIT's earnings were up 28 percent to 47,7c (37,3c) a share and declared a dividend of 20c (18c) a share

Appropriate to the group's blue chip status, Mr Donald Gordon notes in his annual chairman's statement. "Since Liberty Holdings was first listed 22 years ago in December 1968, it has recorded each year an unbroken pattern of increases in dividends per ordinary share averaging over 25 percent per annum"

And at a time when most executives believe that sustaining nominal earnings in calendar 1991 will be a difficult task, Mr Gordon says that the group is trying to budget for growth of at least 20 percent "We've only once dropped below 20 percent"

Mr Gordon's optimistic outlook for growth at Liberty seems not much daunted by the extreme uncertainty that is facing corporate SA He believes that long-term growth prospects will be supported by the tremendous backing of reserves that the group enjoys, noting that shareholders' capital and reserves plus investment surpluses and other reserves at Liberty Holdings amount to R,65 billion."The group is very very strong"

Other factors that will sustain solid growth during adverse trading conditions include its history of strong premium income growth, an excellent blue chip equity portfolio and its exposure to the UK property market through FIT.

The value of Liberty Life Association's shares and mutual fund units rose by 10 percent in '90 despite the JSE's weak performance in this period Mr Gordon's annual statement includes a list of the major investments held by the Liberty Life equity portfolios at end-December

This is dominated by blue chips such as SAB, Stanbic, Anglo, Premier and Richemont which helps to explain the strong growth in investment income enjoyed by Liberty Life Association

The portfolio did include some disappointments such as De Beer's and Plate Glass

The figures

First International Trust's (FIT) earnings were up 28 percent to 47,7c (37,3c) a share and a dividend of 20c (18c) a share has been declared

FIT, whose main investment is an effective controlling interest in London-based property and investment holding group TransAatlantic, reported a 15 percent increase in income to R127,8 million (R110,8 million)

The interest payment remained high but little changed at R40,5 million (R40,6 million)

As Mr Gordon notes FIT's high gearing is a consequence of the constraints on capital movements from SA

After tax, attributable income was up 14,4 percent to R66,1 million

The balance sheet at end-December shows net asset value was little changed at R10,63 (R10,30) a share This was despite a devaluation in some of the underlying properties This downward valuation was in line with the prevailing conditions in the UK property market

At Liberty Life Association net premium income and annuity considerations were up 8,2 percent to R1,929 billion (R1,783 billion) Net income from investments and sundry income rose 20,5 percent to R1,466 billion (R1,217 billion) which lifted total income 13,2 percent to R3,395 billion (R3 billion)

Net taxed surplus was up 20,3 percent at R218,4 million (R181,6 million)

The end-December balance sheet shows total shareholders capital and reserves were lifted by 23 percent to R4,1 billion (R3,3 billion)

Total assets of R21,5 billion (R19,2 billion) comprised R12,2 billion (R11,1 billion) of shares and mutual fund units, government, public utility and municipal stock of R3,51 billion (R3,56 billion) and, properties R2,79 billion (R2,34 billion)

The group also held R1,58 billion (R765 million) liquid, while R541 million (R478 million) was invested in debentures, mortgages and loans

Alant expounds on Businesses Bill

B/Day 15/3/91 (232)

LESLEY LAMBERT

CAPE TOWN — Government was committed to a policy of deregulation aimed at ensuring ease of entry into the economy for all South Africans, Deputy Trade and Industry Minister Theo Alant said yesterday.

Introducing the second reading debate of the Businesses Bill in Parliament, Alant said the Bill was a product of this policy and represented a fundamental departure from the existing system of provincial control of business activities.

The Bill eliminates the licence requirements of all businesses other than those providing food or entertainment services, and allows unrestricted trading hours every day except Sundays and religious public holidays.

It had received widespread and enthusiastic support from all parties

Alant said concessions had been made along the way, but the end product was a balanced proposal

He said the Bill standardised the licencing procedures of the four provinces and drastically reduced the number of business categories requiring licences from 60 to a limited number in the food and entertainment industries. It abolished licensing boards and, contrary to earlier fears, did not institute a system of registration.

The Bill also cut down on regulation which stifled the business activities of hawkers, Alant said

But it maintained appropriate controls over their activities, restricting them, for example, from doing business on frontages of shops trading similar goods or from areas where they could obstruct traffic

Licensing authorities would be able to refuse or revoke the licences of businesses in the licenceable categories if they did not comply with health and safety regulations.

The Bill affirmed the removal of restrictions on business hours during the week and on Saturdays But, it did not affect restrictions on Sundays and religious public holidays except in Natal where the 1986 abolition of restrictions on Sunday trading hours would be maintained

Inequality

Alant said government was considering representations from the business and religious communities about Sunday trading.

DP MP Brian Goodall, a staunch supporter of the Bill, said the removal of unecessary restrictions would help to reduce inequality in the economy without destroying growth potential.

Sapa reports Goodall said during the debate he hoped political apartheid would not be replaced by economic apartheid. Until blacks felt they also could enjoy the benefits of the market system, they would have no reason to support it

NP MP Fanus Schoeman, who chaired a Parliamentary Joint Committee which considered the Bill, said it would make it easier for people to move into the business sector and help to create new jobs

JSE gags members on Old Mutual probe

232

By Ann Crotty

Star 15/3/91

At an emergency meeting yesterday afternoon all senior partners and senior directors of the JSE were informed that they were not permitted to make or give comments to the public relating to the investigation that is being led by the Cape attorney-general Frank Kahn

Mr Kahn is investigating alleged irregular transactions conducted between the Old Mutual and some JSE stockbrokers Last weekend two brokers were arrested on charges of fraud They were released on bail of R500 000 each on Monday

In addition warrants were issued for the arrest of two Old Mutual employees who were suspended three weeks ago

The two employees Marco Celotti and David Schapiro left the country before the warrants could be served on them

Mr Kahn has in effect subpoenad the JSE's Inspectorate department to work as part of his investigation team This means the JSE will not be able to complete its own investigation into the matter, but will have to await the outcome of the attorney general's findings

This morning's hearing into foreign exchange losses suffered by stockbroking firm Ed Hern Rudolph last year has been cancelled as a result of this decision by Mr Kahn

This latest move is not the only sign that the authorities are getting tough on the whole issue

Brokers report that the Inspectorate Department has issued a number of warnings recently that have been designed to tighten up controls and leave no uncertainty about the types of transactions that are unacceptable

On March 6 a warning was issued to broking firms that parties involved in "fictitious" transactions would be dealt with severely

On Wednesday another warning was issued stating that brokers/traders involved in "middling", "accommodating" or taking a turn for their own private accounts would be dealt with severely

"Fictitious" transactions occur when a price is manipulated without underlying trade in the share to support the change in price "Middling" and "accommodating" relate to the use of a number of friendly brokers to churn shares through before on-selling to a captive institutional investor

JSE PROBE (232) FM 15|3|91

CLOSING THE NET

For many years the deterrent value of a major and successful case against investment malpractices — such as insider trading — has been absent in the local financial community That may be about to change

After weeks of rumours the swift arrests made this week by the high-powered team investigating activities at certain broking firms and the Old Mutual have left both brokers and institutions in no doubt about the magnitude of the case It is expected to trigger an extensive reappraisal of share dealing procedures — and not only at the organisations already named in connection with the case

As the investment manager of a leading assurer points out, should collusion occur between dealers in trusted positions in institutions and dealers in other firms, possibly even abroad, it may be extremely difficult to prevent malpractices, whatever systems are in place Even so, most institutions will now be reassessing their systems and relationships with brokers

Old Mutual CEO Gerhard van Niekerk says "We will be reviewing all our relationships with broking houses We have quality requirements and expect zero defects We will be talking to everybody we do business with to make sure proper standards are in place It seems we have got to be explicit rather than implicit "

It remains unclear whether material losses — as opposed to opportunity costs — have in fact been suffered by pension funds, policyholders or other investors Nor is it known how large any such losses may turn out to be

Van Niekerk points out that any losses that may be substantiated in the case of pension funds administered by Old Mutual would be covered either by reinsurance or from the Mutual's contingency reserves These reserves, of course, also ultimately belong to policyholders, but are large — though the size is undisclosed — and the effective cost to policyholders would be "insubstantial, not an issue "

Authorities investigating the case have produced results more rapidly than many had expected That has prompted speculation that the team has encountered useful co-operation, though it may also reflect the size and efficiency of the investigating team led by Attorney-General Frank Kahn The JSE's 12-man inspectorate is also fully involved So, too, is General Nollie Hulme, head of the commercial branch

Kahn simply confirms that two Johannesburg stockbrokers, Greg Blank, a director of Frankel, Max Pollak, Vinderine, and Kenny Fouché, an authorised clerk at Ed Hern, Rudolph, have been charged with fraud Also, warrants of arrest have been issued in respect of two Old Mutual employees who were earlier suspended, Marco Celotti and David Schapiro, as well as a London-based broker, Peter Rawson All three are now "out of the country "

Kahn declines to comment on the extent of the investigation, or on the scope and activities of the investigating team, but he emphasises that "every effort will be made to bring to justice those who have placed themselves beyond the reach of the law "

Blank and Fouché have been charged with fraud, a broad charge that could include a range of activities from insider trading to exchange control irregularities such as round-tripping through the financial rand. While the exchange control aspect would presumably be relevant, given the known

Old Mutual's Van Niekerk *reviewing relationships*

international link, the more common assumption is that the probe centres on front-running activities, a form of insider trading

The two were arrested early on Monday and were released on bail of R500 000 each, a figure which reflects the standing of the individuals involved as much as the magnitude of the case The hearing was remanded until June 10

Sydney Frankel, CE of Frankel, Max Pollak, Vinderine, says that, to his knowledge, nobody else in his firm is involved He adds that the firm is co-operating fully

Ed Hern, senior partner of Ed Hern, Rudolph, says he does not believe these activities investigated at his firm relate to financial rand irregularities, such as those which cost the firm R8m last year Hern confirms that the firm put up the bail money for Fouché (42), who, Hern says, has not had an extravagant lifestyle "When we lost money last year we asked for contributions from members and the staff," says Hern "Kenny sold his car and lent us money "

Blank (32) had responsibility for running Frankel's institutional dealing desk and he also managed numerous private client accounts As a top dealer in one of the JSE's largest firms, his annual remuneration package, including commissions, would certainly have been high

Rawson is a former Zimbabwean broker who was known in Johannesburg but moved to London in the early Eighties In about 1984, Hern opened a London office and, after the first two months, Rawson, who had cultivated contacts in the London financial community, was asked to run it Hern says this arrangement lasted for three months, at which stage the firm decided the office was not a proposition It was then run for some time as a small listening post under former SA broker Dave Burnham

In 1988, Rawson, in partnership with National Discount House of SA (NDH) established RND International in London to trade SA equities on the UK market That May the firm was admitted as a member of the UK's International Stock Exchange According to Rand Merchant Bank (RMB) MD Laurie Dippenaar there was a restructuring in 1989 which resulted in RMB acquiring NDH's 45% interest in RND Capital was injected by RMB, Richemont and Geoff de Jager, who together acquired a 97% shareholding in RND

Rawson resigned as a director of RND in November 1989 and has continued his business activities in the name of his own company, A W Bradshaw The Hern office was closed completely when Burnham was hired by RND during its expansion

Kahn remains tight-lipped except to say that the public should be wary of rumours He reaffirms that the case is *sub judice* Whether there will be further arrests remains an open question

In any event, if it does turn out that the matter involves any form of insider trading, this will be a test for the new legislation which came into force with the advent of the Securities Regulation Panel There has yet to be a prosecution in SA for insider trading, largely because of the difficulty of obtaining adequate evidence

There are now tough new penalties, including fines of up to R500 000, or imprisonment of up to 10 years, or both Claire Herbst, MD of Ernst & Young Corporate Advisory Services (Pty), notes in a booklet just published on the panel, that prosecution in cases of insider trading has been facilitated by shifting the onus of proof in certain instances Offenders can now be more readily prosecuted and face significantly stiffer penalties Also, any person who contravenes the criminal provision of Section 440F of the Act can be held liable under civil law for loss or damage suffered by the other party

In effect, the penalties now bear some

Continue →

FOX FM 15|3|91 (232)

relationship to the profits that insiders can make on such dealings, and thus might act as a deterrent But they are not necessarily as stringent as those applied abroad In the US penalties of up to three times the illegal profits can be imposed, in the UK there is no limit to the fine Still, a successful case could have a lasting impact

Andrew McNulty

Manserv's minorities get their cash, at last

ST Times 17/3/91. (232)

By JULIE WALKER

AFTER a 14-month wait, minority shareholders of Manserv will be offered 106c a share

The long saga started when control of the management services company-turned-cash shell passed to a foreign company early last year

The controlling shareholder Colfin was paid 106c a share in February, and minorities should have been offered the same amount within a "reasonable" period

The new controlling shareholder, Financial Ltd, lodged an amount with UAL Merchant Bank to cover the maximum amount it could be liable for if all minorities accepted

UAL did not know at the time that the deposit had been made through the financial rand — a practice which the Reserve Bank wished to stamp out. Buying a cash shell at a discount is not the kind of move the Bank endorses.

A vicious circle emerged. UAL would not stand by its guarantee to the JSE that funds were available to pay Manserv minorities

Financial said it had already paid out the money to UAL, and it was not its fault the Reserve Bank had blocked the transaction.

The JSE said its hands were tied, and it would have had to take action against UAL in order to see the minorities served right

Happily, the Reserve Bank has now agreed to release the funds — R1,5-million or so — on deposit at UAL for the offer to Manserv minorities

Trade in the share has been suspended under JSE regulations since control changed in January 1990. Minorities have lost out on a year's interest they might otherwise have earned But at least the end is in sight.

I would advise all minorities to accept 106c Financial has not invested in the kind of businesses in which I would be happy to be a member Take the money and run

NEC bows out, fuel policy goes

232

S/Times 17/3/91

THE deregulation of the petroleum industry seems imminent following the government's decision to disband the National Energy Council.

In what will probably be its last major assignment, the council is to present a report on the deregulation of the industry later this year.

An informed source says the report examines in detail the most radical deregulation options and discusses their suitabilty for South Africa. Among those considered is the situation where suppliers would no longer be obliged to buy petrol from local oil refineries and be free to import from low-cost producers overseas.

By CURT VON KEYSERLINGK and DON ROBERTSON

The report is causing concern among oil companies that have for years had their profits guaranteed by statutory control of minimum and maximum wholesale and retail petrol prices

The law allows oil companies to have an elaborate market-sharing agreement that determines, among other things, the number and location of filling stations each may have Were it not permitted by legislation such an agreement would fall foul of South Africa's laws against collusion

Privileges

The industry received these benefits partly because government wanted to persuade international oil companies to stay in South Africa (and possibly help with the acquisition of crude oil) during the height of this country's international isolation

But as sanctions fall away the arguments for stripping away the industry's privileges mount

"Deregulation would lead to higher petrol prices in the platteland and big layoffs at oil companies and filling stations," says an oil company man, who may not be named

"This would involve white staff as well as unskilled labour The oil embargo is still in force and I am sure that our industry will be the last to be deregulated"

Deregulation probably would lead to higher prices in remote areas (as is the case with many products) because they are at present partially subsidised by prices paid in urban areas

It would probably result in oil company layoffs because they will no longer be able to maintain the uneconomical depot system with its duplication of facilities

It could also cause many service stations to lay off pump attendants in favour of cheaper, computerised self-service systems

But the government's new views on industrial protection in general indicate that it has accepted the idea that such short-term sacrifices are unavoidable if the country is to become internationally competitive

If deregulation is to be complete, requirements that each petrol station has its own workshop and trained mechanic will also have to go — so will the agreement that provides for one Sasol petrol pump in each garage in certain areas and an agreement that limits the sale of Sasol petrol through these pumps to less than 10% of the market

Also to be addressed are the super profits made by the Transnet pipelines transporting fuel inland These profits have been used to offset losses on black rail-commuter services

What will probably stay is government protection on fuel produced by Sasol and Mossgas, which receive compensation if the oil price falls below a certain level.

In the "next few days" Dawie de Villiers, the Minister of Mineral and Energy Affairs and Public Enterprises, will meet members of the private sector, including oil companies, to discuss deregulation.

Government sources emphasise that this is a continuation of previous meetings

Established in 1987, the NEC advises government on all energy matters, including electricity and coal, and administers its liquid fuel policy

This policy includes the administration of the Central Energy Fund, the Petroleum Products Act and the Liquid Fuel and Oil Act, which determine the acquisition, manufacture, fixing of prices and the supply and stockpiling of liquid fuels.

Levies

Because of the oil embargo, most of the activities of the NEC have been secret.

Earlier this month Dr De Villiers said the NEC's functions would be transferred to the Department of Mineral and Energy Affairs in an effort to eliminate the funding of state activities outside the budget This will take effect from April 1

Since its inception the NEC has developed a "private sector culture" and has been financed largely by consumer funding Government's contribution has been cut accordingly from 69% in 1989 to 49,8% last year

In the current fiscal year, the Treasury made no contribution to the NEC Instead, the NEC has survived on levies on electricity, fuels and coal

Legislation for the transfer of the NEC and supporting staff to the Department of Mineral and Energy Affairs will be tabled in Parliament during the current session, as will legislation abolishing the levies

Piet Hugo, director-general of the Department of Energy Affairs, says NEC councillors, who are largely private sector businessmen, will be replaced by a new "mechanism" responsible for administration

Truck-hire operators back on right track

S Times 17/3/91

By DON ROBERTSON

THE deregulation of the transport industry will open up major growth areas for the truck-hire market, but conditions in the next 12 months will remain difficult

Truck hire presently has about 5% of the total transport sector, but it has matured as an industry and has a major role to play in the future of the transport industry, says John Pearse, managing director of Bataleur Transport Holdings, which now controls Fleetrent, Perkins Truck Hire, Supreme Truck Rental and Fleet Car Hire

Mr Pearse and Nedfin Bank recently acquired the truck and car hire interests of the McCarthy Group for R19-million

At the time of the sale, McCarthy Group chairman Brian McCarthy said nobody was making money on casual truck rentals, although contract deals were more profitable (232)

"We were making totally unsatisfactory returns, hence the reason for the sale," he said at the time

Since acquiring the additional interests, Mr Pearse has introduced a number of cost-cutting exercises which he believes will improve profitability

These include staff reductions, a restructuring of financing of vehicles, security cost cuts, an improvement in management information systems, a reduction in the size of the fleet and insurance cost cuts

JOHN PEARSE Cost-cutter

Mr Pearse believes that after the current, difficult 12-month period, the industry will flourish and he expects growth of between 20% and 25% a year The Full Maintenance Lease concept for trucks is expected to grow at a faster rate

"Soaring vehicle prices are driving the FML sector to new heights Last year there was a 25% growth in FML as companies, looking to maintain liquidity in uncertain trading conditions, tried to take expensive in-house fleets off the balance sheet," says Mr Pearse

Bataleur has about R100-million invested in vehicles, which Mr Pearse says would have cost about R15-million in 1985

"Costs have escalated to such a degree that a company can no longer afford to keep its own trucks standing idle in the yard This is where truck hire companies offer a better, cost-effective alternative"

In 1981, when Mr Pearse established Fleetrent, it cost R10 a day to hire a one-ton truck and 10c a kilometre Today it costs R77 a day and 77c a kilometre, he says

"In 1991, I can purchase six eight-ton trucks for the same price I paid for my first 100 vehicles in 1981 — 12 of which were eight tonners"

After due research, it has been decided that the three truck rental divisions will operate independently

Jane Mdaki displays a dress designed by a Fed member.

Fed gives jobless a skill base

By SOPHIE TEMA

A DURBAN organisation which teaches unskilled and unemployed adults to run their own cottage industries has opened a branch in Johannesburg.

The Foundation for Entrepreneurship Development (Fed) is a non-profit organisation which depends on private sector support for its survival. Citizen 17/3/91

Directors of the organisation said support during the five years of its existence had come mostly from overseas.

This week two sponsorship cheques were handed to Fed – one for R25 000 from the German government and the other for R8 000 from the Ithuba Trust.

The contributions will be used for the extension of the organisation's services in squatter areas around Johannesburg.

The Get Ahead Foundation has also made loans available to Fed graduates to start their own businesses.

Fed hopes to open other training centres throughout the country, where the unemployed will be taught business and sewing skills.

Fed executive director Dr Dennis Wolmarans said the shortage of sponsorships has restricted the Foundation to running programmes in the clothing-related field.

"But with further funding the programmes could be extended to other fields like carpentry, leatherwork and welding," he added.

Wolmarans said the Foundation was also working towards presenting youth development programmes if the necessary sponsorship could be made available.

Investors on the run

232

MONEY TALK

THE surge in prices on the Johannesburg Stock Exchange last year, just before the release from prison of ANC deputy president Nelson Mandela, was generally interpreted as being due to foreigners buying shares in South African companies because of confidence in the country's future

A review of the past year's trading figures on the JSE, however, reveals that foreigners have been selling South African shares

What apparently happened was that many South African investors bought shares through London

This mistaken "foreign" buying encouraged local confidence and, in a happy merry-go-round, prices surged and gave foreigners an opportunity to offload South African shares at handsome prices

Foreigners have been disinvesting through the stock exchange for more than five years and there seems no end in sight Citizen 17/3/91

Unfortunately, South Africans are not allowed to invest on overseas stock markets due to the shortage of foreign currency and the resultant Reserve Bank restrictions

Because everybody is chasing the same shares, prices continue to rise, creating an impression of a strong market.

Why are foreigners disinvesting?

Economists and stockbrokers say the main reason is lack of confidence in the political future of South Africa. Another is militant trade unionism in the country and the declining productivity and competitiveness of our industries

International confidence in our ability to manage the country politically and economically must be restored, because it is now clear that foreigners are not backing their political views with hard cash

Levy rise adds to woes at Mabula

(22) MARCIA KLEIN

HUNDREDS of angry Mabula timeshare shareholders voiced their concern on Friday over significant increases in their levies.

A special meeting of shareholders was called after the provisional liquidation on February 6 of Mabula's development companies, Mabula Investments and Mabula Holdings. B/Day 14/4/91

Directors said at the time that unit shareholders would not be affected as the three Mabula timeshare shareblock companies — Mabula Timeshare, Mabula Shareblock and Mabula Modjadji Camp — which were not provisionally liquidated, were separate companies and would continue to operate without any adverse effect.

However, yesterday some unit shareholders complained of increases in levies of around 75% and an additional special levy of about R300

Timeshare operations chairman Norman Moul said the significant increase in the levy was "because levies in the past had been much too low"

Moul said a third of the new levy was needed to provide Mabula with strategic funds for unexpected expenses on the financial and legal side

Levies would have to be paid within 30 days, and directors had the power "to fix levies or special levies and decide on payment". They also had the power to fine and to withdraw rights

He said there might be resistance to special levies. However, R450 000 was needed for "eventualities".

Some of the R2,7m, which was the increased levy income budgeted for in the next year, would be payable by the developers, directors said However, shareholders said they might be called upon to make up the deficit.

Directors said the three shareblock companies would have a claim on the liquidated companies However, the liquidator said that concurrent creditors could expect about 9,5c in the rand on liquidation of the development companies.

Other areas of concern were that maintenance had deteriorated and the rental pool account was found to be empty Directors told shareholders they should not hold their levies in lieu of the rental pool, and that bonuses also could not be offset against levies

Consolidation means bad news for some

BRENT VON MELVILLE

SOME shareholders often find their worst fears realised when a company consolidates its shares, but share splits are expected to open the door to more investors by making the stock more affordable and offering greater liquidity in the market place

In fact, the several consolidations over the past few years (excluding those that made a major change, such as a merger or selling of significant assets at the same time) have prompted some strong opposition by shareholders

Trading

Market observers feel that invariably those who fear for their investment are right to, at least in the very short term

Most issues dropped between the time the consolidation was announced, and the last day before the consolidated stock began trading

And most dropped again, compared with the final pre-consolidation price, on the first day that they traded after the consolidation

"Generally stock takes a nosedive after consolidation," says Aloma Jonker, an investment analyst with Mathison & Hollidge Sounding out several other analysts yielded the same verdict Analysts do not recommend buying a company planning to consolidate because, invariably, the stock will be cheaper three months down the road

A classic case in point is the now defunct Elex Electronics On June 2 1989 it consolidated its 15c shares on a five-for-one basis. On June 6 it moved to the electronics sector Despite promises at the time by directors of big things to come, Elex immediately shed 15c. Less than 11 months later minority shareholders were offered, and accepted, 10c a share from Volkskas Merchant Bank

The market supports the view that sentiment keeps consolidated stocks dipping The logic is that there is no hope for a stock trading at 15c, so the investor holds his position

But with one consolidated one-for-20 and trading near its new price of 300c, the investor suddenly has much more to lose, and so sells to limit the downside

Based on prices of JSE consolidations last year, with such gems as Homemakers and the Cape-based Debonair Group (which consolidated one-for-five last December and is wallowing at 83c), investors would be better off to sell when the deal is announced, and come back into the market several months later

Blom 18/3/91.

232

Flagging

Jonker says that shareholders generally use consolidation to offload their shares, thereby depressing prices. "A consolidation of shares is almost always a sure sign of problems with the company in question," she adds

Debonair, for instance, had a pre-consolidation price of 15c a share, equating to a consolidation price of 75c The share sagged slightly immediately following the consolidation, despite assurances by chairman Ian Foster that the group had resolved its problems by restructuring its capital base and was holding its own in an otherwise flagging market. The share has since come back to about 83c.

Just as conventional wisdom dictates that consolidations are attendant with declining fortunes, share splits tend to raise share prices, usually by making stock more affordable and increasing liquidity

Jonker suggests a simple reason "Consolidations are equated with struggling, poorly rated companies while share splits occur mainly with highly rated stock Recent examples include Randfontein Estates, Liberty, Anamint and Anglovaal, all of which subdivided their shares 10-for-one

The market perception is that share splits send a message to the small investor: "Yes, we do value you"

In addition, small shareholders are generally more loyal than institutional investors

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version

For written reply

General Affairs

Refusal to render community service

141 Lt-Gen R H D ROGERS asked the Minister of Manpower

(1) Whether any persons were sentenced in terms of section 72I(2)(a) of the Defence Act, No 44 of 1957, by magistrates in 1990 as a result of their refusing to render community service, if so, (a) how many persons, (b) to what period of detention was each sentenced and (c) where are these detentions served,

(2) whether any of these persons were given suspended sentences, if not, why not, if so, how many?

B400E

The MINISTER OF MANPOWER

(1) Yes

(a) 145 (all are Jehovah's Witnesses)

(b) 2 for 18 days each
1 for 450 days
1 for 540 days
1 for 644 days
1 for 854 days
1 for 855 days
2 for 900 days each
2 for 1 034 days each
1 for 1 035 days
2 for 1 080 days each
1 for 1 900 days
130 for 2 175 days each

The above-mentioned periods are administratively halved in accordance with the authorization given by the Minister of Defence on 29 January 1990.

(c) No period of detention is served All of them applied to be released on parole and are doing community service in state departments, provincial administrations and local authorities

(2) No The Department of Manpower does not have this information available It is suggested that the Department of Justice be approached in this regard

Persons declared bankrupt

147 Mr K M ANDREW asked the Minister of Justice Hansard 18/3/91 232

How many persons were declared bankrupt in each Division of the Supreme Court in 1990?

B414E

The MINISTER OF JUSTICE

Bloemfontein	503
Cape Town	417
Grahamstown	256
Kimberley	92
Pietermaritzburg	302
Pretoria	1 869
Total	3 439

Compulsory liquidation

148. Mr K M ANDREW asked the Minister of Justice: 232

How many companies ~~were placed~~ under compulsory liquidation in the area of each Master of the Supreme Court in 1990?

Hansard 18/3/91

B415E

The MINISTER OF JUSTICE

Bloemfontein	131
Grahamstown	57
Cape Town	298
Kimberley	15
Pietermaritzburg	148
Pretoria	1 100
Total	1 749

Unit trust changes expected soon

BIDay 19/3/91

SEAN VAN ZYL

AMENDMENTS to the Unit Trust Control Act, which will boost the performance of the unit trust industry, could be placed on the statute book early this year, Association of Unit Trusts (AUT) chairman Roy McAlpine says in the latest yearbook for the industry (232) (68)

These amendments, which the AUT had been discussing with the Registrar for some time, would make certain provisions governing the industry less rigid, he said.

He added "the Registrar has been very supportive of the proposals" which will enable investment managers to further enhance the performance of their unit trusts.

While the local equity market was "expected to continue to be nervous and perform in a somewhat pedestrian manner in 1991", McAlpine noted that this was the ideal time and opportunity for the public to purchase shares.

"Those investors who have committed funds to unit trusts during periods when equity markets are depressed ultimately have enjoyed considerable benefits."

He added that, overall, the SA economy was likely to reflect a second year of negative growth in 1991, largely resulting from the authorities' decision to tighten monetary policy to bring inflation down.

A further six unit trusts were launched during 1990.

Sale of Aquanaut helps lift Sinclair's earnings

BDay 19/3/91 (232)

BEVERLY HUCKLESBY

INDUSTRIAL and Commercial Holdings (ICH) subsidiary Sinclair Holdings lifted earnings by 62,6% to 12,5c (7,7c) a share in the six months to end-December

Turnover increased 11% to R121,6m (R109,7m) while a 74% drop in the interest bill and no taxation lifted net income to R3,2m (R2m) in the period under review.

Net attributable earnings rose to R9,1m (R2m) as a result of the extraordinary profit in review period. This related to the sale of pool cleaning subsidiary Aquanaut and the closing of two motor dealerships.

No interim dividend has been declared.

It was announced earlier this month that Aquanaut had been sold to an unnamed US company for $7,1m. The decision for the disposal was in line with Sinclair's stated intention of concentrating on the retail motor business after selling off other assets.

Because of the sensitive issue of sanctions against SA, the US company remains unnamed Speculation in the industry pointed to US-based Aquanaut Inc in which Sinclair has a 20% interest and US pool cleaner company Arneson

MD Simon Koch said yesterday the necessary turnaround of Sinclair had started but there was still much to be done

"We are happy with the results of the disposal of Aquanaut and by next year the capital from the sale will have been distributed to shareholders.

"The company will now concentrate on the transport industry which is experiencing tough times in the present economic recession, but I am confident the rot that had begun to settle in the company has been stopped," he said

All the pressing administrative problems had been solved and the company was expecting earnings to remain in line with those of the first half of the financial year.

The next six months would see the restructuring of the company taking place and Koch predicted year-end earnings of 25c (6,7c)

He said Sinclair was looking to expand in the transport sector and related fields and was in the process of acquiring a property company.

AVI's performance continues to improve

(232) LIZ ROUSE (140)

ANGLOVAAL Industries share price has staged a remarkable performance since 1986, with new highs reached early in 1991. It is now at R90.

Except for the short period in 1989 the share of the Anglovaal group's industrial arm has outperformed the industrial index and major industrial groups such as Barlows and Malbak.

Improved earnings (although modest) on a relative basis, especially in a climate of slower growth, appear to have been the catalyst for the past year's price performance, says Davis Borkum Hare analyst Pierre Greyvensteyn. BDay 19/3/91

At R90, AVI's price earnings multiple (currently 12) has moved into a new high territory, last seen in 1987. A similar pattern has emerged in respect of the dividend chart (current dividend yield is 1,5%).

Since 1989 both the price-to-earnings ratio and the dividend yield relative to the industrial index have shown increasing strength.

The share has become expensive compared with historic yields (in 1986 dividend yield was well over 3,5% and towards the end of 1989 it was above 2,5%).

Greyvensteyn expects that the share price may experience some consolidation in the short term. However, the long-term upward trend appears to be well entrenched.

Based on an earnings increase of 5% to 363c a share in the six months to December 1990, June year-end earnings should show a rise of 4,2% to 764c a share from 1990's 733c a share, while 1992 earnings should increase by 4,7% to 876c a share.

The estimated dividend total for 1991 is 140c, up from 1990's 135c, and a total distribution of 160c is expected in 1992.

Looking further ahead, Greyvensteyn forecasts an improvement of 15% at the attributable level for fiscal 1992.

Minister started on switchboard

Own Correspondent

JOHANNESBURG. — Economic Co-ordination Minister Dr Wim de Villiers, who died yesterday aged 69, began his career working as a switchboard operator at the Pretoria power station.

Although he had a doctorate in engineering from UCT, he experienced discrimination against Afrikaners in the job market.

In 1959 he began a meteoric business career in the English-dominated mining industry. He was eventually instrumental in the creation of Gencor, of which he served as executive director until 1982.

As a special adviser to the government, and later as the Minister for Administration and Privatisation, he spearheaded the government's privatisation drive. He privatised Iscor, and turned Transnet and Eskom into business-oriented organisations.

Last year, after he was given the Economic Co-ordination portfolio, Dr De Villiers embarked on the daunting task of fundamentally restructuring South Africa's economy.

A supply-side economist, he tried vigorously to boost exports in an effort to regenerate an ailing industrial sector.

"Our biggest problem is unemployment. The aim of any strategy must be an employment-creating economy. We are exporting our employment opportunities," he said in a recent report.

On Wednesday it was announced that De Villiers would also take on the weighty Transport portfolio on April 1. The following day he collapsed while making a speech in Cape Town.

His death yesterday has left much of his work undone. Changing political demands have left privatisation firmly on the backburner, and most of his restructuring plans remain unimplemented.

Dr De Villiers leaves his wife Francie, two sons, a daughter and six grandchildren.

Cape Times 17/3/??

148 232

Investors pump R2,1-bn into unit trusts

(232)

By Derek Tommey Star 19/3/91

Investors opened 168 000 new accounts with the 37 unit trusts last year bringing the number of accounts to 735 405.

According to the Association of Unit Trusts' year book, investors put a record R2,1 billion into the movement in 1990 but withdrew R985 million, leaving it with a healthy and record net inflow of R1,12 billion.

In terms of income unit trust investors were well rewarded. During the year the income index rose by almost 25 percent.

But last year was not such a good one in terms of capital gains, mainly owing to the drop in the gold price.

At the end of the year the capital gains index was showing a drop of 1,5 percent.

At the end of 1990 the market value of the trusts was R7,56 billion, and the average account was R10 300.

A year earlier the market value of the trusts was R6,6 billion while the average account was R11 700.

Probing unusual positions at JSE

232

Star 19/3/91.

Diagonal Street

ANN CROTTY

In an unprecedented move last Thursday evening Cape Attorney-General Mr Frank Kahn in effect commandeered the Inspectorate Department of the Johannesburg Stock Exchange.

That department will be working for Mr Kahn until he has completed his investigation into alleged irregular transactions conducted through the JSE by the Old Mutual.

The most significant public developments in that investigation have been the arrest (and subsequent release on bail) of a broker and a dealer and, the issuing of warrants of arrest on charges of fraud for three other parties.

JSE-led investigations are so much a matter of course that the initital stages of what has become the Kahn investigation did not cause much of a stir.

Apart from the Kahn investigation, it is believed (but not confirmed) that there are about 200 other cases currently being investigated by the JSE Inspectorate.

These investigations vary from misdemeanours to more serious issues such as undisclosed bear sales, middling, accommodating and trading for private accounts.

In many instances, the circumstantial nature of the trades under investigation means that no action can be taken.

But on quite a regular basis the inspectorate issues confidential notices to members of the JSE referring to action taken against individual employees and/or the stockbroking firm involved This means that it has been able to establish reasonable evidence that "irregular transactions" have been effected.

Penalties

Action taken varies from censure to suspension. Suspension periods seem to vary from one to six months. In severe cases, the broking firm itself is threatened with suspension

The Kahn investigation appears to have had its origins in a probe that the JSE conducted into foreign exchange losses of around R8 million suffered by a stockbroking firm about a year ago.

It was while looking through this matter that the JSE's inspectorate department came across a number of irregular transactions that seemed to have one thing in common — they ended up at the Old Mutual.

The Old Mutual was contacted and informed of these findings It instigated its own inquiry which quickly led to the suspension of two quite senior employees in the investment department — Marco Celotti and David Schapiro.

It quickly became apparent to the Old Mutual that it did not have access to a lot of the information that was needed. For this reason the investigation was handed over to the government.

The widespread publicity that has accompanied the Kahn investigation seems to have sparked two categories of response — on the one side are those who wonder what all the fuss is about. Irregular transactions are considered part and parcel of financial markets worldwide and attempts to stamp them out are futile.

Indignation

On the other are those who are indignant at this behaviour, who feel that the public (whose money is involved either through an investment in an insurance institution, a unit trust or directly) is being short-changed. They believe every attempt should be made to clean up the market

Those in the first category believe that what Mr Kahn is investigating is only the tip of the iceberg. (At this stage it is unclear as to how extensive Mr Kahn's brief is.)

Others feel that irregular transactions are of a reasonably isolated incidence and that the current saga is unfairly casting a very wide shadow across the whole market

For all concerned the most useful outcome of Mr Kahn's efforts is the certainty that a very thorough investigation will reveal the full extent of the problem. It could turn out to be far less than some emotional talk would suggest.

An apparently cleaner market, tighter controls at institutional investment departments and a culture of intolerance of irregular transactions rather than an acceptance of them, will considerably bolster confidence in the JSE.

For their part, JSE president Mr Tony Norton and his inspectorate department are to be commended for doggedly refusing to compromise on honesty

3 439 declared bankrupt in '90

Star 19/3/91

A total of 3 439 people were declared bankrupt by the Supreme Court last year, **Justice Minister Kobie Coetsee** said in the House of Assembly yesterday in reply to questions by Ken Andrew (DP Gardens)

He said 1 749 companies were put into liquidation in the same period The Pretoria Division of the Supreme Court had placed 1 100 companies under compulsory liquidation and the Cape Town Division 298 In Bloemfontein there were 131, Grahamstown 57, Kimberley 15 and 148 in Maritzburg (232)

A total of 1 869 people were declared bankrupt by the Pretoria Division and there were 417 in Cape Town, 503 in Bloemfontein, 256 in Grahamstown, 92 in Kimberley and 302 in Maritzburg. — Sapa.

Share incentive schemes can hold some attraction

BDay 20/3/91 GILLIAN HAYNE (232)

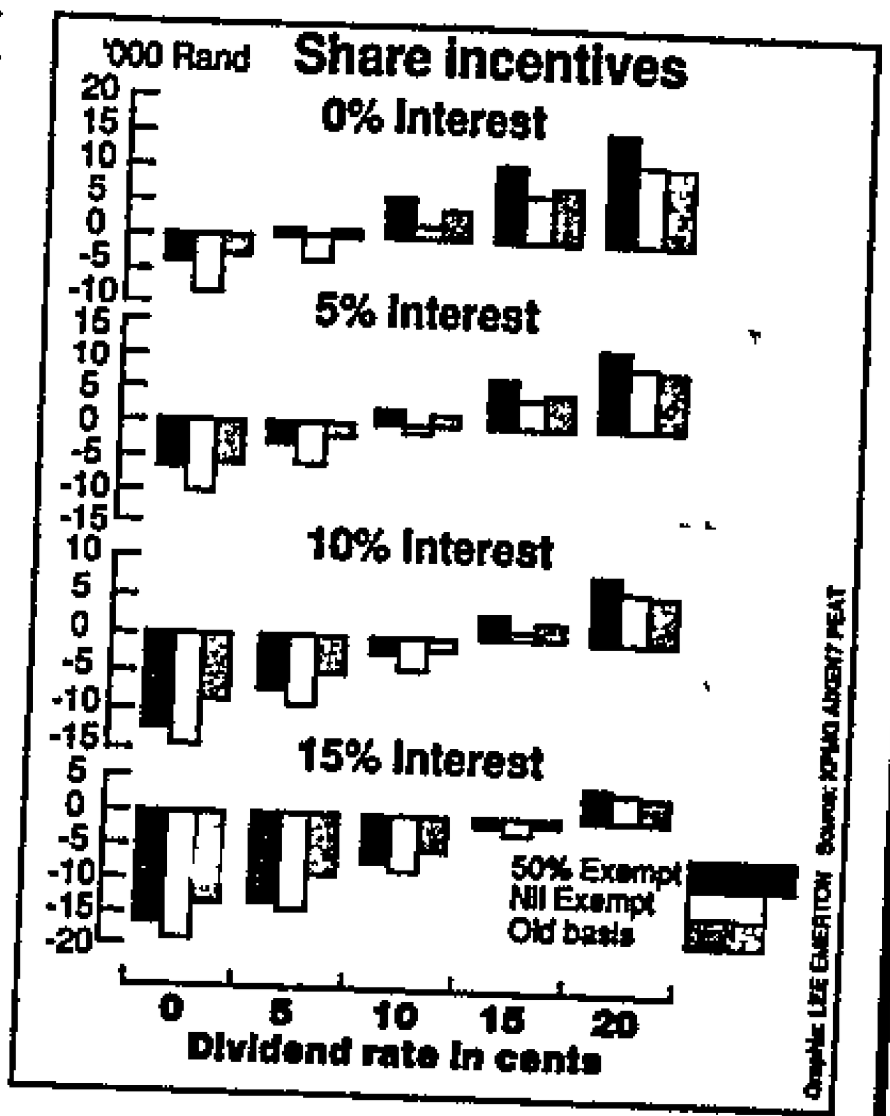
THE attractiveness of share incentive schemes has been severely limited over the past couple of years but schemes can still show to advantage if the dividend is high and the interest charged on the loan low, KPMG Aiken and Peat tax partner Hennie Coetzee says

Coetzee said the viability of share incentive shemes was called into question following the exemption of dividends in the hands of individuals, as it meant that interest on loans raised for the purpose of buying the shares was no longer proportionately tax deductible.

"The reason is that if a high dividend yield cannot be maintained, the employee will sacrifice cash flow."

The threshold between profitable and non-profit-making share incentive schemes depends on whether the individual pays interest on the company loan.

The threshold is illustrated by the accompanying graphs.



They reflect a comparison between the cash flow of an employee when dividends were still partly taxable (the old basis), the cash flow on schemes in place by March 15 1990, when dividends were no longer taxable but 50% of the fringe benefit accruing to the employee is exempt from tax until February 28 1995 (50% exempt), and the cash flow of employees in regard to loans raised to purchase shares subsequent to March 15 1990 (nil exempt).

The example is based on a hypothetical scenario of a loan of R100 000 utilised to purchase shares, the nominal value of which is 100c. The variable information is the rate of interest charged on the loan and the amount of dividend, in cents, declared per share. Each graph assumes a different rate of interest charged by the employer, that is, 0%, 5%, 10% and 15%

New share incentive schemes, that is, schemes that came into existence after March 15 1990, seem to be unattractive to the employee if the employee makes use of borrowed money in order to purchase his shares

If no interest is charged by the employer in regard to such a loan, a dividend of 8,36c a share would be required to ensure that after he has paid tax, his cash flow would be nil Should the employer charge 1% interest on a loan in the example, he would be out of pocket for R560

Coetzee suggested though that there could be occasions when it might be to the ultimate financial advantage of the employee to sacrifice cash flow in favour of capital growth

JSE more sensitive to internal factors

B/Day 20/3/91

232

ROBERT GENTLE

A 10% move in the Dow Jones index produces a mere 2% move in the JSE's overall index, the SA market is therefore more sensitive to internal factors than movements in international markets

This is the conclusion of a Beta-analysis study done by financial analysis company Indexia Research into the sensitivity of world markets to the US market

It found that 4,8% of the total risk in the SA market is explained by variance in the US market This compares with the three highest figures obtained· 63% for Canada, 31% for the UK and 27% for Holland.

Indexia MD Jeremy du Plessis said yesterday the findings showed SA investors should not look solely to Wall Street for indications of where the local market was heading.

A similar analysis into the sensitivity of international currencies to movements in the Deutsche Mark found the rand, unlike most other European currencies, bore "very little relationship" to the mark

It proved movements in the rand were mostly due to internal factors.

First Financial Futures investment consultant Carolyn MacKenzie said in a newsletter. "This does not mean our market is isolated from external influences, it simply means overseas markets are not the best indication of these external influences"

JSE analysts were reluctant to comment until they had seen details

Cutbacks at embattled exchange

B/Day 20/3/91

ROBERT GENTLE 232

WHEN Finance Minister Barend du Plessis granted the SA Futures Exchange (Safex) its licence on August 10 last year amid much fanfare and optimism, few expected it would face so many problems so soon afterwards.

Instead of trading thousands of contracts a day, turning out new products and stimulating the financial sector, Safex now spends most of its energy on just keeping the market going.

With turnover about a third below the projected break-even point of 3 000 contracts a day — reducing vital clearing and transactional income that pays the bills — Safex has had to stem the bleeding.

REES

Safex CE Stuart Rees says staff has been reduced from 21 to 14, an arrangement has been worked out with Reuter to reduce screen rental costs and steps are being taken to sublet the exchange's premises.

A minimum monthly transaction fee of R850 per member has been introduced and the exchange has jacked up the interest turn it takes on margin monies from 0,5% to 2,5%. Safex is also examining the possibility of having the Universal Exchange Corporation (Unexcor) handle all futures clearing. Unexcor, owned by the major clearing banks, is working towards centralised electronic clearing across all markets.

Rees says the current slump can be traced to the withdrawal from the market of Davis Ralph Sadleir (DRS) and a key player, Cape Investment Bank (CIB).

The former was placed in default on August 24 — barely two weeks after Safex got its licence — producing a long drawn-out case that has still not been finally settled.

CIB — which cleared DRS's trades — was taken over by Prima Bank months later after running into financial troubles of its own. Like DRS, it has since been the subject of alleged irregular transactions. This apparent coincidence has not been lost on market observers.

Rees says the absence of DRS and CIB reduced liquidity in an already small market. Matters were made worse by the subsequent market downturn.

However, Rees points to some positive developments that should boost volumes: the divisive floor issue is over, non-resident participation is imminent, unit trusts and portfolio managers can now use futures, institutional participation is growing steadily and JSE brokers are increasing market share.

"Volumes have already started increasing steadily and surely over the last three months," says Rees.

Mining houses make the running on JSE

232

Star 20/3/91

By Derek Tommey

Mining house shares are having a minor boom on the Johannesburg Stock Exchange.

Anglo American, Gencor, Anglovaal, Rand Mines, JCI and Gold Fields are the "heavyweights" of the stock exchange

Between them they control almost all of the country's mining operations and a substantial proportion of its manufacturing industries as well

If you buy shares in a mining house you are buying "South Africa", a broker commented

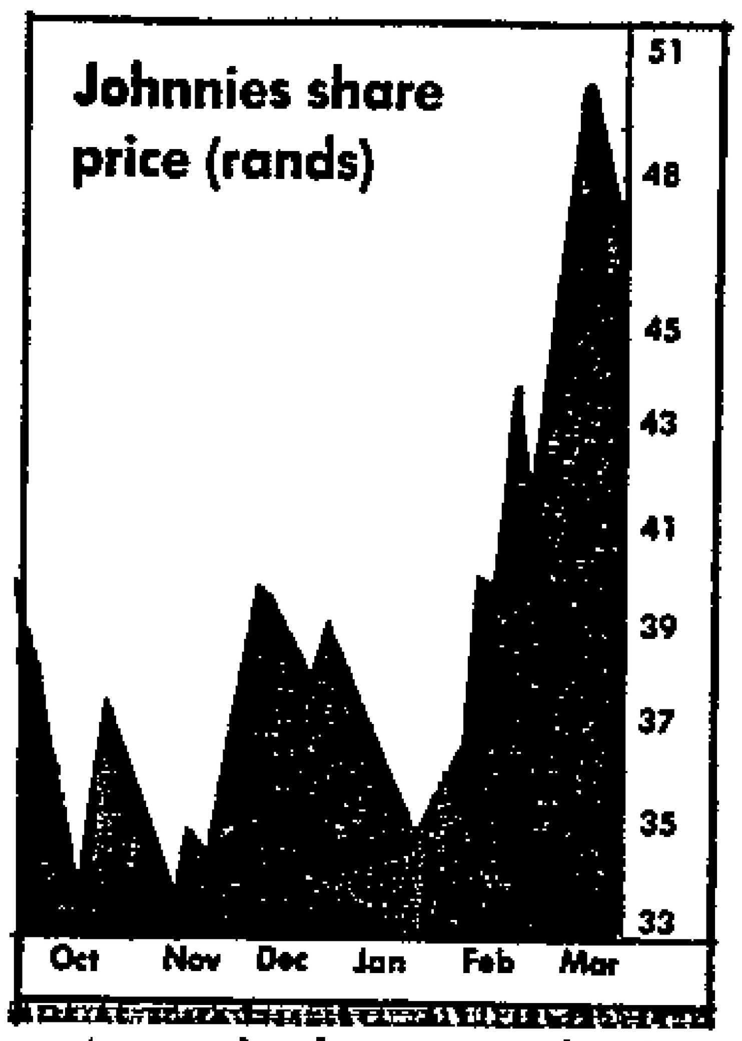
Leading the pack is JCI whose shares have risen just under 40 percent in the past eight weeks from R34,25 to R47,75 Runner up has been Rand Mines whose shares have gained almost 31 percent, rising from R55 to R72

Gencor is in third place with its shares gaining 23,2 percent from 925c to 1140c It is followed by Anglovaal with a 15,9 percent gain and Anglo American with a 14,6 percent gain Only Gold Fields of South Africa has been excluded from the mini-boom Its shares have fallen 0,8 percent in this eight-week period

Brokers cite a number of general and also specific reasons for the strong performance of most of the mining house shares.

Among the more general reasons are expectations of an improvement in the American economy, the expected ending of sanctions, a more favourable attitude towards South Africa by foreign investors and the recent easing of the rand against the dollar

All these factors should result in a greater demand for many South African mineral exports and also in a higher prices



Dr Kevin Kartun, an analyst atFrankel, Max Pollak and Vinderine, said that the ending of sanctions could lead to coal exporters getting an extra $3 a ton for their exports

This could boost export coal earnings by about R340 million a year

The four percent appreciation in the dollar against the rand in recent weeks will boost the export prices of many of the country's mineral by a similar amount — and this could easily result in a double figure increase in operating profits where the margins are small

More specifically, the strong rise in JCI reflects its large interest in three strong companies, Rustenburg Platinum, SA Breweries and De Beers

The ending of the Gulf war gave the platinum industry a boost and platinum shares have also risen strongly Rusplat has gained some 30 percent in the past eight weeks, and this could account for much of JCI's rise

However, there is also speculation in the market that JCI might be negotatiating to take over Rand Mines' platinum interests, especially if changes in the ring fencing provisions in today's Budget allows it to use Barplats' accummulated tax loss Such a move could bring useful financial benefits to JCI

While the rise in JCI shares is easily explained, the reasons for the 30 percent jump in Rand Mines' shares is not so obvious Rand Mines is a major coal exporter, but its gold mining interests have not been profitable lately and its platinum investments have been a heavy drain on its cash resources

But some analysts suggest that the rise in Rand Mines' shares could reflect an appreciation among the investing public that management was starting to act decisively to overcome the company's problems.

Its handling of the reduction in operations at the giant Harmony mine and its proposed negotiations over the future of the group's platinum interests have shown that Rand Mines management can handle these problems

Gencor's 23,2 percent rise also appears to be linked with its platinum interests Shares in its major platinum investment, Impala Platinum, have risen 47,3 percent in the past eight weeks

But the likelihood that the Government could announce favourable tax treatment for its proposed R2 billion stainless steel plant (also possibly in today's Budget) may also have created a demand for Gencor

While the increases in the share prices of Anglo American and Anglovaal are not comparable to those mentioned above, they are nonetheless highly satisfactory

The failure of Gold Fields's shares reflects its heavy investment in gold and the troubled times this metal is passing through at the moment

However, brokers point out that even a reasonably small improvement in the rand gold price could have a marked effect on the earnings of Gold Fields — and also on its share price

Special standing of JSE and Futures Exchange may end

232

B Day 21/3/91

ROBERT GENTLE

FINANCE Minister Barend du Plessis yesterday sent out the strongest signal yet that the special status of the JSE and the SA Futures Exchange (Safex) as independent exchanges would soon end and a more unified financial market structure will emerge

This would result in a rationalisation and merging of computer systems and clearing facilities governing the three key groups of listed instruments — shares, forwards (futures and options) and bonds

Du Plessis said the ruling conditions in the financial markets and the low transaction volumes were prompting self-regulating associations to reappraise whether their continued existence as independent exchanges was needed

"In order to obtain the maximum benefits of scale, it has become important for the various financial exchanges to consider the merging of supporting systems and resources, as well as the establishment of central clearing facilities"

His remarks go some way to explaining why Universal Exchange Corporation (Unexcor), owned by the major clearing banks, has contacted the SA Futures Exchange and the JSE about taking over their information systems and clearing facilities

The Bond Market Association (BMA) has already agreed to work with Unexcor in this regard

Du Plessis said that though the JSE and Safex already had their own clearing mechanisms, the need for co-operation with the BMA "should not be ignored"

In reaction, Safex CE Stuart Rees said "This shows that government supports the idea of a centralised clearing system"

JSE president Tony Norton said "There is a certain logic to exchanges sharing fixed costs However, unlike other exchanges, the JSE has already incurred costs establishing its own systems"

ASSETS: MOTOR VEHICLES, ACCOUNTS RECEIVABLE, BANK

LIABILITIES: LOAN, ACCOUNTS PAYABLE

CAPITAL: CAPITAL H HOFFER

AP1

JSE gets some of its wishes

Bday 21/3/91

ROBERT GENTLE

THE JSE got at least some of the relief it was seeking from liquidity-killing transaction taxes when Finance Minister Barend du Plessis announced a 0,5% cut in Marketable Securities Tax (MST), to 1,0%

MST, which hits all share transactions on the JSE, has been described by the financial community as hampering liquidity in an already illiquid market

They would like to see it simply done away with, as has happened on most exchanges abroad

Du Plessis described the reduction as being in line with last year's decision to phase out MST over three years At this rate, it will disappear in 1993

"The eventual completion of this phasing-out process should enhance the ability of the stock exchange to compete with other world exchanges," he said

JSE chairman Peter Redman observed that Du Plessis had kept his promise, made at the last Budget, to phase out MST over three years

232

Deloitte Pim Goldby tax manager Craig France said "Given the current low volumes being traded on the JSE, this year was probably the best in which to reduce MST"

Market sources who would not be indentified said MST was still far too high and should have been axed altogether.

Du Plessis also announced that stamp duty on unquoted marketable securities would be cut from 15c to 10c on each R10, or part thereof, of the relative compensation or value

The loss of revenue from the reductions in MST and stamp duty was expected to be R135m

The cuts come into effect on April 1

ELECTRICITY, TELEPHONE AND WAGES EXPENSE 61

	Bank		5750				

BAD DEBTS EXPENSE 62

TRADING SUMMARY 70

	Stock		5 400		Discount		200
	Purchases		10 000		Stock		4 000
	Carriage		400		Sales		37 800
	Discount		1100				
	Profit loss		25 100				42 000
			42 000				

PROFIT & LOSS SUMMARY 71

	Bad debts		200		Trading		25 100
	Carriage		150				
	E T & W		5750				
	Capital		19 000				
							25 100

Finance exchanges may consider mergers

Sowetan 21/3/91

232

THE ruling conditions in the financial markets, and particularly the low transaction volumes, were prompting the several self-regulating associations to reappraise whether their continued existence as fully-fledged, independent exchanges was needed.

This was said yesterday by the Minister of Finance, Mr Barend du Plessis, in his budget review tabled in Parliament.

"In order to obtain the maximum benefits of scale, it has become important for the various financial exchanges to consider the merging of supporting systems and resources, as well as the establishment of central clearing facilities."

Although the share and forward markets already had their own clearing mechanisms, the need for cooperation with the gilt markets (which had not yet been formalised) should not be ignored.

"Attention is therefore now being given to the viability of a central clearing and settlement mechanism, as well as to a central repository for securities.

"These measures towards greater rationalisation are to be welcomed."

Among other important developments in the financial sector during the past year had been the Jacobs committee which had studied the question of equal competition between financial institutions.

The investigation had recognised the fact that in the future development of the financial sector, the need for business and development finance of a more or less informal nature in developing segments of the community would have to be attended to - *Sapa*

JSE had hoped for a little more

(232)

By Ann Crotty STAR 21/3/91

There may be an initial downrating of financial sector shares because of the 0,75 percent "interest tax" but otherwise yesterday's Budget was generally regarded as neutral for the JSE

Head of investment at Sanlam, Ronnie Masson, noted that the JSE had moved up strongly over the past few weeks and might edge down because there were no obvious sources of stimulation for equities

The reduction in marketable securities tax from 1,5 percent to one percent was in line with last year's announcement that MST would be phased out over three years

Some sources had expected the government to abolish it completely this year in an attempt to boost the sluggish trading volumes

JSE president Tony Norton said the JSE had hoped for more but noted that the stock exchange had to be realistic and accepted the lower rate. He added that the Minister of Finance had done an impossible job extremely well.

Rowland Chute, assistant GM Investments at Old Mutual, said the Budget would not change the group's view on equities and agreed that with the possible exception of the financial sector, the Budget was neutral for the JSE.

While the social spending aspect of the Budget was generally welcomed, there were some concerns about the possible inflationary impact of VAT being introduced at 12 percent on a much wider spectrum of goods

UNIT TRUSTS FM 22/3/91

CHANGES EXPECTED

(232)

Unit trust management companies could soon see some relaxation in the legislation that governs their activities

92 • FINANCIAL MAIL • MARCH • 22 • 1991

FOX FM 22/3/91 (232)

Amendments to the Unit Trust Control Act, which are due to come before parliament this week, are intended to give the Registrar of Unit Trust Companies greater discretionary powers They also make provision for the creation of an advisory board, to be chaired by the Registrar, that will review regulations governing the unit trust industry

Clive Turner, newly appointed chairman of the Association of Unit Trusts, says the amendments are intended to enable the unit trust industry to be more responsive to changes in the markets in which it operates, to the benefit of unit holders He says modifications to certain aspects of the legislation governing unit trusts could, if the current amendments are introduced, be enforced by notification in the *Government Gazette* rather than by putting the changes before parliament

One of the first matters likely to come before the advisory board is the extent to which unit trusts will be able to invest in futures and options Another amendment to the Act allows trusts to invest in such derivatives, though only within certain parameters

Turner adds that the long-standing 5% rule — which stipulates that a trust can hold no more than 5% of its assets in one company's equity at time of purchase and no more than 5% of a particular class of shares of a company may be held by a trust — could be amended by the Registrar and his panel

Simon Cashmore

FM 22/3/91

(232)

LIBERTY LIFE/FIT

LONG RUN

FM 22/3/91 (232)

Shares in the Liberty group have done well over the past year. Since January 1990, Liberty and Liberty Holdings have climbed by between 38%-45%, while First International Trust (FIT) — though restrained by a firming financial rand — gained about 22%

Reasons are not difficult to find Not only have earnings and dividends remained on the steady growth path established over about two decades, but both policyholders and shareholders have benefited from bonus distributions Shareholders' funds of Liberty Life have gained from growth in value of strategic investments, such as SBIC, SA Breweries and Premier, while the international holdings in FIT are moving closer towards benefiting from large investments in real estate

Overall effects are reflected in the top company, Liberty Holdings, whose EPS rose by 20,4% Total dividends declared by Liberty Holdings for the 1990 financial year, excluding the special ordinary payout of 120c a share declared in August, amounted to 220c — a record 46,7% increase on the 150c paid in 1989. As chairman Donald Gordon points out, that gives an unbroken pattern over 22 years of increases in dividends averaging over 25% annually.

Liberty Life remains the dominant source of group profit, having contributed 78% last year The 36,5% increase in its dividend reflects the change in dividend policy announced with the interims in August. The new policy, which established dividend distributions at a level of not less than 85% of net taxed surplus, will have matching effects for Liberty Holdings

On the international front, FIT — whose interests include a 27,7% stake in Sun Life Corp Plc and a controlling stake in the real estate company, Capital & Counties — produced attributable income of R66,1m, with EPS up by 27,9% at 47,7c, the dividend was raised by 11%.

Currency boost

With FIT's investments all in the UK, the sharp depreciation of the rand against the pound during the first nine months of the year would obviously have boosted the result. It remains to be seen whether FIT will see a similar currency boost this year, but the odds must be against it. Notably, FIT's share price, at 1 270c, trades well below the peak of 1 775c set in August

Given what Gordon describes as extremely difficult financial and trading conditions, TransAtlantic's strategy has been to strengthen its capital base and to improve liquidity. Capital & Counties is concentrating on the steady completion of its existing development programme, with no significant new development contemplated

In October, Capital & Counties opened the Thurrock Lakeside shopping centre at a site which Gordon says is convenient for about 20% of the UK's population. He adds that Thurrock is trading ahead of all reasonable expectations, when UK retailing has been going through its most traumatic period of the past two decades.

Last year saw several major distributions of wealth in the Liberty group. More than R1bn was distributed to policyholders by way of bonus distributions including income and capital appreciation applicable to linked participating policyholders

From the shareholders' standpoint, there was the special dividend, and last month Liberty Life announced it would distribute to shareholders, free of consideration, about 34,2m FIT shares, amounting to a quarter of its issued shares. Liberty Holdings, with 56% of Liberty Life, is entitled to receive about 19,2m FIT shares, which will be distributed to its shareholders on the same basis The scrip dividend is intended to provide tax efficient recompense to shareholders for the effective deferment of income almost from the start of the overseas venture more than a decade ago

A bonus distribution is all very well, but when considering which of the shares offers the best long-term investment, the market favours the top company, Liberty Holdings, which directly benefits from growth achieved down the line. Since the trough of February 1988, FIT's price has doubled, Libvest has risen 178%, Liberty Life has gained 215% and Liberty Holdings has climbed 245%

Andrew McNulty

SHARE PRICES FM 22/3/91 (232)

SCALING NEW PEAKS

Late last year, there were fears that the JSE and world stock markets may have entered a protracted bear market Trading volumes had slumped and leading indices were declining in anticipation of worsening corporate results and, perhaps, a fully fledged international recession

Sentiment turned more bullish early this year The launch of the Gulf War in early January triggered renewed buying in New York, London and Tokyo and the JSE soon followed — though the action was largely concentrated in the financial and industrial sectors

Against most expectations, on March 15 the JSE Industrial index closed at a new high of 3 390, an increase of 12,7% since the beginning of the year Similarly, the Overall index, though restrained by a weakening gold sector, has recovered to 2 915, a rise of about 15% from its low of late January The question remains. will these advances be sustainable and is the JSE casting off the malaise that stifled trading — and stockbrokers' profits — for much of last year?

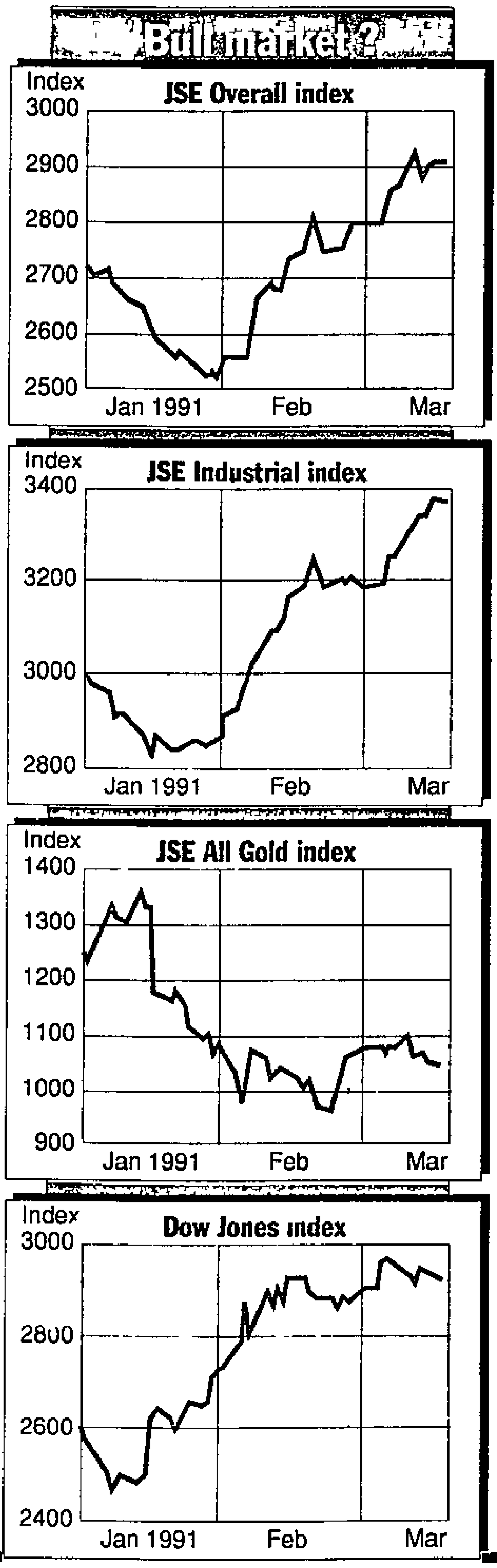
At this stage, the improvement is mainly in the prices Trading volumes have improved, but remain well below the levels needed Daily trading values have recovered to above R80m, from around R50m-R60m last November The number of deals being done each day — which many brokers consider more important — has lifted to around 2 500 That is better than the level of about 1 800 four months ago, but is well down on the year-ago level of about 3 500

For a full recovery to emerge, continued improvement in share prices is needed That will have to include the mining sector, which, historically, has been the source of the big trading volumes Much of the recent action has focused on recovery sectors, such as financial services, as well as certain industrial companies expected to continue doing well during the recession, particularly the blue chip consumer-based companies

Though many of these companies have kept reporting earnings growth well above the inflation rate, prices have also been pushed to demanding levels. Wooltru now stands on a p.e of more than 20 and yields only 1,9% on dividend, Tiger Oats and Edgars are at a similar level and SA Breweries is not far behind Results from furniture companies remain much better than in previous recessions and their shares have been rerated accordingly

At the same time Amic a heavily export-orientated stock, which is no longer gaining from the firm commodity prices or a weak rand, stands on a p.e above 10, Barlow Rand's p:e is 8,8 Even if these prices do not prove brittle, there is a danger that the market is simply looking too far ahead

Just as the overseas markets helped to lift the gloom, a return of the bear to New York could be bad news for Diagonal Street The switch towards an easier monetary policy in the US and the UK was among the factors seen as favourable for those markets In the past, the Dow Jones has tended to lead the JSE and, as a local industrial analyst points out, if the Dow Jones fails to sustain or extend its gains, then the JSE could soon fall back too



Probably the most favourable local development has been the cut in the prime rate, but the downward trend has largely been discounted by the prices Further interest rate cuts would further brighten sentiment, but a sharp decline over this year is unlikely As far as the rand hedge stocks are concerned, there is no great expectation at present of a marked depreciation of the rand over this year

Always in the background, of course, are the large cash flows of the institutions — the last unit trust figures showed steadily rising liquidity levels, though these may now have been drawn down somewhat Portfolio managers like to look well ahead, to take positions before an upturn starts Apart from a recovery in the business cycle, investors are now considering effects of sanctions being lifted, or an inflow of foreign capital

As Old Mutual's senior portfolio manager Adrian Allardice points out, the assurer does not try to finesse the market, but seeks to buy on a five-year view where it sees value From that standpoint, Allardice says the current level of industrials could best be seen as neutral, neither overbought nor oversold, but "prospects are bullish "

That may seem comforting, especially for those who are optimistic about political and economic trends over the long term But there will be a lot of gloomy corporate and economic news over the next nine to 12 months This, given present share ratings, may be enough to dampen sentiment again

Perhaps the most likely scenario is that local prices will drift lower before resuming an upward trend And, of course, while new bull markets are being hailed for London and New York, the possibility that this will later be seen as a rally in a long bear market is still there

Andrew McNulty and Simon Cashmore

FM 22/3/91

STANDARD ENGINEERING

STRIKING SETBACK

The seven-week strike at Mercedes-Benz's East London plant, and an overstocked situation at original equipment manufacturers due to a market downturn, had a major impact on first-half results to February. Heavy vehicle gearbox manufacturer Astas suffered a severe setback

However, buying out minorities at the end of last year helped to reduce the minorities' interest by 66,6% This led to a 28,5% rise in attributable earnings but a higher issued equity of 34,3m shares (26,9m) diluted EPS

Chairman Hugh Brown says the strike and customer destocking led to the cancella-

Continue →

Struggling NCI looks for partner

S/Times (232)

24/3/91

By TERRY BETTY

SHARES of venture capital market New Company Investments, which calls itself the blue chip of the sector, rose 50% this week — from 2c to 3c.

The share, which hit a post-listing high of 23c in June last year, has languished at 2c in recent months, but it has been the subject of market speculation in recent weeks

Contradicting rumours, chairman Mike Clarke says NCI's flagship subsidiary, FCC Chlorine Ventures International, is not for sale

"We are looking for a partner with international connections to help us exploit the product," says Mr Clarke

"There are scurrilous rumours about NCI, but talks are going to establish a $1,5-million plant in the US to make Chlor 2 000"

Spectacular

Shareholders have been more than patient They have contributed about R14,3-million, but the group admits the major constraint to bringing projects to profitability is lack of capital

The projects are the Chlor 2 000 water-purifying project, Davroc drill-bit manufacturers, DAC Braking's fail-safe vehicle braking system and the TLC low-cost tractor scheme

Mr Clarke says there is a possibility that convertible debentures could be issued in FCC and Davroc to raise R2,5-million

NCI came to the venture capital board in April 1990 with high expectations The prospectus spoke of "truly spectacular growth" and "substantial short-term profits" But venture capital projects are notoriously vulnerable in times of high interest rates and a slowing economy

Mr Clarke says "Expectations have not been met We are regarded as third-liners"

No capital was raised through the listing because NCI, formed by Mr Clarke in 1987, said it had current assets of R4-million and no borrowings or liabilities

But before the listing more than 2 200 investors had bought shares at prices ranging from the par 1c to 95c

Preliminary results for the year to March 31, 1990, showed that the accumulated loss had almost doubled from R4,5-million to R8,9-million

At mid-year the accumulated loss was nearly R12,4-million This was attributed by Mr Clarke to the policy of writing down projects at inception and recovering such amounts when they become profitable

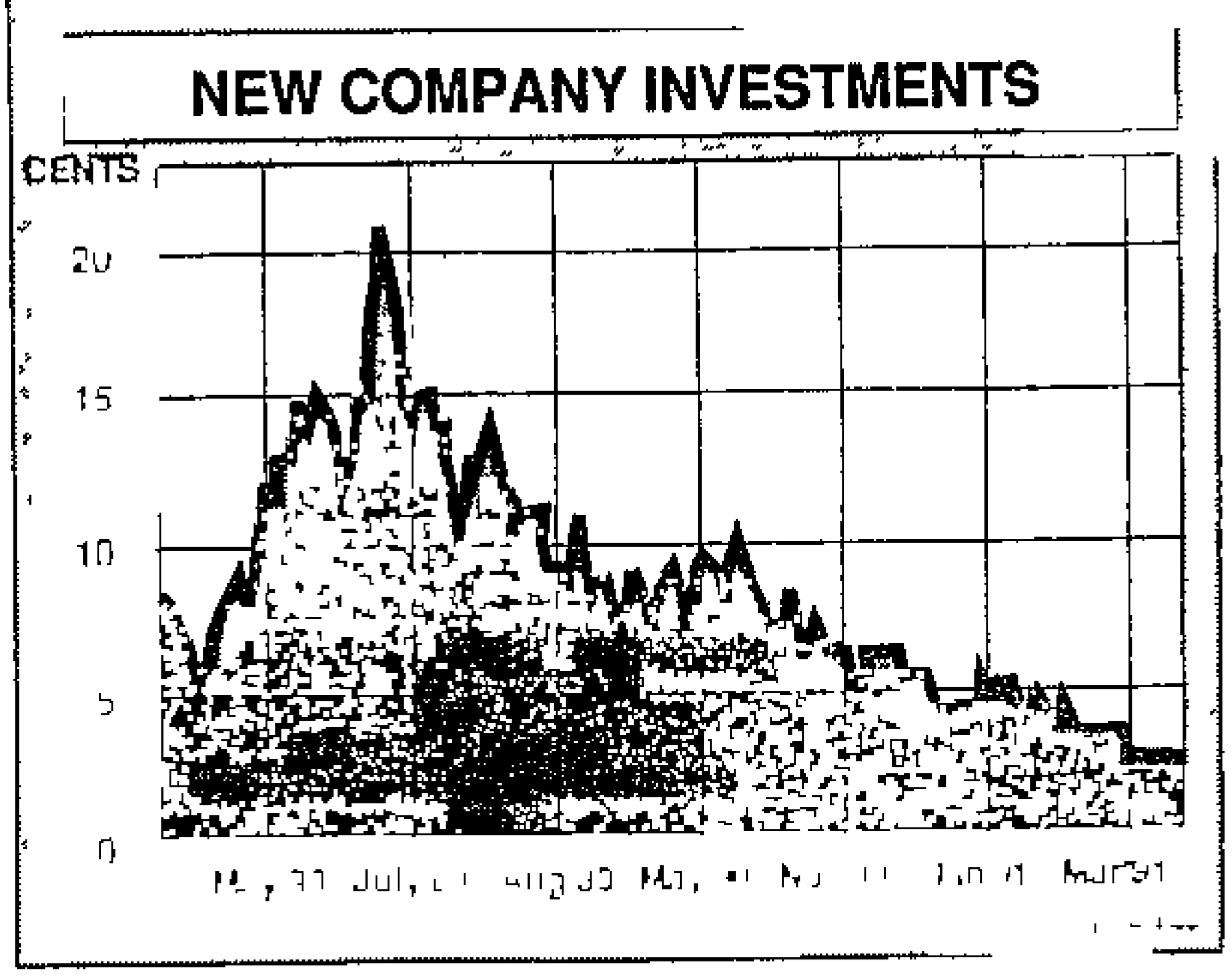
NCI said then it expected to "turn cash-flow positive by the end of the financial year" — at the end of this month

Mr Clarke says NCI is not yet in postive cash-flow

But, in a statement to shareholders this week, he reminds them that the original object was to build a portfolio of "dynamic young businesses ahead of the next bull market"

The original time frame, he says, was three to five years

"Despite the setback of the non-performance of our proposed USA partner and the operating constraints within our own economy we have done this"



Foreign investors ditch SA equities

(232) (60)

S/Times 24/3/91

By DIRK TIEMANN

FOREIGN investor confidence in the JSE is taking a knock, according to Reserve Bank figures.

Foreigners have been dumping SA equities on a large scale. Sales for 1990 amounted to R4,5-billion — 32% higher than in 1989.

Net sales of SA equities eased from R2,8-billion in the first quarter of 1990 to R273-million in the third quarter and R564-million in the fourth.

Net sales of shares picked up again from January to February 1991 and totalled R548-million in spite of a strengthening by the financial rand. The record sales were made in the first two months of 1990 in spite of a weaker finrand.

Purchases of public-sector stock plunged from R883-million in the fourth quarter of 1989 to R153-million in 1990.

Net purchases by foreigners totalled R1,5-billion in 1990, but this figure was 50% below 1989's. Buying in the first two months of 1991 amounted to R207-million.

Net purchases were recorded in the third quarter of 1990.

JSE shares disappointed in 1990. The value of shares traded declined from a record R8,6-billion in the first quarter to R6,2-billion in the third.

In the fourth quarter there was a 44% drop to a "meagre" R3,5-billion.

Total turnover of R23,9-billion for 1990 was 15% higher than in 1989. The Persian Gulf crisis, the poor dollar price of gold and SA's tough monetary policy contributed to slack turnover.

High

Overall share prices fell by 17% on average from the all-time high in February 1990 to December 1990. The year-on-year decline amounted to about 12%, and a further 1% decline was registered in January 1991.

Gold and other metal and mineral shares were the main contributors to the overall index drop in the fourth quarter. Industrials on the other hand put on 6%.

The value of new ordinary shares issued by companies fell from R2,2-billion in the second quarter of 1990 to R300-million in the third. A recovery to R1,7-billion was made in the fourth quarter. New issues for 1990, totalling R4,5-billion, were only half of the 1989 figure of R9-billion.

Average dividend yields on all shares rose from 5,3% in March 1990 to 6,1% in December. The yield was unchanged for January. Financial shares entered 1991 with a relatively strong average yield of 7,16%.

Strong performances were registered for November and December 1990 with yields of 7,32%, 7,09% respectively.

Average earnings yields on all shares fell from 15,4% in December 1989 to 14,2% in January 1991.

Standard galvanised by speculation

(232) GRETA STEYN (1993)

HEAVY buying of Standard Bank Group shares saw volumes double and the price hit a new high of R51 yesterday amid speculation that Liberty and Rembrandt are discussing restructuring their shareholdings in the banking group.

Market talk is that Rembrandt wants to sell its 10% holding in Standard to Liberty, which already owns more than 30%, in exchange for a direct stake in Liberty. It is said Rembrandt sees Standard as the key to gaining a strong say in Liberty, and possibly even control in the longer term

Speculation is that Standard's price is soaring because Old Mutual (holding about 20%) has got wind of the plans and is buying as a spoiling tactic to upset Liberty.

However, another rumour is that offshore buying via the financial rand was the reason why the price had soared by about 70% since the beginning of February With its price-to-earnings ratio at 11,84, analysts say Standard is overpriced.

Almost 537 000 shares changed hands yesterday. Although yesterday's volume represents only 0,5% of the issued shares, analysts say it is surprisingly large for such a tightly held share. Market capitalisation has risen by about R2bn during the buying frenzy. B|Day 26|3|71.

Interest in the share helped push the banks' index to a new high of 2 193 yesterday — a gain of about 9% in a week, bucking the trend of the overall market with Nedcor chalking up a 15c gain.

But a number of important players in the sector have lost some ground, notably the NBS which has been at the centre of takeover rumours, and the UBS. The NBS shed 4% to 910c yesterday.

Yesterday Norwich Life MD Charles Davies confirmed talk of an offshore link in its strategy towards NBS. Luxembourg-based trust Slaney, with about 10% in NBS, had thrown its weight behind Norwich

The latter therefore had effective control over about 30% of the building society group, after doubling its own stake to 20% Norwich is understood to have increased its holding to stave off any hostile takeover bids Likely predators include First National Bank, already holding an effective 13%, and the Standard Bank Group.

JSE results 'will be sharply down'

B Day 26/3/91.

ROBERT GENTLE

THE JSE, sitting on an estimated R50m in debt and feeling the bite of reduced trading income, high systems development costs and the price of its new annexe, is set to release sharply lower results when its financial report is published in May

Market sources said the JSE was probably not running a positive cash flow, and that a deficit on operational expenditure might well emerge at year-end

Brokers would then have to make good the difference from their pockets, or the JSE would write it off from its reserves — at present R42m

JSE finance manager Frans Loeve, reacting to market talk about the exchange's finances, said that while times were indeed hard, the JSE was "not in a bad way financially". He said it would be inappropriate for him to comment on the JSE's cash flow until the financial year-end There were, however, no problems with the exchange's bankers (232)

"We have got the assets to back our overdraft," he said, referring to the main JSE building and the annexe.

Loeve said the exchange's debt was "marginally higher" than last year's R42m

Asked what lay behind the increase, Loeve said "Until the committee decides otherwise, we are funding relatively long-term projects with relatively short-term funds" This was mainly a reference to TOM (Traded Options Market) — which cost over R12m — the new Broker Dealer Accounting system and the annexe

He confirmed that as the JSE was a non-profit operation, the committee would decide on any surplus or deficit on operational expenditure

Stanbic shares in renewed demand

232

By Ann Crotty

Star 26\3\91

Speculation about a possible battle between Liberty and Rembrandt over control of Stanbic was fuelled yesterday when almost 500 000 Stanbic shares changed hands at R51 a share in trade valued at R22 million.

If there were a battle, it would be a multi-billion-rand affair involving at least three of the largest institutions in the country

A battle for control at around R50 a share would value Stanbic at a massive R5 billion

The players directly involved would be Liberty Life, which has 32,5 percent of Stanbic, Rembrandt with 10,7 percent of Stanbic and Goldfields with 10,5 percent.

As usual with the big groups in SA, there is much interlinking

The most important cross-holding is Stanbic's 50 percent stake in unlisted Liberty Life Controlling Corporation, which gives Stanbic effective joint control (with Liberty chairman Donald Gordon) of the massive and powerful Liberty group

At this stage, Mr Gordon has the controlling vote in the 50 50 partnership, but it is understood that when Mr Gordon leaves Liberty, the controlling vote passes to Stanbic

It is Stanbic's stake in Liberty that makes a battle for control of Stanbic much more than just another battle for control of a massive banking operation. At stake in this instance is control of Liberty

Although JSE traders seemed quite certain that the buying demand for Stanbic was coming from Rembrandt, analysts were confused about the implications of such a move

It is difficult to see why anyone would make a play for Stanbic in view of Liberty's 32,5 percent stake, which sets it well ahead of other players This position would seem to be protected by the fact that the shares are tightly held and are very expensive

If Rembrandt is buying, it may be attempting to lift is effective stake to 25 percent — at which level it could block any special resolutions (Because of its controlling stake in GFSA, Rembrandt in effect controls just under 20 percent of Stanbic)

Or Rembrandt may have some arrangement with Old Mutual, which would give it access to OM's 20 percent stake From here it would not be so difficult or so expensive to move to 50 percent.

This scenario is complicated by the fact that the new Securities Regulation Panel would require parties acting in concert to inform the JSE of their plans if there was a change in effective control

It is further complicated by the fact that Mr Gordon and Rembrandt's Johan Rupert are believed to be good friends

This friendship has encouraged a number of operational partnerships between the two groups (It may have taken some strain during the ABSA battle)

In addition, because of the voting arrangement between Stanbic and Mr Gordon, an unfriendly attack on Stanbic is likely to see the attacker doing battle against both Mr Gordon and Stanbic's Dr Conrad Strauss — an intimidating consideration for any player

Another possibility is that Old Mutual may be attempting to lift its stake to 25 percent in order to have some kind of bargaining power in the event of Rembrandt and Liberty wanting to effect a major rearrangement of Stanbic's assets

Another, less likely, possibility is that Liberty is increasing its stake This seems hard to justify because under the new Deposit-Taking Institutions Act Liberty could not have more than 49 percent of Stanbic

Whatever is happening, it is certainly more than just a re-rating of Stanbic — to unjustifiable levels

Stanbic sources have said there are no significant new operational moves on the cards

They have also said an announcement will be made "as soon as things develop"

Blueprint on SA by FW's advisers backs the market

B/Day 28/3/91 (232)

Business Day Reporter

SUSTAINED growth, development and long-term stability to meet the aspirations of all individuals are only achievable in a market-oriented system based on private property, says the State President's Economic Advisory Council (EAC).

The EAC's Revised Long-term Economic Strategy released on Friday says it is critical for the future well-being of SA that the economic policy has the visible support of the widest possible spectrum of political, community and business interests, Sapa reports.

The EAC's strategy document says there must be an increase in SA's long-term economic growth potential, a reduction in the inflation rate to the level of SA's trading partners and an improvement in the standard of living of the poorest section of the population.

Political democratisation, liberalisation and effective accommodation of the growing population will ultimately lead to changes in the pattern of the distribution of wealth, income and opportunities, the report says.

This will lead to a marked increase in demand for social welfare services such as education, health and housing. Financial restraints will determine the nature of these services, their scope and their standard.

The report recommends a reduction in the share of government consumption in GDP expenditure and its claim to scarce capital and manpower resources.

This must be achieved by greater public sector efficiency, by rearranging spending priorities, applying normal financial disciplines on capital expenditure and by stipulating and regularly reviewing long-term expenditure guidelines.

Privatisation, where it contributes to a more productive utilisation of production factors, will limit government's responsibility in the economy, it adds.

Privatisation proceeds must not be used to finance current expenditure but to eliminate backlogs in the provision of basic social services.

Exports will be one of the driving forces in the next phase of SA's economic development. Indirect tariff protection is preferred to the current system of industrial protection.

The advantages of this long-term strategy will only be realised over time, the report says. The outcome will be seen in a strengthening of business and investor confidence. This will enhance the economy's capacity to create wealth, income and opportunities. With higher economic growth it will be possible to address the problem of the poor more effectively, the EAC says.

Solid Malbak no help to Gencor

232

B/day 28/3/91

MARC HASENFUSS

MALBAK's solid interim performance, which saw a 6% increase in earnings as well as a reduction in borrowings, would not be enough to stave off the small drop in year-end earnings expected for parent company Gencor, analysts said.

Analysts said Malbak contributed about 8% to Gencor's earnings, and would therefore not offset the predicted profit declines from larger contributors like Sappi, Samancor and Gengold.

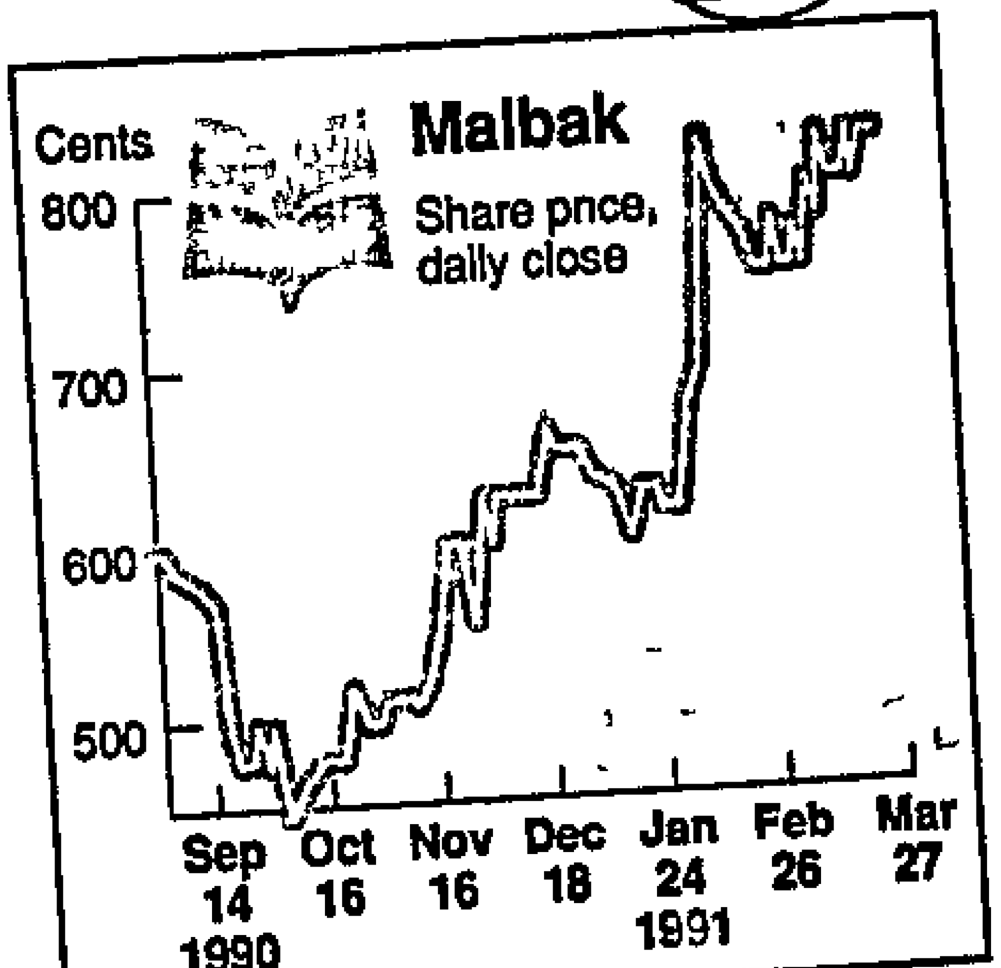
Malbak's earnings lifted 6% to R118m (R111m) on the back of a 5% increase in turnover to R4,2bn (R4bn). The interim dividend was maintained at 12,5c a share, covered 4,5 times.

Malbak executive chairman Grant Thomas said yesterday all Malbak divisions performed well in difficult circumstances, and the results reflected the success of disciplined management.

Thomas stressed the improvement in the six months to end-February 1991 was achieved without the benefit of major acquisitions or other substantial changes.

The interest bill was reduced to R89m (R91m), but a 2,5% increase in the tax rate following the utilisation of assessed losses in Darling & Hodgson (D & H), and additional tax on Ellerines, saw an 18% tax rise to R95m (R80m).

With the number of shares in issue increasing by almost 10-million as a result of debenture conversions, earnings a share showed a slender increase to 57c (56,5c).



Graphic: FIONA KRISCH Source JSE

Malbak's gearing decreased to 49,3% from 61,7% at the previous interim period.

Branded consumer goods, incorporating Tedelex and Ellerines, remained the largest single contributor to Malbak's earnings, adding R35m (R31m).

Other major contributors were paper and packaging division Holdains, which added R29m (R26m) to earnings after a particularly strong performance from Carlton Paper.

☐ To Page 2

Malbak

B/day 28/3/91

☐ From Page 1

Thomas expected Sunvest, acquired during the period under review, to make a significant contribution for the full year.

Engineering and mining suppliers Standard Engineering and Haggie increased their contribution to R25m (R23m) while Kanhym, Malbak's food division, made a lower contribution of R15m (R17m).

The contribution by the construction supplies division D & H was down 20% to R15m (R19m). Cash-rich D & H was knocked by an increased tax rate and reduced demand for pipe as widespread unrest halted township development projects.

Thomas said there was little sign of relief from the lingering recession, which would continue to have an adverse effect on all the group's operations.

He said the recent reduction in the interest rate was welcome, but too small to have a material impact on the economy as a whole.

Thomas expected earnings for the full year to show a modest increase on last year, over and above the company tax benefits announced in the Budget.

Malbak shares held firm at their 825c high yesterday. The shares slumped to 450c in October last year.

Tollgate trounced in restructuring

B/Day 28/3/91 (232)

LESLEY LAMBERT

CAPE TOWN — Substantial losses and a decline in permanent capital reported by Tollgate Holdings (TGH) for the year to December 1990 are indications that the group, which has since returned to profitability, took the punishment of restructuring on the nose.

This was the explanation TGH chairman Julian Askin gave shareholders when asked to comment on the results yesterday.

The difference in reporting periods and the transformation of the group during the year under review make it virtually impossible to compare the results.

Operating income plummeted from R87,4m in the 18 months to December 1989 to R25,6m in the 12 months to December 1990 on a decline in turnover from R1,13bn to R589,5m.

An interest bill, which declined by R10m during the year but remained high at R52,3m and abnormal items of R7,9m related to non-recurring costs of the restructuring, resulted in a pre-tax loss of R34,7m. Pre-tax profits of R9,9m were reported after the previous 18 month period.

Attributable losses amounted to R21,9m after a light tax bill (R166 000) and higher dividend income from associated companies.

Provisions

The poor profit performance, anticipated by Askin when he and a consortium of businessmen took control of the group in June, was attributed largely to losses in Gants' deciduous fruit processing division, certain commuter bus divisions, the car rental division and interest costs incurred in the acquisition and funding of these loss-making divisions.

Full write-downs and provisions had been made for those subsidiaries sold or closed down, Askin said

The performance of the group's profitable divisions had been restrained by the non-performing divisions and the high interest burden This had been rectified by disposals and all operating companies had returned to profitability, he said

An extraordinary item of R57,6m was related to the cost of transforming the group It included R46,1m in net losses from disposals, R3m in restructuring costs and R2,2m in goodwill written off. The full amount was written off against permanent capital, Askin said.

The decline in interest-bearing debt by the end of the financial year had been less than anticipated because it included the R30m cost of buying out minorities

Negotiations for the acquisition of an industrial distribution company in the UK were at an advanced stage

232

ROUGH AND TUMBLE IN FUTURES

FM 29/3/91.

The quick profits — and losses — to be made in the futures markets are brought home by the change in last week's leader board in the Safia Futures Risk Management competition Only four of the previous top 10 traders survived in the line-up for March 22

Mark Perkins of Greenwich Futures shot from fifth to top spot to push John Cutten, of Hayes Cutten, into second place. Perkins, who has increased the value of his portfolio by 5,65% in the three weeks since the competition began, is now in line for the R50 000 prize sponsored by Rand Merchant Bank

Nedbank subsidiary Finansbank moved from third to first position in the company stakes with an average annualised portfolio return on its two best traders of 89,1%, putting it in line for the *FM* Top Trading Desk trophy

Prima Bank lies second while Standard Merchant Bank has slipped back to third place with a return of 42,19% The winner in this section will also qualify for a year's free subscription to the Genisys Information System from MBM.

With JSE prices softer with the All Gold index underperforming and Eskom E168 rates up last week, the underlying portfolio lost ground.

The leaders held and improved their positions, anticipating the bear move and hedging against the fall. Contestants who ignored the underlying portfolio suffered losses last week.

THE NEW LEADING LIGHTS

		Absolute return %	Annualised return %
1	Mark Perkins, Greenwich Futures	5,65	121,3
2	John Cutten, Hayes Cutten	5,40	115,9
3	Friedel Meisenholl, Finansbank	4,97	106,7
4	Vivienne Tanchel, Prima Bank	3,37	72,4
5	Colin Greef, Finansbank	3,33	71,5
6	Luigi Colantoni, Finansbank	2,76	59,3
7	Johnny Solms, Mechiel du Toit	2,73	58,6
8	David Rennie, private	2,65	56,9
9	Andrew Hurwitz, Lowenthal & Co	2,63	56,5
10	Hugh Oosthuizen, Prima Bank	2,45	52,6

AIR BARRIERS UNDER EXAMINATION

FM 29/3/91

Deregulation is going to be an expensive business if government's revised privatisation budget is anything to go by

For starters, government has set aside R2m — the largest item in its new budget — for a probe into how SA Airways should be restructured for deregulation.

As part of the study, Mineral & Energy Affairs and Public Enterprises Minister Dawie de Villiers instructed his department in May to hire a consultant to investigate the most efficient structure for SAA in a competitive air transport market.

Price Waterhouse was chosen and its work is now almost complete. Privatisation unit head Pieter van Huyssteen says "certain recommendations have been made and we are conducting further studies."

He adds that the point of the study is to determine what barriers exist that prevent other airlines from competing with SAA on domestic routes and how they should be removed.

"Most of the barriers have gone," says Comair MD Pieter van Hoven. "The biggest problem is how to attract private enterprise to what is essentially a loss-making enterprise. No one shows a profit (on domestic services)."

Trek Airways MD Jan Blake disagrees. "The marketing approach will determine which airlines survive as profit-makers." This, however, does not mean that SA will have an airline price war such as in the US after deregulation in 1978, he believes. "Local air fares are low compared with other parts of the world," he says (*Business* May 25).

Blake believes that SAA's monopoly on internal major routes is the biggest barrier facing prospective airline operators. "SAA must undertake to make services available to other airlines and allow access to their support facilities." These vital facilities include the central reservations and communications systems, cargo and baggage handling facilities, and training programmes.

Independent airlines are eager to see the results of the SAA probe and whether the regulatory measures De Villiers said might be necessary will in fact be introduced. De Villiers could not be reached for comment on what regulatory measures he had in mind. Price Waterhouse declined to comment.

Van Huyssteen says he does not know when the minister will make findings in the report public; the entire report will not be released because it contains confidential information about SAA. "We normally play these things openly but in this case the recommendations are being considered internally," he says.

The final cost of the probe will, it is hoped, also be played openly.

JSE running scared as probe intensifies

Star, 30/3/91

232

Brokers worried about the impact on their integrity

DEREK TOMMEY

THE Johanesburg Stock Exchange is running scared and angry

Allegations in the past few weeks that certain stock bro kers have been paying institutional investment managers huge sums of money, possibly running into millions of rands, for orders has touched it on the raw

Members of the exchange are scared that the inquiry being conducted by Frank Kahn, Attorney General of the Cape, will reveal more evidence of improprieties by brokers and further damage its image.

And they are angry because it appears that a number of trusted people have resorted to practices which could damage the reputation and the standing of its members with the public

The JSE is built on mutual trust between its members and also between its members and the public Stockbrokers boast that "their word is their bond" And against this background they feel extremely angry about any action that smacks of sharp practice and which could bring the whole organisation into disrepute

So far only institutional managers at the Old Mutual and Momentum Life and two brokers have been implicated But talk on the JSE is that other people and institutions could be involved

But neither Mr Kahn nor Tony Norton, president of the JSE, are saying anything at this stage

The news that something serious was amiss at the JSE broke when the Old Mutual announced that two of its senior portfolio managers, Marco Celotti and David Schapiro, had been suspended pending an investigation into certain dealings

This was followed by an announcement that Mr Kahn had been appointed to conduct a special investigation into the affair

The next stage was the arrest ad subsequent release on R500 000 bail of 32-year-old Greg Blank, a director at Frankel Max Pollak and Vinderine and 42-year-old Kenny Fouche, a broker at Ed Hern and Rudolph, on fraud charges

This was followed by the issuing of warrants for the arrest of Mr Celotti and Mr Schapiro also on charges of fraud But the two men fled overseas before the warrants could be served

Mr Schapiro, who is in his mid-thirties, left behind an almost completed 3 000 sq m "palace" at Hout Bay, south of Cape Town

Mr Blank, a top dealer at one of the three leading broking firms, is estimated to have earned about R1 million a year Brokers say he is probably worth about R8 million

Mr Fouche, who is married with two children, is reported to live very quietly

Mr Celotti is 34 and has a master's degree in science and also an MBA, both from the University of Cape Town He lived in Claremont, a middle-class Cape Town suburb, with his wife, a chemistry lecturer at UCT

A warrant was also issued for the arrest of former Zimbabwean, Peter Rawson, who is now a stockbroker in London Mr Rawson ran an office for Ed Hearn Rudolph in London for three months in 1984 He subsequently worked for a number of other organisations trading in South African shares

This week saw another development when Momentum Life announced that following investigations into alleged irregularities in investment transactions with a particular firm of stock brokers, Dr Christo Auret had resigned with immediate effect

Dr Auret was second in command to Peter du Toit at Momentum's investment department

So far market observers can only guess at the amount of money involved in all these irregularities Only when these matters come to trial will hard figures become available But it does seem that the sums could be substantial

Cabinet looks at deregulation

232

S/Times 31/3/91

PROPOSALS to deregulate the petroleum industry are being studied by the Cabinet, writes CURT VON KEYSERLINGK

A Government source says an announcement on whether the industry is to be deregulated, and if so to what extent, will be made. But he does not expect it for at least another week

Deregulation could bring price competition at both refinery and filling-station level and more freedom for imports and exports of refined and unrefined products

Some observers are surprised that the matter is before the Cabinet now because they believe there will be no deregulation until the United Nations oil embargo on SA is lifted Some of the regulations have been helpful in countering sanctions

232

Bank shares looking good

St Times 31/3/91

By DIRK TIEMANN

ABSA SHARES will be good value for money, says Martin & Co director Richard Jesse

The new Absa shares should attract considerable institutional attention and cost about 700c each.

They should be easily marketable, says Mr Jesse

Late last year UBS Holdings stood at 800c In the takeover bid for Allied the price hovered about 750c, but has since dipped to 720c

UBS Holdings shares will simply change in name to Absa

Growth

Analysts believe the institutions will look to Absa shares to outperform the market in the next two years

Bank shares in general should be attractive to institutions looking for current value

Earnings growth in the banking sector is likely to be strong compared with several big industrial companies. Banks' price earnings ratios have been consistently below the average market PE of 11.

One analyst says "The forecasts one year ahead put most banks on a PE of about 7 and institutional fund managers should be comfortable with this rating"

He says there are certain arguments why bank ratings should not be too demanding

"First, it is a tight margin business, with a return on assets of about 1% Margins can be rapidly squeezed, tending to cause volatile underlying earning series

Davis Borkum Hare banking analyst Graham Baillie is also bullish about Absa shares and believes they will offer good value

"Bank shares are for investment and not trading Trying to merge the services of two groups is not easy and we should see the benefits flowing through in the next two years"

Mr Baillie says the banks are on good margins and are also well positioned in terms of risk exposure They have not "thrown money at the world" and are well placed to add business to the books at low cost.

Risk

He says the downside risk is small

"Institutions have been increasing their weighting in this sector because of the defensive nature of these stocks"

Mr Baillie expects the 0,75% tax on interest income and finance charges to lessen the attractiveness of bank shares slightly

Had the tax been in place for the 1990 financial year, Standard Bank would have paid R52,2-million on R6,9-billion interest income First National would have paid R39,7-million on R5,2-billion and Nedcor R38-million on R5-billion

He says the added cost will add pressure to banks to meet capital requirements under the Deposit-taking Institutions Act.

"Unless the cost is passed on increased retentions and lower dividends to raise additional capital are likely"

Earnings forecasts for 1991 for First National Bank show a 20% to 25% improvement. Nedcor is looking for growth in the high teens and Standard Bank about 20% This factor, correlated with relatively low PE's should make bank stocks a good buy

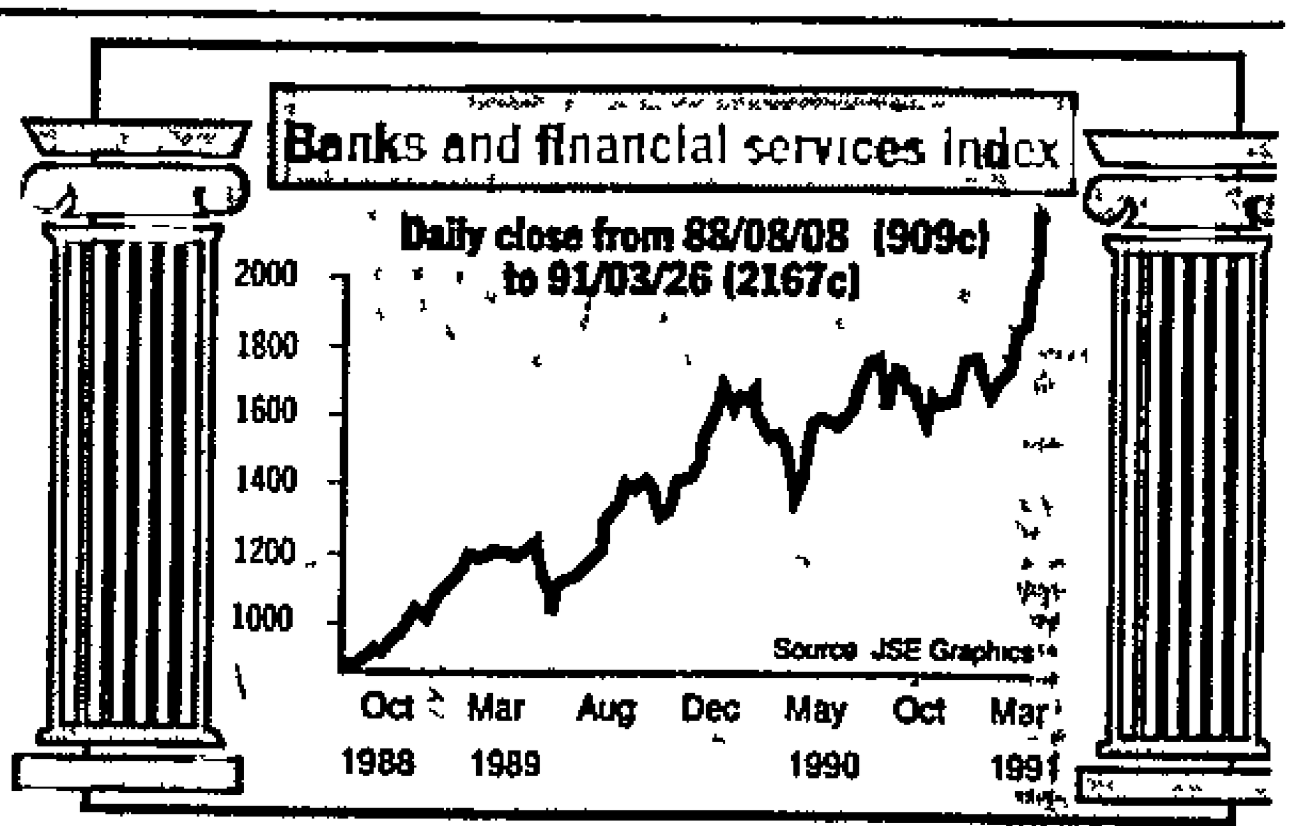
Standard shares are believed to be overvalued, driven by speculation of a rift between Rembrandt and Liberty They hit a high of R5 last week, but have dipped t R46 This is higher than th R36 about a month ago

Standard is on a histori PE of 11,3 and an earning yield of 8,7% The share wa boosted by strong results i February Good marke spread and management ar other factors that appeal to investors

Deliver

First National's share price, which stood at R30 before its offer for Allied, is R37 and on a PE of 8 Earnings yield is 12,25% Nedcor is on a PE of 8,6 and yield of 11,6%

Industrials like SA Breweries on a 19 PE deliver a 5,1% earnings yield Nampak is on 12,5 PE, but has an earnings yield of 7,9% Wooltru is on a PE of 19 and a yield of 5%



WB Holds picks a bumper fruit crop

St Times 31/3/91

232

FOOD company WB Holdings took the biscuit this week with a 25% rise in earnings.

The former Cape fishing company saw the writing on the wall on fishing quotas long before Namibian independence

It has sold all its interests in Namibia, last to go being the investment in Namibian Fishing Industries Now under Norwegian ownership, Namfish will pay no dividend for several years

WB Holdings is now a fruit and timber grower Bumper export prices for fruit in the year to December helped the group to earn 45c a share compared with its forecast of 35c at the interim

Hail damage has lessened the expected 1991 crop from the original orchards But the acquisition of neighbouring farms will ensure a larger crop The relaxation of sanctions could help the company even more.

Chairman Robert Silverman expects good results The share price is 275c, close to the peak

Eroded

Industrial holding company Malbak raised fully diluted earnings by 5% to 55,6c a share from the same percentage rise in sales to R4,2-billion

Higher tax eroded some of the increased earnings, but the subsidiaries generally did well The directors hope there will be a modest increase in earnings for the year

This is an improved outlook — at a presentation last year, chairman Grant Thomas foresaw a slight downturn

In the 12 months to December Crulife adopted a more conservative method of accounting premium income Premiums have been deannualised and are now accounted when they become payable.

Crulife is now part of the Anglovaal group and its yearend has been changed to June

By JULIE WALKER

Momentum disclosed a taxed surplus of R8-million — 14% higher than in the six months to December 1989 Earnings a share of 11,4c were 12% up, as was the 6,75c dividend

The directors say rationalisation between Momentum and Lifegro has been completed

MacPhail raised turnover by 38% to R211-million in 1990, and earnings a share were 22% up at 50,5c The W&A subsidiary reports pressure on margins on general economic factors and a cut in metallurgical-sector demand But the directors expect a further increase in earnings in 1991

Carats

Engen pushed turnover, earnings and dividends more than a fifth higher in the six months to February Cost inflation rose slightly faster than selling prices in spite of the benefit of including the Trek product system in Mobil's network.

The Persian Gulf crisis generated inventory or windfall profits, of which R120-million before tax has been excluded because they could go into reverse

Management is confident that the rate of profit growth will be maintained in the second half-year

A handful of companies reporting this week achieved higher earnings Only Abercom incurred an absolute loss — R4-million, but much lower than the previous interim shortfall

The recession made its mark across the economy Malbak food and meat company Kanhym's earnings fell by 13% to 31,9c a share in the six months to February

Office furniture group Math Ash's earnings fell almost 70% in the six months to December to 8,2c a share on an easing in turnover to R63-million

Chairman Winky Ringo expects the group to "continue to perform satisfactorily in the period ahead" It has opened Officemart to compete in a market sector previously not touched

WINKY RINGO· New market

Clothing manufacturer Traclo's interim profits shed 74% to a fraction of a cent a share

Tiger Wheels skidded Turnover was up 21% to R30,6-million in the six months to December, but profit fell 83% to R500 000

TPN's interim earnings were 42% below last time at 2,5c a share

Putco ran into trouble The bus operator lost R13,6-million in the six months to December 1990 on lower revenue Three divisions were closed and the closure of two more postponed pending negotiations with the authorities

Putco sold a surplus property at an extraordinary profit of R4,2-million Putprop — whose major tenant is Putco — raised earnings by 54% to 2c a share The directors expect an increase in rental income during the second-half year and are promoting the mini-storage facility recently completed at Wembley, Johannesburg

Marine diamond explorer Benguela Concessions produced 14 594 carats in the six months to December They fetched a net R3,8-million

Continuing exploration costs led to a bottom-line loss of 0,9c a share

Benguela bought Dawn Diamonds for shares Dawn holds title to a mining lease over neighbouring sea concessions

Kudu Granite incurred a R758 000 loss at the December interim because of depressed prices for Rustenburg material and poor production performance from the Belfast quarries

But major customers have accepted a large price increase for Rustenburg granite from March and foreign buyers are looking for more material

Kudu's directors expect to restore profitability in the next six months

Dogs

Tollgate — formerly Duros — lost almost R35-million in the year to December New management says it inherited a group with high borrowings, lack of direction and accelerating losses in some divisions

The group's profitable divisions' earnings were eclipsed by the dogs, which have been sold Tollgate is negotiating an acquisition in the United Kingdom

Of the 14 companies reporting preliminary results this week, half made more than in the previous period, but only two grew at a faster rate than inflation

Two incurred losses, two earned less than before and the rest were not comparable

But five interim results of the 29 reported were in the red A dozen raised earnings, and a trio outpaced inflation

ROBERT SILVERMAN· From fishing to farm riches

A hard road to the broker's R295 000 a year pay packet

S|Times 31/3/91 (232)

THE AVERAGE 47-year-old stockbroker in his own employ makes R295 000 a year, according to the Human Sciences Research Council.

Needless to say, this puts them among the top professional earners

But most other professionals are not the subject of unlimited liability — in other words, only stockbrokers lay everything on the line Risk is linked to reward

One stockbroker wonders whether they earn enough considering the recent spate of fraud cases and the possibility of more to come

"It is a career of peaks and valleys," he says "In bad years stockbrokers not only cease drawing a salary from the firm but put money in Chartered accountants' business, for instance, is perennial"

A stockbroker's package does not include executive perks such as cars, housing loans, pension fund and share option schemes

The pros could outweigh the cons though

Membership of the JSE is gained through passing examinations and the purchase of rights The rights are in limited supply

Usually, an existing partnership will buy the rights for a new director and hold them on his or her behalf until he or she passes the examinations

But passing the examinations is not a passport to a directorship — there are several examples where a partnership has not been offered to a successful candidate

In theory, a member of the JSE can start his own firm, but the capital outlay is near prohibitive

There are currently 50 member firms Their income somes from brokerage generated as agents between trading parties, from portfolio management fees, corporate finance, and from trading on their own account

Jobbing is played down by stockbrokers because it can present conflicts of interest — is the stockbroker acting in the best interests of his client, or himself?

Latest official figures show that own-account trading represents 15% of all trade There is the firm's own book, and each partner has a personal account Members of the firm do not pay brokerage

JSE rules do not allow stockbrokers' employees the opportunity to job with 14 days' grace on payment, in their own name, but this exclusion can be avoided by establishing close corporations or by nominally using a relative's account

Brokerage charges are not negotiable Charges are set by the Registrar of Financial Institutions on recommendations from the JSE committee The committee had to make a good case to permit the introduction of the R30 minimum basic charge

That the bastion of free enterprise goes for non-negotiable commissions is an enigma to many In the same way that giant pharmaceutical companies fight cheaper generic substitution on the grounds of their high research costs, so do the bigger stockbrokers object to negotiated commissions

It could be expected that smaller stockbroking firms with low overheads — because they offer no research to clients — would be the discounters

The theory is that share traders would consult researching brokers for recommendations, yet buy and sell through the discounters

It is also argued that commissions are fixed in many other agency transactions, such as those by estate agents and insurance brokers.

Equity and gilt research is a relatively recent business-generating tactic Bigger firms pay six-figure salaries to the top people to make recommendations about shares to clients

With the advent of research and client service has come a spurt of spending on computerisation by stockbrokers The JSE's own computer has been dogged by problems and is relatively costly to users

Smart brokers have installed their own systems to keep costs down

Partnership terms vary from firm to firm Some give equity participation and voting rights to new members in exchange for service contracts or capital injection

Working partners have no voting rights and next to no equity, relying on the whim of the controlling partners to share the spoils

One form of association is the 50 percenter — a partner keeps for himself half of the brokerage he generates Even then, some now contribute to the costs out of their cut.

Poor partners are few and far between, but stockbrokers' employees, especially back-staff, earn ordinary salaries They have a chance of three bonuses a year — depending on how well the firm does — and a share in new scrip issues.

There is little job security — thin trading volumes mean less administrative work and a lower income. Jobs are lost in bear markets, and there is no pension fund

Other than having to be over 21 and a South African citizen, theoretically anyone can write the examinations and set up in competition with members of the JSE.

"The fat-cat image is becoming a bore," says one stockbroker. "The guys with the Maseratis have been here a long time, but the younger guys have yet to live through another year like 1987"

Second-tier rating for small fish

S|Times 31/3/91

SMALL investors are miffed when they read that the JSE overall actuaries index has reached new highs and their own few shares are barely moving.

Reiner Buss of the JSE's research department tackled the task of developing a second-tier index which would monitor the performance of medium-sized companies

Mr Buss gave a presentation to the Investment Analysts Society to invite comments on his proposals

Mr Buss showed that the top 20 companies on the JSE constitute 50% of total market capitalisation

The performance of the top 20 is virtually a carbon copy of the JSE overall index

(232)

A second-tier index might do two things monitor medium-sized companies, and provide investor understanding and participation in the wider market

Companies whose market capitalisations fell between 20% and 7% of the market — between R1,4-billion and R200-million — were considered by Mr Buss as being representative in the second-tier market

Excluded were all non-gold-mining shares, mining houses and industrial holding companies Mr Buss lumped together all the Wits basin gold-mining areas into one and the non-Wits mines into another

The banking sector was split among companies whose main income source was from deposit taking and those which do not. Motor and transport were lumped together, as were food and fishing

Otherwise, two shares each were chosen from the sectors as they stand

Surprisingly, Mr Buss' personal selection of shares for the second-tier index actually outperformed the top 20 index by 12%

Discussion was invited from the audience, all suggestions being considered Tradeability of shares such as Foschini was one problem, the validity of taking two shares from the Venture Capital market another

Some were worried that certain second-tier index shares already formed part of the overall index

As Mr Buss says, it is open for refinement

He welcomes constructive comments from investors, and can be reached at the JSE

OWNERSHIP & CONTROL — 1991

APRIL — JUNE

Sage likely to benefit most from Absa deal

By Ann Crotty Star 1/4/91

That Sage seems set to benefit proportionately more than any other participant from the creation of Absa is indicated by figures released for the 12 months to December.

They show that a knock on the income statement has been more than countered by the impact on the balance sheet of the ABSA merger.

In addition, the Absa merger helps the Sage Holdings balance sheet cope with the effect of the R55 million write-off of foreign borrowings relating to US financial services interests (This amount was charged against reserves in the end-December balance sheet)

The total effect has led a few analysts to wonder what the major players in the Absa deal believe Sage is bringing in.

As a result of the creation of Absa, Sage Holdings' financial year-end has been changed from end-December to end-March.

The figures just released relate to the 12 months to December

Pre-tax profit was up 19,6 percent to R48,9 million (R40,9 million) The tax rate dropped from 36 percent to 31 percent, the effect of which was to lift the taxed profit increase to 29,3 percent — up to R33,7 milion from R26 million

There was a 26,6 percent drop in income from associates — down to R9,2 million from R12,5 million. This reduced the rise in taxed profit to 11 percent — up to R42,9 million (R38,6 million)

Doubling in profit attributable to outside shareholders (up from R7,1 million to R14,3 million) resulted in attributable earnings dropping six percent to R24,8 million (R26,5 million) This was equivalent to earnings — on a fully diluted basis — dropping from 115,23c to 104.07c a share.

An interim dividend of 22c (20c) a share has been declared

Referring to the approval of the Absa merger, the directors say detailed comments of the effects will be contained in the report for the 15 months to end-March.

The review figures contain a pro forma balance sheet, reflecting the position of the balance sheet at January 1.

This balance sheet shows total shareholders' funds up 26 percent to R445,5 million (R351,9 million) from the pre-merger position at end-December 1990.

The directors say "Taking into account the values established in the recent sale of part of the group's interest in subsidiaries and applying realistic values to other investments, the net asset value per share exceeds 1 000c" — down from 1 200c.

Deregulation proposal set to ignite coal exports

232

B10cy 2/4/91. (BDAY) (TY)

LESLEY LAMBERT

CAPE TOWN — Coal exports, SA's second biggest foreign exchange earner after gold, are likely to be boosted by deregulatory measures proposed by the Coal Advisory Committee

Cabinet has accepted the committee's finding that it is no longer necessary for government to control coal exports, and has implemented recommendations to scrap regulations which enforce control with immediate effect

The repeal of various laws and conditions affecting coal exports — including parts of the Import and Export Control Act and Coal Resources Act — will remove the export allocation system and should boost exports by making it easier for new exporters to enter world markets

Mineral and Energy Affairs Deputy Minister Piet Welgemoed said last week the deregulatory measures would "remove all remaining impediments to the operation of free market forces in the conduct of coal exports, including possible participation by new coal exporters"

Coal and coke were declared export control commodities in 1973 as a result of the international oil crisis Since then, the coal export industry has grown into the largest in the world

The Coal Advisory Committee found that government had played a significant part in building up the industry but its role in ensuring the optimum use of coal resources, protection of the domestic market requirements, regional development, orderly marketing and environmental protection had been overtaken by market forces

It recommended government monitor and influence the industry through other statutory measures in the event of coal shortages in the domestic market.

But it found the long-term requirements of the industry's main domestic customers, such as Eskom and Sasol, were unlikely to be affected by an increase in exports Coal was exported from the higher quality reserves and Eskom and Sasol used low grade coal

In another development, a Bill proposing the repeal of coal levies paid by the industry and government to the Central Energy Fund was tabled in Parliament.

Coal mines pay levies of up to 3c a metric ton on coal sold or used for industrial purposes and government contributes an equal amount to the fund for research purposes

● See Page 7

CAPE TIMES 2/4/91 232

Business Report

Absa for JSE listing

Financial Editor

THE saga of the UBS takeover of the Allied Group has now finally been consummated and soon both Allied and Volkskas will no longer be quoted on the JSE

Their prominent quotations will be replaced by that of the Amalgamated Banks (Absa), their adopted parent controlling nearly R50bn in assets, says Issy Goldberg, chairman of the Shareholders Association of SA

Goldberg says the drama of the confrontation disappeared into the bowels of formality, following an agreement reached between UBS and FNB

Competition is the essence of the matter, says Goldberg which rebounded to the benefit of Allied shareholders — from UBS's initial price offer — by about 25%

The latest state of the game requires Allied shareholders to surrender 260 Allied shares for an entitlement of 100 ABSA shares

Further, Allied shareholders can elect to receive cash in respect of half their ABSA shares — an effective price of 275c an Allied share The original offer was 240c a share

Electing half the ABSA shares as cash must be made by no later than Tuesday 23 April, 1991 A shareholder who has not done so by that date will receive only ABSA shares and no cash

Goldberg therefore suggests that Allied shareholders should make sure that these documents are received timeously, failing which they should immediately contact the share transfer secretaries

FNB recieved a consolation prize from UBS of about R16m to cover their "out of pocket expenses"

UBS itself won the first prize (at considerably extra expense) and Allied shareholders can be thankful to both the UBS and FNB and the Securities Regulation Panel

It is interesting to note from the consolidated pro forma balance sheet of Absa — UBS paid a goodwill of approximately R216m for Allied which represents the excess of the total purchase consideration paid for the Allied assets over their net tangible net asset value

At the meetings of UBS and Allied shareholders held recently an ordinary resolution (a bare majority required) ratified the disposal by Allied to UBS of the total assets held by Allied

Goldberg makes the submission that the absurdity of section 228 of the Companies Act is highlighted when a simple majority of those present in person or by proxy at a general meeting can ratify such a vast disposal in contra distinction to a special resolution being required (75% of those present or by voting by proxy) for a simple reduction of capital

Goldberg says that he will endeavour to pursue the possibility of an amendment to section 228 so that effectively a special resolution would be mandatory for disposal of more than 50% of the assets or the undertakings of a company

Cheque book clue opens new line in Kahn investigation

(232) (235)

Star 3/4/91.

By Ann Crotty

Stockbroking firm Ed Hern Rudolph retrenched 23 employees at the end of last week as the adverse publicity surrounding the Kahn investigation into irregular transactions took its toll on the firm's broking activities

The news comes amid reports that the investigation by Advocate Frank Kahn was helped considerably by the discovery of a cheque book used by Guernsey-based brokerage firm AW Bradshaw

AW Bradshaw is run by former Zimbabwean broker Peter Rawson Four weeks ago a warrant was issued for his arrest The warrant was issued in respect of alleged fraud at the same time that similar warrants were issued for two Old Mutual employees Marco Celotti and David Schapiro

None of these parties has been arrested and all are currently out of the country

Two stockbrokers — Greg Blank, a director of Frankel Max Pollak, and Kenny Fouche, a dealer at Ed Hern Rudolph — were arrested and subsequently released on R500 000 bail each

According to market sources, the cheque book was seized at the offices of AW Bradshaw at the beginning of March, shortly after the investigation was handed over to Mr Kahn, the Cape attorney-general

Reports of the existence of the cheque book surfaced in the market last Thursday, just days after the dismissal of top Momentum employee Dr Christo Auret,

It is now thought that the cheque book was used by AW Bradshaw to pay parties involved in the alleged irregular transactions being investigated by Mr Kahn

It was not possible to substantiate this line of speculation because Mr Kahn was yesterday on his way back to Johannesburg from Cape Town where he spent most of last week

Because the investigation is now under Mr Kahn's control and is sub judice no other party was prepared to make an on-the-record statement in connection with the cheque book's existence

(JSE president Tony Norton was out of town on holiday, as were many of the JSE committee members)

Ed Hern did confirm the retrenchment of 23 of his staff but emphatically denied rumours that his firm or any member of it had signing powers over the AW Bradshaw cheque account

If the cheque book exists, and much more important, if it is in the hands of the Kahn investigation team, it presumably provides the sort of crucial hard evidence needed to take the firm action that has been the hallmark of the Kahn investigation

At the initial stages of the investigation, it was felt the complexity of the deals under scrutiny (many of which allegedly included an overseas leg) and the circumstantial nature of the evidence would militate against successful prosecution of the case

As Old Mutual's chief operating office Gerhard van Niekerk said at the time "The transactions that came to light individually appeared completely normal, but collectively showed a suspicious trend"

Assuming that the stub of the cheque book carries names and amounts paid to various parties involved in the irregular transactions, then Mr Kahn will have very strong supporting evidence for his case

It had previously been thought that Mr Kahn s investigation had been helped by a supply of evidence from a number of the implicated parties

However, if such a cheque book is in his hands he would have less need for this sort of help

This means that the chances of any party implicated in the investigation receiving a favourable hearing in exchange for information are considerably reduced

Referring to last week's retrenchments, which were effected across the board, Mr Hern said that when many other broking firms were retrenching people towards the end of last year, his firm was holding its numbers steady

He acknowledged that the current investigation had seen trading volumes drop away recently

It is understood that volumes at Frankel Max Pollak have also eased

Ahead of the investigation, Frankel Max Pollak and Ed Hern were reported to have accounted for as much as 25 percent of the daily trade on the JSE

Safegro trust sheds holding in Barlows

232

Star 3/4/91.

By Magnus Heystek

Fund managers at Safegro Unit Trust seem to have taken the view that Barlows has lost its blue-chip status and have disposed of their entire shareholding in the company

Although the shareholding was not large in relation to the entire portfolio, it could possibly reflect shareholder concern that Barlows' earnings could be dragged down by its gold and stainless steel interests

This emerges from the year-end report of Safegro released yesterday

However, the fund did increase its stake in Safmarine and Rennies (Safren), controlled by Barlows, which indicates that the fund managers possibly prefer a more focused investment down the line

"We preferred the underlying interests, rather than the holding company," Kevin Cockfroft, managing director of Safegro, said last night

"We sold our Barlows into strength at around the R50 mark when the market was rallying The subsequent decline in the Barlows share price seems to have vindicated our decision," he said

Safegro, one of the newest unit trust funds on the local scene, sharply reduced its liquidity levels in the March quarter from 32 percent at end-December to 19 percent

The buying programme centred on topping up most of the fund's existing holdings

The Safegro report covers its first nine-month period and reveals that while the JSE overall index declined by 6,5 percent in that time, Safegro yielded a total return of 7,5 percent

This, however, includes a second income distribution of 3,74c per unit for the six months to March Payment will be made at the end of April

Senbank to acquire stake in Adcorp through rights issue

B/Day 4/4/91 232

MARC HASENFUSS

SENBANK is to acquire a 15,25% stake in professional services company Adcorp Holdings through a rights issue of 1,4-million convertible debentures which it is underwriting, Adcorp says.

In its year-end profit announcement yesterday Adcorp said Senbank would achieve its stake through a rights issue of the debentures of 90c each, on the basis of 18 debentures for every 100 Adcorp shares held.

Major shareholders in Adcorp had undertaken not to follow their rights.

In anticipation of formalising the association through the rights issue, Senbank senior GM Estienne du Toit had been appointed to the Adcorp board.

Adcorp chairman John Barry said Senbank would materially assist Adcorp in achieving its growth and development objectives.

Senbank CE Hennie van der Merwe said the bank had been close to several Adcorp companies for some time, particularly TWS Communications.

Adcorp reported a slender 7% increase in earnings to R1,4m (R1,3m) as tighter margins eroded a 40% boost in turnover to R45m (R32m) for the year to end-December 1990.

Earnings a share fell 10% to 18c (20c). The number of shares in issue increased from 6 520 to 7 700.

The dividend payout was reduced to 7c (9c), covered 2,6 (2,2) times.

Barry said "Our strategy of diversifying within the professional services sector, which commenced in mid-1989 with the acquisition of TWS Communications and JSA Design International, was fully justified when these companies exceeded their joint profit warranty."

B/Day 4/4/91

Toco acquires 100% of Alzac

MARC HASENFUSS

INDUSTRIAL products manufacturer and supplier Toco Holdings has acquired a 100% holding in Alzac Holdings for R3,9m, the companies said in a statement yesterday

232

The settlement will be made half in cash and half in shares, through the issue of 1,7-million new shares in Toco at 115c each

Toco shares, at 115c, were offered at their last trading price of 120c yesterday, with no buyers in sight The share bottomed at 85c in July last year

Toco initially had a 24% holding in Alzac in April 1989, which was increased to 40% in September that year The acquisition of the remaining 60% values Alzac at R6,5m

Toco MD Adrian Goodman said Alzac sourced from Toco, which was the sole manufacturer of vitreous enameled steel composite panels in the southern hemisphere

It also undertook further processing and distributed the value-added products

Old Mutual trusts improve distributions

(232)

Finance Staff Star 4/4/91

The Old Mutual Investors' Fund has declared an income distribution of 60,95c a unit to bring the total for the past 12 months to 120,25c. This is 13,7 percent more than in the previous financial year

The Industrial Fund, which was launched last year, has announced a distribution of 7,8c a unit, which is 43,9 percent higher than the maiden distribution in October last year.

The Income Fund's distribution for the past 12 months totalled 16,06c, which includes the March-quarter's distribution of 4,02c a unit

The sound performance of the Old Mutual Investors' Fund is illustrated by the return on a five-year investment of R10 000 made on April 1 1986. If the distributions were reinvested the investment would be worth R28 383 as at March 31 1991. During this period the distributions would have amounted to R4 504

The overall return during this period (capital growth plus distribution) is 23,2 percent. This is particularly impressive as it includes the stock market crash of 1987.

The Investor's Fund is by far the largest unit trust fund in the country and had assets of R2,3 billion at end-March

The Income Fund, on the other hand, is geared towards capital preservation while generating some income through quarterly distributions

An investor who put a lump sum of R10 000 in this fund on April 1 1986 would have earned an income of R1 547,80 over the past 12 months This represents a total return of 15,17 percent

Tougher steps needed to police JSE, says ANC

B/Day 5/4/91 (232)

ROBERT GENTLE

A TOUGH new regulatory environment for the JSE involving an independent monitoring authority with strict powers of enforcement is necessary to stamp out alleged crooked dealing and corruption, says the ANC

A statement by the ANC's Department of Economic Policy, issued yesterday in response to questions about the investigation into trading irregularities at the JSE, spoke of corruption "at the highest levels"

"There may be a need for a special monitoring authority appointed specifically to oversee operations of the stock exchange Strict laws would also be necessary to curb any insider dealings, undue concentration of ownership and excessive favours"

The Securities and Exchange Commission (SEC), which polices financial markets in the US, was mentioned as an example of such a special monitoring authority

The statement also spoke of the need for more rigorous and independent auditing of brokers, proper accounting and reporting mechanisms to ensure that all transactions entered into were clean and legal

"Penalties should, by definition, be heavy for any infringements of the laws governing the stock exchange."

The statement laid out the ANC's view of how a stock exchange should function in a post-apartheid SA

It should be an institution aimed at directing investment into the most profitable channels yielding the highest long-term returns for investors — but these should include a large measure of social responsibility.

"Sadly, we have observed certain developments in the past few months which indicate a serious problem in how the stock exchange functions in this country," the statement said.

The gains of the JSE had been directed outside the traditional role of a stock exchange.

Institutional buying pushes industrial index to new high

(232) Star 5/4/91.

By Magnus Heystek
Finance Editor

The industrial index continued its relentless upward march yesterday, rising to a new high of 3419 as institutional investors scoured the market for good-quality scrip that was in short supply.

However, analysts are worried that the market has run too far ahead of itself and that a correction is overdue.

Correction

Since bottoming out at 2640 on October 1, the industrial market has risen by almost 30 percent, with only one fairly major correction in January, when the Gulf war broke out.

This pushed the index down from 3018 on December 30 to a low of 2829 on January 16, the day after the war started.

At current levels, the average price:earnings ratio (P/E) of industrials shares is 11,4 which, although lower than average P/E of 15,5 immediately prior to the stock market crash in 1987, is higher than the long-term average of 10.

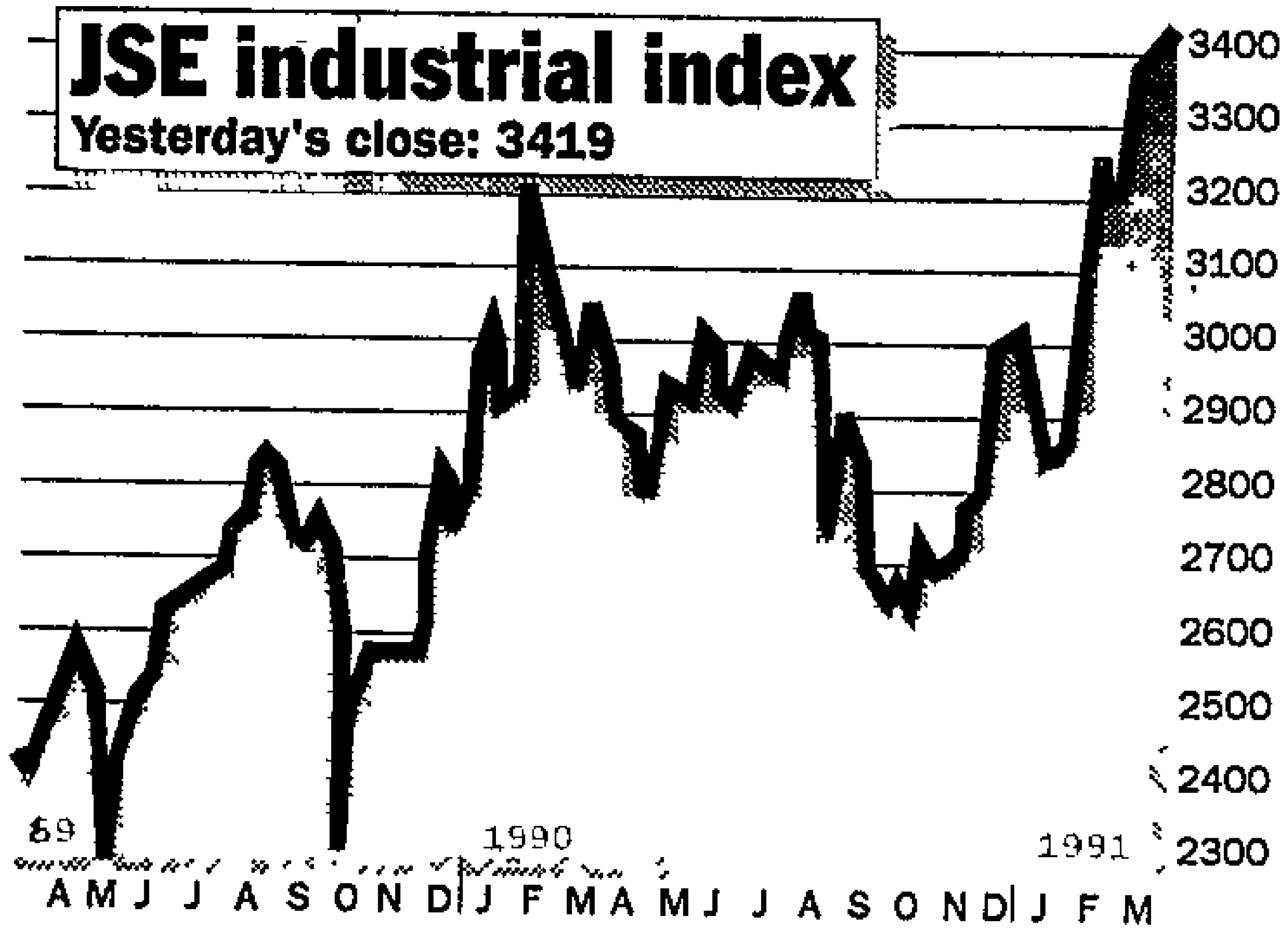
This, say analysts, suggests that the market is entering an expensive area and calls for caution.

However, other analysts suggest that South African equities are being rerated to bring them closer into line with international standards.

The sharp rise in industrial prices since October has been accompanied increasingly by reduced earnings, with no improvement in sight.

One industrial analyst says the outlook for earnings of industrial companies is being badly affected by high interest rates, increased overseas competition in certain industries and depressed demand.

The manufacturing sector is hamstrung by the low level of inventories being maintained by wholesalers and retailers



Notable

This has been a notable feature of the economy for several months now, with wholesalers adopting a just-in-time attitude.

While this increases operational efficiency at the wholesale level, it has led to sharply lower levels of manufacturing capacity utilisation.

The somewhat surprising strength of Wall Street since the American victory in the Gulf has also tended to support the local market to a certain extent.

But institutional buying, particularly by mutual funds in the first quarter of this year, has boosted the demand for blue-chip shares.

Both the mutual funds that have reported for the March quarter so far have recorded sharply lower liquidity levels

Aggressive

This indicates that the fund managers have been heavy buyers of industrial stocks in particular, as the weakness in the gold share market has tended to frighten them away

According to stockbrokers, the other mutual funds have also been aggressive buyers of inustrial stock, not wanting to stay behind in the face of a major run-up in prices

Although most analysts do not expect the current bull market to abort, they warn, however, that a correction in the short term has become inevitable.

FM 5/4/91 (232)

SAGE HOLDINGS (232)

GRASPING THE NETTLE

FM 5/4/91

With the bad news now confirmed, and the potential benefits in the creation of Amalgamated Banks of SA (Absa) becoming apparent, Sage Holdings' share price has begun to recover It was trading this week at 740c compared with November's 625c low and the

FM 5/4/91 (232) FOX

12-month high of 850c

Main elements of the interim report for the 12 months to end-December include a 10,7% drop in EPS and a R55m charge against reserves as a provision against the exposure to offshore interests which have been sold Pro forma accounts show the boost to shareholders' funds that results from the Absa deal

The foreign financial services interests have been disposed of for about US$2m, and the group has an option to re-acquire joint control of these interests within seven years, for about $600 000 The charge against reserves was to cover both guarantees given in respect of foreign borrowings, resulting from the US financial services interests, and the total carrying value of these interests

The charge relating to guarantees of $15,8m was calculated at the financial rand rate A balance sheet for December 31, and a pro forma version for January 1 showing the position of Sage Holdings after the Absa merger, include effects of the R55m charge

With the value of investments held by the insurance subsidiary rising by R180m — attributed by executive director Bernard Nackan to growth during the year by Sage Life — and fixed and other non-current assets increasing by about R20m, total value of shareholders' funds end up higher by some R34m on the end-December balance sheet When the Absa deal, whose terms were favourable for Sage, is included, the pro forma accounts show total shareholders' funds of R446m compared with the year-ago R318m

The group estimates net worth at more than R10 a share (including convertible prefs) based on the values established in the sale of part of the interests in subsidiaries, and applying "realistic" values to other investments Even so, some 201c a share has been lost by the charge against reserves Also, the last accounts included goodwill of R65,8m, when this is excluded, NAV drops by about 24c Nackan says a considerable part of the goodwill relates to Sage Life, of which 49% has been sold This reduces the deduction for intangibles to about 12c a

Continued →

FOX FM 5/4/91 (232)

share

Based on the pro forma shareholders' funds of R438,6m (excluding R7m redeemable prefs), Sage Holdings appears to have a debt equity ratio of around 30% While that does not indicate a strained balance sheet, in cash-flow terms the group would certainly benefit from a reduction in debt held by the top company That seems to be borne out by the announcement, which states that, despite the strengthening of the holding company's financial structure during the year, its results remain affected by high interest rates

However, fuller disclosure of the offshore exposure, and adoption of a conservative approach to dealing with the problem, enables a more favourable rating of the share Based on fully diluted EPS of 104,1c, the share now stands on a p e of 7,1

Andrew McNulty

FM 5/4/91 (232)

MALBAK FM 5/4/91

CONSUMER BOOST

232

Not long ago Amic, Barlow Rand and Anglovaal Industries (AVI) were among the best performers — and also enjoyed premium share ratings — of the large, diversified industrial groups

Of these three, only AVI, whose profit growth has remained relatively firm, still retains its rating intact But Malbak, whose share price had weakened during much of last year, enjoyed a favourable rerating since last October ahead of what turned out to be steady results for the six months to end-February, with EPS up by 6%

The swing in relative ratings for the leading conglomerates is indicated in the dividend yields an historical 1,5% for AVI, 3,5% for Malbak, 4% for Amic and 4,4% for Barlow Rand Without detracting from the role of management, the more stable results from Malbak and AVI at least partly reflect the character of the present recession

Neither of these groups has much direct exposure to commodity markets or to exports in general, both depend essentially on local demand Malbak, in particular, gains a large portion of its trading profit from businesses exposed to consumer spending Of the group's total operating income of R357m, the significant increases in contributions came from the branded consumer goods, packaging and paper, and development divisions These divisions, as well as a fourth, construction supplies, together contributed about 80% of total trading profit

EDGING UP

Six months to	Feb 28 '90	Aug 31 '90	Feb 28 '91
Sales (Rbn)	4,0	4,38	4,19
Operating inc (Rm)	335	389	357
Attributable (Rm)	111	122	118
Earnings (c)	56,6	62,1	57,0
Dividends (c)	12,5	18,0	12,5

Among Malbak's listed companies, the strongest performers were suppliers of consumer durables, particularly 96%-held Tedelex and Ellerine. Packaging and paper increased its contribution to group earnings by 9%, with help from another outstanding result from Carlton Paper

Abercom, the vehicle for expansion abroad, remains a loss-maker, though its attributable loss fell from R8m to R3,8m

Unlisted companies weigh in with about 20% of Malbak's income, and on the whole these operations roughly maintained or improved their earnings Chairman Grant Thomas sees no cause for concern about any of these operations Malbak Motors — part of the branded consumer products division — was hit by shortage of stock from Mercedes, but some of the unlisteds saw good growth

In Thomas's view, the most pleasing aspect of Malbak's interim figures was the maintained operating margin The debt. equity ratio fell, without help from sales of problematic companies, and the interest bill was down by R2m Benefits of the reduced finance charge were broadly offset by a slightly higher effective tax rate, and the 5%

FM 5/4/91.

Malbak's Thomas . pleased with the margin (232)

advance in turnover was thus maintained at the bottom line

Borrowings dropped from just over a R1bn to R951m, a reduction which Thomas attributes mainly to shrinking working capital, with average debtor days dropping to 52 and average stock days to 66 Gearing declined from 62% to 49%, and Thomas expects it will be about 40%-45% by the year-end That, with the cut in rates already announced (the group's debt is mainly short-term), would imply a further fall in the interest charge in the second half

But Malbak's second-half trading result will depend on how well markets — particularly spending on consumer products — hold up A recession in which suppliers of consumer durables and semi-durables keep growing strongly in real terms remains improbable

Management is forecasting a modest earnings improvement in the second six months, and the group is almost certainly looking at a maintained dividend for the year Underlining the market's expectations of at least stable results, the current 875c share price is about a third above the February 28 NAV — at the end of August, the price was only 600c compared with NAV of 671c

Andrew McNulty

FSI (232) FMS|4|91

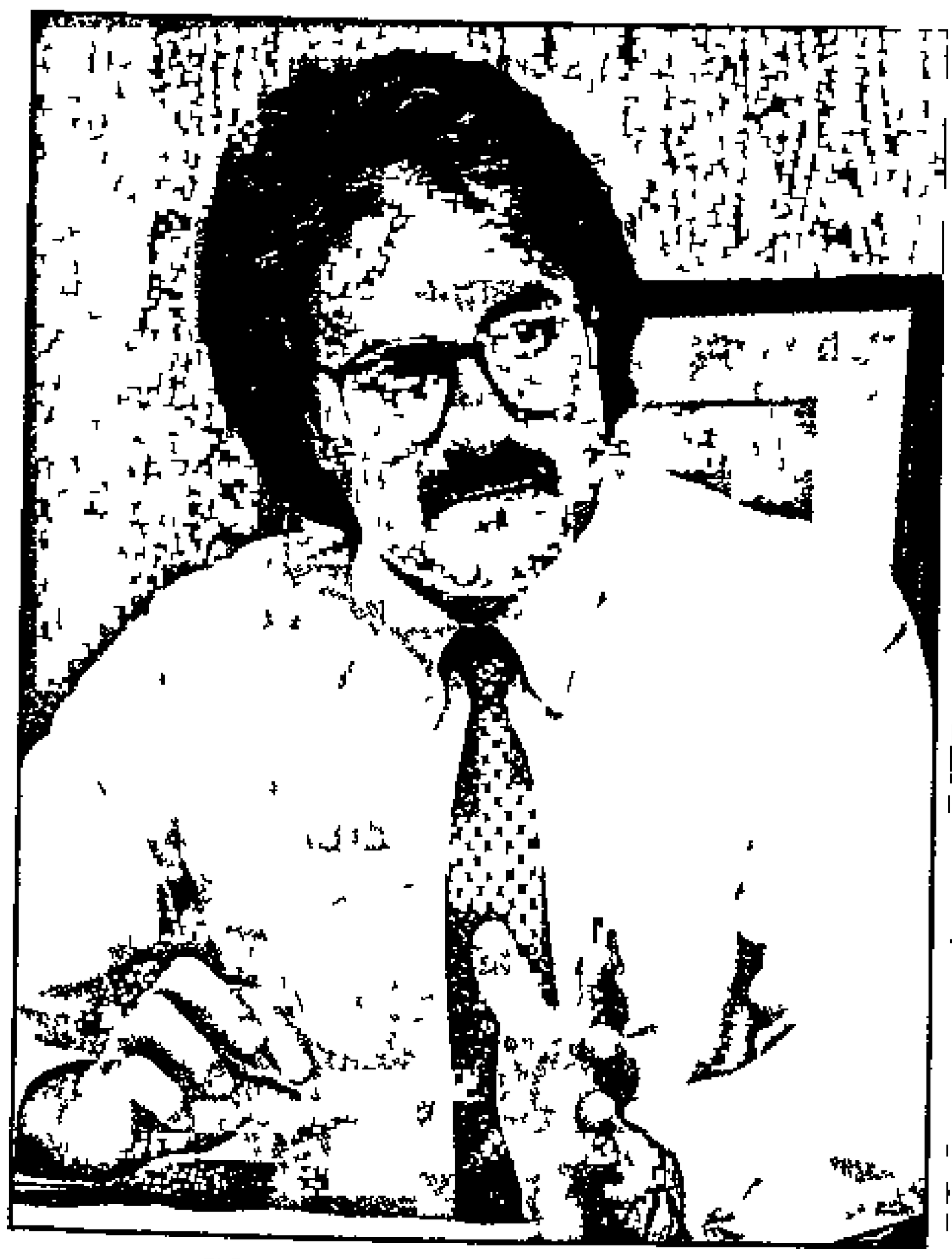
STODGY IMAGE

The restructuring from July of FSI's myriad operations into one operating company, W & A (with Waicor, FSI and FS Group becoming pyramids), was intended to improve cash flow, increase administrative efficiency and provide investors with a clearer picture of the operations

Investors will be able to judge the effects later this week when W & A and its three pyramids announce results for the year to end-December Until now the restructuring has done nothing to bolster market sentiment

At 585c and 475c respectively, shares of W & A and FSI stand on historical earnings multiples of 5 and 3,6, with dividend yields at 7,8% and 7,4% — much poorer ratings than those accorded other industrial conglomerates such as Amic, Barlow Rand and Murray & Roberts Shares of Waicor and FS Group have fared no better

The reorganisation was expected to help bolster EPS for these four groups Listed subsidiaries — Gentyre, JD Group, MacPhail and London-listed AAF — have posted good results But analysts canvassed this week were expecting little, if any, improvement from W & A and FSI (232)



FSI's Liebesman *will debt come down?*

FMS|4|91

EPS forecasts ranged from a drop of 10% to an improvement of 5%, with most expecting flat earnings This follows a 6,6% advance in the earnings at W & A and almost no growth at FSI at the June interim This would put W & A's EPS at 103c-120c, with a dividend of 38c-44c, assuming cover remains close to last year's levels FSI's EPS would be between 119c-137c, with a dividend of 32c-37c

It's possible these forecasts underestimate effects of poor performances by some of the footwear and hosiery operations EPS declines of as much as 15%-20% have, in fact, been mooted for W & A and FSI

Though Gentyre, the largest single earnings contributor to W & A, lifted attributable earnings by 58% — helped by a slide in its effective tax rate from 34,5% to 0,3% — the concerns relate to certain of W & A's unlisted operations, such as Edworks, as well as finance charges at operating and group level

Delisting of Teamcor, Hunts, Homemakers and Citizens Holdings following the restructuring, as well as the sale of the 37,3% stake in Reichmans, means far fewer of the operations report separately The group has long been secretive about its offshore interests Reduced contributions from listed subsidiary Vektra and associate Elcentre also have not helped

Aside from the earnings, investors will be seeking answers to two big questions has the overall efficiency improved, and have cash-flow improvements affected gearing and interest cover?

At July 1 FSI had long-term debt of R190m, with redeemable prefs of R111m, which were together expected to cost R46m to service this year Offsetting this was R34m in interest from convertible debentures issued to FSI in exchange for FSI's assets, and R14m from prefs issued to FSI Chairman Jeff Liebesman emphasises that FSI is an investment holding operation, while trading debt is held by W & A

There is now little expectation that W & A's long-term debt of R850m at July 1, against shareholders' funds of R1.3bn, will have been reduced — in which case, interest cover probably will not have changed much from last year's multiple of about two To achieve that may require sales of assets

Of course, if FSI should favourably surprise the market, that could presage a rerating for the share Even the critics accept there are some good assets in the group

Simon Cashmore

FM 5/4/91

TOLLGATE HOLDINGS

MORE RED INK

232

Costs of reconstructing Tollgate Holdings (TGH) continue to mount Since 1989, no less than R91,6m has been written off in abnormal and extraordinary items Now this has been capped by an after-tax loss of R34,5m for the period to end-December

Still, with the new consortium having wrought sweeping changes since it effectively took control in June last year, there is hope that the bleeding is nearing an end

Julian Askin, chairman of the consortium, sums up by saying it "acquired a group with high borrowings, absence of direction by senior management and accelerating losses in certain divisions — but with other divisions having valuable assets and sound growth potential " Askin is now devoting his attention to these other divisions, though some loss-makers, like Gant's, have still to be disposed of

In late 1989, when the consortium bought control of Duros, then holding company of TGH, shareholders were warned that the organisation was in a perilous state With interest-bearing debt at its peak, standing almost four times higher than shareholders' equity, the priority was to reduce borrowings to a realistic level Askin has moved as swiftly as the recession would allow to sell and close loss-making entities and to restructure This accounts for many of the write-offs

The five JSE-listed subsidiaries of the Duros pyramid, one of which was the London-listed TGH, have been consolidated as wholly owned entities under one holding company, Duros, which changed its name to TGH The London listing has been retained

Norths Industries and some of the unprofitable bus commuter divisions have been sold and the *FM* learns that the sale of Gant's is likely to be consummated for about R25m in the next two months This sale will apparently exclude assets, valued at R90m, which are being realised for cash

FM 5/4/91 232

Even so, with R204m interest-bearing debt remaining, there may be more write-offs if borrowings and interest costs are to be cut to manageable proportions Sale of Gant's and associated assets could reduce debt to below R100m That would still be excessive, with permanent capital at R163m, but the group should be able to operate with debt at around R90m

Askin says the poor profit performance in 1990 was caused mainly by large losses in the deciduous fruit processing of Gant's, in certain of the commuter bus divisions, in the car rental division, and by interest costs incurred in the acquisition and funding of these loss-making divisions All these, he says, have been turned around, sold or closed — or full write-downs have been made

A strategic 24,5% shareholding has been acquired in Hosken Consolidated Investments, whose operating subsidiaries include IGI Insurance and Safrican Life The group has also announced that an offshore acquisition has been concluded in principle No details are available, but Askin says the purchase will be funded by issue of new TGH shares

He is emphatic that group profitability has been restored One must hope this proves correct, as any unfulfilled promises would again dampen credibility No details are given about the value of goodwill and trademarks in the provisional results, so it remains difficult to estimate tangible net worth Including intangibles, net worth is about 880c

The share traded last week at 600c, after standing at 450c-470c for some weeks ahead of the results The market may thus have discounted the worst But with no indication of prospective earnings, the share must still be considered high-risk *Gerald Hirshon*

Sanlam trusts show faith in market by cutting back on liquidity levels

Sow 8/4/91

By Jabulani Sikhakhane (SA) (232)

The five Sanlam unit trusts steadily reduced their liquidity levels in the March quarter to an average of 14,4 percent, compared with an average of 26,6 percent in December.

Sanlam general manager, unit trusts, Otto Jaekel says the reduction in liqidity levels indicates Sanlam unit trusts' confidence in the market.

Prospects for sustained economic growth in SA have improved in expectation of an end to trade and financial sanctions

Liquidity levels in the five unit trusts were Sanlam Trust 19,7 percent (28 percent), Index Trust 15,7 percent (26 percent), Industrial Trust 15,6 percent (24 percent), Mining Trust 12,3 percent (27 percent) and the Dividend Trust 9,1 percent (28 percent).

The Industrial Trust produced a return of 13,2 percent for the quarter, equal to growth of 93,9c per unit

Index Trust was up 8,5 percent (89,9c/unit), Sanlam Trust was up 8,7 percent, or 113,9c, and Dividend Trust was up 12 percent, or 40,2c, per unit

Although the Mining Trust's growth was 2,3 percent, it compares favourably with a decline of 18 percent in the JSE gold index and a rise of only 1,5 percent in the mining financials index.

The five unit trusts concentrated mainly on blue-chip shares, with important new holdings in Amgold, JCI and Waltons.

Over 2,236 million Iscor shares were bought by the five trust.

● The Board of Executors' Growth Fund is making its first payout — a distribution of 2,84c a unit, **TOM HOOD** reports from Cape Town

The unit trust reported excellent results for the March quarter, yielding a total return of 9,4 percent for the quarter, which is sharply higher than the 6,8 percent yielded by the JSE overall index.

John Winship, senior general manager, says the BOE fund experienced a net inflow of R4,8 million in the quarter, increasing the total market value to more than R20 million

The effective liquidity in the unit trust was about 20 percent at the end of March

"The March quarter proved to be one of the most difficult quarters from an investment perspective. Market sentiment gyrated from euphoria to pessimism throughout the quarter.

"We considered it prudent to maintain a high level of liquidity and are delighted with the performance, despite liquidity of 20 percent on average"

The top five holdings are Anglos, De Beers, Richement, Remgro and Sappi. The trust holds no gold shares. About 43 percent of the trust is invested in the financial and industrial sectors, while 22 percent is invested in mining shares Additional exposure to equity is through Transnet Elfi Bull stock.

Mr Winship says the share market, after bottoming in October last year, was in a clear bull market

"The market in the short-to-medium term is currently overbought and is thus undergoing a correction Weak company results over the remainder of the year might keep the market from running too far ahead"

Sage Fund distribution

Finance Staff (SC) (232)

Total assets under the management of the Sage Fund, the country's oldest unit trust, rose to a record R781,4 million at end-March this year while the Sage Resources Fund, a specialist unit trusts, also showed record growth to R54,1 million

Star 9/4/91

In the 12-months to end-March the Sage Fund recorded a total return of 11,2 percent and five-year compound growth of 20,4 percent.

Following the change in the year-ends from December to March, income distributions have been announced for the quarter.

Sage Fund's distribution was 23,6c per unit and Sage Resources 2c per unit, increases of 20 and 7,3 percent respectively

Deregulation of meat industry 'not likely for at least two years'

B/Day 10/4/91 232 B/meat

SHARON WOOD

THE deregulation of the meat industry, stressed by the Meat Board as a priority in its latest annual report, would not take place for at least two years, Meat Board information spokesman Ernst Janovsky said yesterday

The board said in its 1989/90 annual report it had made important decisions in the year under review regarding deregulation but it differed with the Minister of Agriculture regarding the approach and was "working on the matter"

The privatisation of the state-controlled Abattoir Corporation (Abakor) would be a key element in the deregulation of the meat industry

The report did not mention it but Janovsky said abattoir privatisation was still being considered within the framework of deregulation.

Critics say the highly controlled nature of the meat industry has resulted in the widening divergence between producer and consumer prices of meat

The board said the auction floor price for meat, determined according to a new market-related method, had been accepted but not approved by the Minister The floor price is the minimum price at which the board removes a surplus from the market

The board reported progress in the abolition of restrictive registration Meat traders are required to register with the Meat Board, which in the past controlled the number of traders allowed in the market

The board had recommended to the Minister registration should be abolished and that trade factors should be registered purely for administrative purposes.

The board said the distinction between controlled areas and outside areas might be abolished "The Meat Board controls the meat industry in the urban areas, which comprise about 50% of the meat industry," Janovsky said

The abolition of the distinction between areas would be subject to a new basis for price formulation, grading/classification and hygiene requirements

The board plans to do away with the meat grading system and replace it with a classification system

Govt may privatise health services – report

The Government is considering the privatisation of health services as a means to reduce costs and reduce its role in the provision of health care.

This is according to a report entitled "Finding a Cure" published by the Institute of Race Relations. Star 10/4/91

The report comments that although the privatisation issue was rejected by some anti-apartheid medical professionals and trade unions, some health care workers had begun advocating a subtler view, in the form of embryonic health care systems which could serve as models for a national health service

"The evidence of this strategy is the new tariff structure introduced in provincial hospitals.

"It eliminates free services and imposes higher tariffs on patients as their income increases.

"The aim is to increase the proportion of recoverable costs from patients and to discourage patients able to afford private services from using State services," the report says

The report also examines the option of contracting-out State services for lower-income patients to private companies Under this system, the State would pay private operators the daily costs of running services.

"The Government would be wise in encouraging independent private health care groups and assisting them financially.

"The lack of effective liaison between independent groups and the Government is proving to be a stumbling block for the adequate provision of private health care," the report says. — Sapa

Liquidity builds up at UAL unit trust

Star 12/4/91

By Jabulani Sikhakhane (232)

The UAL unit trust lifted its liquidity level in the March quarter to 33,7 percent from 26,4 percent.

The Fund managers believe that at this level there is scope to take advantage of value situations emerging in the months ahead

Clive Turner explains that the portfolio was managed quite actively during the quarter A good net inflow of funds coupled with switching out of certain shares resulted in liquidity building up.

During the quarter, UAL's four unit trusts reached a market value of R930 million from R823 million This is attributed to growth in asset value and a good net inflow of funds

UAL unit trust declared an income distribution of 25,84c for the quarter, taking the total distribution for the 12 months to 105,88c — an increase of 31 percent on the previous 12 months

Entire holdings in Samancor, Kersaf, NEI Africa, NEI Holdings, Robor Industrial and Iscor were sold, while the stake in Pick 'n Pay was reduced significantly. New holdings were takenin First National Bank and Engen

The Mining and Resources fund declared an income distribution of 4,95c, making a total of 19,1c for the 12 months, an increase of 9 percent.

The value of the Selected Opportunities Fund rose to R80,2 million from R64 million and investment perfomance was satisfactory due to the rerating of heavily weighted second-liner industrials. An income distribution of 36,13c for the quarter was declared.

The UAL Gilt Unit trust has declared an income distribution of 83,41c for the half year, bringing the total distribution for the year to 170,03c. This is lower than in the previous year.

FINANCIAL MARKETS

JSE vs BANKS

Discussions are under way to "synchronise" the Stock Exchanges Control Act and Financial Markets Control Act, with important long-term implications for the JSE and other financial markets. Discussions began in earnest when the Competition Board asked the Financial Markets Advisory Board to express an opinion on stockbrokers' fixed commission system

The board, which consists of representatives from all financial markets and is chaired by Reserve Bank Deputy Governor Chris de Swardt, is expected to complete its reply by its next meeting at the end of this month But discussions have been described as "sensitive" as they once again raise the conflicting views of two powerful interest groups — banks and stockbrokers.

JSE executive president Tony Norton was not available for comment, but acting president Paul Ferguson says: "At this stage, we do not support any change in the Stock Exchanges Control Act."

Others argue that SA is too small to allow so many self-regulated markets The longest established self-regulated market is the JSE and the newest the SA Futures Exchange The bond market is still not officially a self-regulatory body.

Bankers argue that the markets should be rationalised under one Act because of problems such as dealing in options on equities "Banks need to hedge themselves in the equity markets," a banker says. "It's already happening informally"

Other arguments for rationalisation are the capital constraints of stockbrokers and to facilitate cross-market risk management.

Obviously, stockbrokers want to protect their territory and their single capacity trading status "The stock exchange has always been a self-regulatory body and would not fall under the Financial Markets Control Act as it was not designed to incorporate the JSE," Ferguson says.

"Synchronising" the Acts would probably make it easier for the single capacity rule, fixed commission and unlimited liability status of stockbrokers to be changed, though the JSE would still be responsible for setting its rules and determining its structures.

Changes to the Acts could take some time, mainly because of the heated debate between the JSE and the banking industry during the initial consultation process ■

ADCORP (232)

BANKING PARTNER

Senbank has recently been taking equity in clients such as Unidev and Cortech in an effort to relieve the debt burden of these groups But its decision to acquire an effective 12%-15% interest in professional services group Adcorp was based on strategic considerations rather than any concerns about debt FM 12/4/91

Senbank CE Hennie van der Merwe says closer ties with Adcorp will improve the services the group offers its merchant banking clients "We have worked together for a long time but I believe the warmer relationship we will have with an equity stake will give us improved access to the group's services," he says

Senbank senior GM Estienne du Toit has been appointed to Adcorp's board Subsidiaries of Adcorp include TWS Communications, Admark Recruitment Advertising, JSA Design International and research firm Qualitative Consultancy

Senbank will acquire its interest in Adcorp by underwriting a rights issue of 1,3m com-

FM 12/4/91 (232)

pulsorily convertible debentures of 90c each, with 18 debentures issued for every 100 Adcorp shares held These are convertible on a one-to-one basis before January 1994 The issue price is equal to Adcorp's current share price and management, which holds 64% of the equity, have agreed not to follow their rights Senbank will thus secure at least an effective 12% of the equity at the conversion If none of the minorities follow their rights, this will rise to about 15%

At face value, the transaction favours Adcorp It provides the group with institutional support, raises R1,2m and ensures management retains control Adcorp director and former TWS Communications MD Richard Wagner says the funds raised will be used to support the group's acquisition programme

Last week, Adcorp announced a 6,5% improvement in attributable earnings to R1,4m for the year to end-December, but an increase in issued shares reduced EPS from 20c to 18c and the dividend was cut from 9c to 7c Neither the results nor the Senbank deal has had much effect on the share, which last traded at 105c

Simon Cashmore

FSI/W&A (232)

DEBT STILL A BURDEN

FM 12/4/91

W&A's slide in EPS for the year to end-December has done little to improve the market's already depressed rating of the consumer goods and industrial conglomerate and its pyramids, Waicor, FSI and FS Group

EPS at W&A, which became the holding company for the group's worldwide interests after a major restructure effective from July, fell 13,6% after the earnings dilution that resulted from the issue of convertible debentures and prefs at mid-year At FSI, the bottom-line earnings slumped by 16,4% — well down on the expectations of analysts canvassed by the *FM* last week, most of whom expected W&A and FSI to maintain earnings

Chairman Jeff Liebesman argues that expectations for the group's performance were unduly high and failed to take full account of the recession's effect on its industrial operations as well as warnings at the interim that the turnaround at loss-making footwear company Edworks was taking longer than management had expected

At the interim FSI's earnings showed almost no growth, while W&A's had advanced 6,6% W&A's full-year operating margin slipped significantly compared with the previous year, when the former structure was in place and trading conditions were more buoyant

Last year's reshuffle has again made direct comparisons problematic. But it is plain that debt has remained a major bugbear W&A's operating profit increased, from R294m to R317m, but the gains were swamped by a 79% rise in the net interest bill, to R117m At the 1989 year-end, trading profit was covering the finance cost 4,5 times, last year it was only covered 2,8 times.

Liebesman reckons the performance of the three holding companies this year will be more in line with that of W&A He attributes much of W&A's drop in EPS to difficult trading conditions at Edworks and at the toy supplier Hygienia, as well as restructuring costs at associate company Elcentre Trading losses of R11,4m at Edworks and of R4m at Hygienia, and a R3,7m drop in Elcentre's earnings contribution cost W&A 15c a share.

Contributions from operations that supply the mining and motor industries, such as Williams Hunt and V&R Engine Spares, as well as the hosiery operations, were also down

Major earnings generators were the listed operating subsidiaries Gentyre, JD Group, MacPhail and UK-based AAF, as well as unlisted Form-Scaff, National Bolts and Housewares Offshore operations generated 17% of group earnings Foreign earnings rise to 25% if exports are included

Earnings at Gentyre, the biggest single profit contributor, were up 58% at R68,8m But much of this improvement was due to a fall in the tyre firm's effective tax rate from 34,5% to almost zero, because of changes in capital allowances This, with assessed losses, reduced W&A's from 28% to just over 10% Liebesman expects it will take several years before W&A's effective rate creeps up to what he considers sustainable levels of 25%-30%

There is no change to the philosophy of using high gearing to acquire and improve what are seen as underperforming assets FSI, which Liebesman now calls an investment holding operation, retains long-term debt of R174m and redeemable prefs of R111m, and its interest charges are offset by income from convertible debentures and prefs it holds in W&A

FSI's Liebesman *no changes to debt structure*

Long-term liabilities at W&A — which holds the operating companies — climbed from R639m at December 1989 (based on pro forma figures issued during the restructure) to R942m at the end of financial 1990 because of capital expenditure and acquisitions totalling R300m Liebesman points out that total assets climbed from R2,7bn to R3,1bn over the year Revaluation of plant and equipment added R539m to W&A's asset value and effectively reduced gearing from 67% to 48%

Liebesman says he sees no reason to change the debt structure Cash flow, he says, remained positive before acquisitions and capital expenditure, and interest cover has improved from 2,2 times at June to 2,7 for the full year.

Though trading will generally remain difficult, management expects benefits from the restructure, such as better cash flow and improved efficiency, to be felt this year But Liebesman offers no forecast on earnings.

Investors continue to take a bleak view of the group. W&A's share price of 480c — down from 585c last week — reflects a p:e of 5,1 on the latest results The rating is unlikely to improve significantly until investors can see a more encouraging and consistent performance

Simon Cashmore

DILUTED PROFIT

12 months to	Dec '89	Dec '90
W&A		
Turnover (Rbn)	2,3	3,0
Pre-tax profit (Rm)	228	199
Attributable (Rm)	86	113
Earnings (c)	110	95
Dividends (c)	42	42
Waicor		
Earnings (c)	45,9	39,2
Dividends (c)	16,8	16,5
FSI		
Earnings (c)	132	110,4
Dividends (c)	35	35
FS Group		
Earnings (c)	66	55,2
Dividends (c)	17,5	17,5

Naive shareholders have lost millions

Star 13/4/91

'Creation of cash shells and sale of their listings has become a racket,' says Issy Goldberg

232

LOSERS: Look at it this way, if Issy can change the system we're on the rebound.

TOM HOOD

NAIVE hordes of greedy shareholders have lost millions of rands on the Johannesburg Stock Exchange through the reckless promotion of mediocre companies, some of which have gone into liquidation, says the chairman of the SA Shareholders Association, Issy Goldberg.

"The creation of cash shells and the sale of their listings has become a racket," he said at the association's annual meeting in Cape Town this week

"I am proposing to the JSE and to the authorities that the creation and disposal of such cash shells must be controlled far more incisively and effectively than they have been hitherto

"I hope we will find a listening ear"

The rise of the JSE industrial shares index to "dizzy heights" represented a rise in the wounds of thousands of shareholders who had invested since 1986 in hundreds of mediocre shares, promoted and acclaimed by analysts and sponsoring brokers as being full of promise

Liquidated

The promise had never been fulfilled, but had been aborted by circumstances Several of these companies had succumbed to liquidation and many were teetering on the edge of the precipice in spite of the industrial index rising

"It is high time the JSE structured an index of the industrial shares separately from the 30 or 40 blue chips

"Such an index would provide the cold douche of reality to the naive hordes of greedy shareholders who have lost millions in the market as a result of their greed, gullibility and the reckless promotion of such shares"

The JSE industrial index, now at a record, was not reflecting the truth, said Mr Goldberg

The index was influenced by market capitalisation and price of the "heavy shares" The average middle-of-the-road share and the real laggards contributed virtually nothing to the index

"Twenty or 30 shares, the blue chips commonly held by all major investing institutions, have a dominant effect on the index

"It is common cause that large institutions awash with funds from contractual savings, until recently having distanced themselves from the stock market, vie with each other to purchase substantial holdings of these blue chips

"Of course the price of these shares inevitably rise, and so the index rises and the laggards lag"

The association also wanted the law changed to cover the selling of shares in non-listed companies

Non-listed shares

"The evil that has manifested itself over the past few years of naive gullible and greedy people subscribing for shares in non-listed companies must be attended to by law

"Articulate and plausible salesmen offer these shares by phone contact or by appealing letters promising riches overnight and a promise of a JSE listing in the near future Records show that in most cases neither of these promises eventuate

"The public has subscribed millions of rands over the years and under the present law the police are virtually powerless to intervene"

Mr Goldberg said the association was also trying to get Section 228 of the Companies Act amended so that companies were required to pass a special resolution for the disposal of assets

This section allowed a board of directors to dispose of most of the assets and undertakings, ratified only by an ordinary simple resolution at a general meeting

In contrast, a simple reduction of capital required a special resolution and a 75 percent majority

"The abuse that can be perpetrated with this absurdity must be evident The Allied Group experience, however, has thrown this absurdity into the arena of reality"

Investigation ordered into Sarcc investment in CIB

Star 15/4/91 (232)

By Derek Tommey

Minister of Transport Piet Welgemoed wants to know how and why the South African Rail Commuter Corporation (Sarcc) invested R249 million in the Cape Investment Bank (CIB), which went into provisional liquidation last week

At liquidation proceedings it was stated that the bank's liabilities exceeded its assets by R49 million, that its share capital was only R27 million and that it had been carrying on business although insolvent

The Reserve Bank says that all depositors other than Sarcc will be repaid in full But the Sarcc will receive only a liquidation dividend.

The Sarcc was the sole organisation to have deposited more than R5 million in the bank

Mr Welgemoed says the reasons for and the activities of the Sarcc on the capital and money markets will be investigated

The investigation will cover the financial requirements arising from the corporation's budget and the associated conditions stipulated by the Minister of Finance

It will also be ascertained whether the corporation had operated according to the guidelines and authorisations laid down by the Ministers concerned

"I have appointed two authorities to carry out this investigation and to report to me as soon as possible"

No further statements or comments will be made until the investigation has been finalised

Analysts say the Sarcc stands to loose substantial sums by way of interest payments and a fair amount of its capital

It will probably need to seek bridging finance elsewhere.

In announcing that CIB's other depositors would be repaid in full Governor of the Reserve Bank Dr Chris Stals criticised the practice of institutions of investing large sums of money in small banks

Bullish sentiment lifts stock market activity

Star 15/4/91

By Derek Tommey (232)

Hopes of better times and fears of continued inflation are making investors turn increasingly to unit trusts to secure their financial future, figures issued by the Association of Unit Trusts show

In the March quarter the unit trust movement had the second-highest gross inflow of funds in its history of R577,8 million and its third-highest net inflow of R330,7 million

The movement, responding to this huge cash inflow, made its biggest quarterly investment ever, according to Reserve Bank figures

This must have contributed to the 12,7 percent increase in industrial share prices in the March quarter and the 18,6 percent jump from the end of the Iraqi war to the end of March and to the 10,4 percent increase in the market value of unit trusts to R8,3 billion

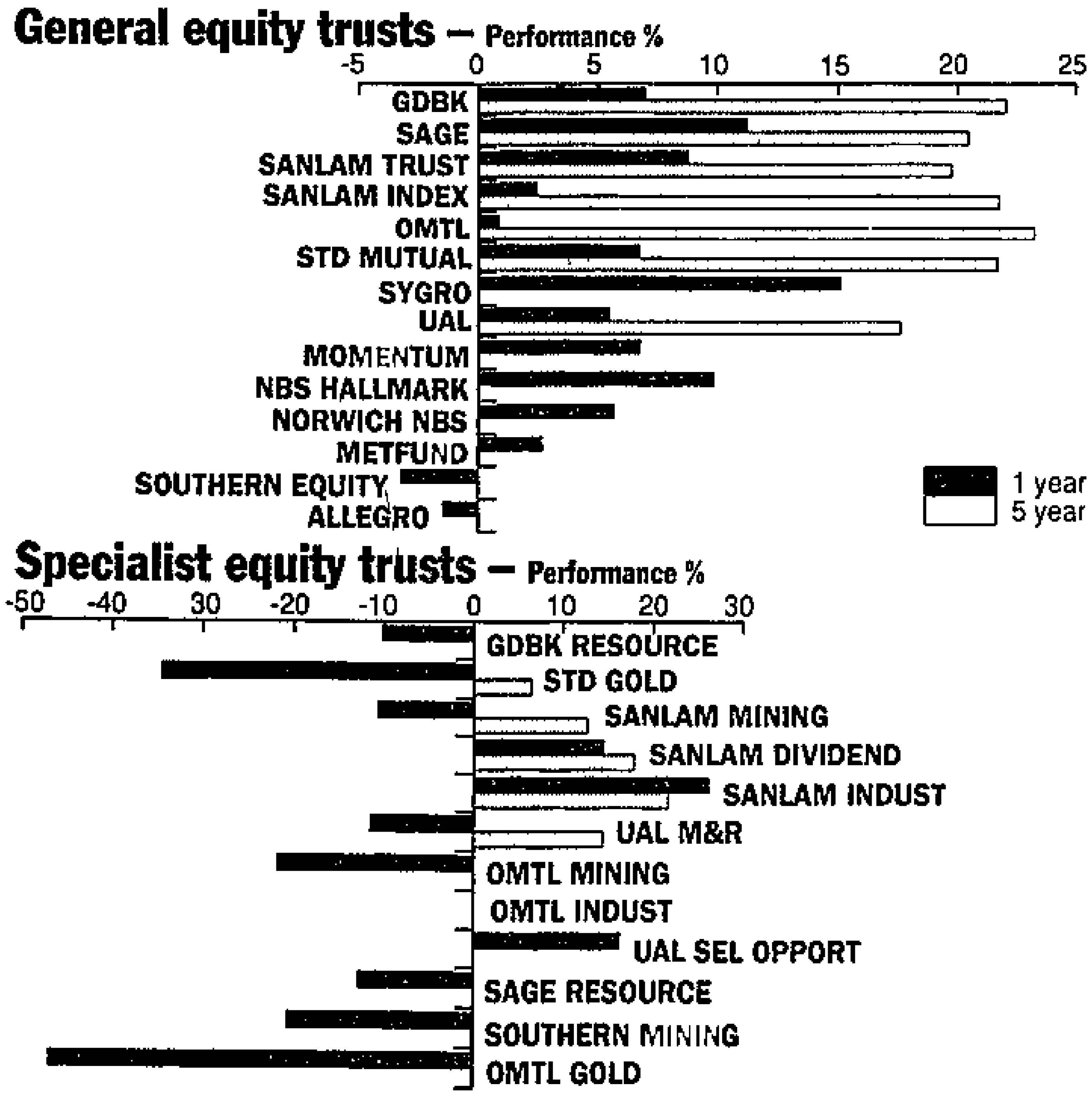
The inflow was only bettered in the March quarter of 1990 when the release of Nelson Mandela generated so much euphoria about the future that investors put R638,6 million into unit trusts

The net inflow in the March quarter was R122,3 million more than in the December quarter of 1990

But it was below the R364,7 million in the March quarter last year and the R453,8 million in the September quarter of 1987

Unit trust officials say the upsurge in demand is the result of several factors Among the more positive ones are

- Hopes that the ending of Iraqi war will lead to an improvement in the world economy
- Expectations that interest rates will fall another one or two percentage points this year
- Hopes that sanctions will be lifted and that a political settlement will clear the way for a period of strong long-term growth



The performance of some unit trusts, particularly specialist unit trusts in the 12 months to March, was disappointing as this chart based on figures supplied by the Unit Trust Association shows. But it shows that every unit trust that has been in operation for five years or more has rewarded its holders with satisfactory and, in some instances, exceptional capital growth This highlights the fact that unit-trust investment is most rewarding for anyone taking a long-term view

But there are some negative factors One is the apparent failure of the Government's anti-inflation policy

It seems that by this time next year prices will be at least 15 percent higher and the rand will be worth 13 percent less

Many people realise this are are trying to safeguard their savings by investing in inflation-proof assets

This accounts for the strength of property prices and probably, at least partly, to the upsurge in unit trust investment

A contributing factor may also have been the Government's failure to implement the proposed single withholding tax on interest income

This would have given investors a net return greater than the inflation rate and made building society investment more attractive than unit trusts

But some of the money that was to have been invested in fixed deposits is now likely to be going to the share market

Many unit trusts sat on the fence during the Iraqi war But they had to jump into the market when the war suddenly ended and the heavy inflow of funds developed

The result was that the percentage of the industry's funds in liquid assets fell from 23,8 percent at the end of December to 20,8 percent at the end of March

Clive Turner, chairman of the Association of Unit Trusts says this reduced liquidity, together with the R330,7 million inflow of funds, indicates that the industry invested almost R400 million in the share market in the March quarter

This is well up on the R195 million net investment in the December 1990 quarter and the R167 million in the first quarter of last year It is also above the R390 million invested in the September, 1987 quarter — the last time the share market boomed

Some analysts have criticised the investment policies of the unit trusts, claiming they have been buying shares which are already over-priced

But other analysts say it is a matter of opinion and not fact whether a share is over-priced

Investors will have to wait and see which view is the correct one

NSB ready with public share issue

(232)

Star 16/4/91

By Jabulani Sikhakhane

The privatisation of National Sorghum Breweries moves into second gear next month with a public share issue which will finally place the sorghum brewing industry in black hands

It is expected that the shares will be offered at 100c each NSB executive chairman, Mohale Mohanyele announced yesterday that it is envisaged that the share issue will open on May 17 and close on June 14

Mr Mohanyele said approximately 30 percent of the issued shares will be reserved for the company employees Each employee will get 200 shares for free and the rest will be sold at 30 percent discount

NSB's distributors, estimated at 500 000, will get 50 percent of the issued shares and 20 percent will be offered to the communities which consume sorghum beer

In terms of the issue no shareholder either directly or indirectly will be allowed to hold more than 10 percent of the company's shares

He added that NSB shares will initially not be listed on the JSE But Mr Mohanyele said NSB would create an informal market for its shares

According Sam Mosikili, NSB's managing director, the sorghum beer market is estimated at five to six billion litres (including the homebrew market) and NSB has 85 percent market share

Management buys out Arwa Leisurewear

CAPE TIMES 16/4/91

232

By AUDREY D'ANGELO
Business Editor

ATLANTIS-based Arwa Leisurewear has been taken over by its management, backed by Senbank, for an undisclosed sum. It will be removed from the Arwa group and renamed

An announcement yesterday said Senbank would have a majority shareholding, and would be represented by five non-executive members on the nine-man board Management would have four executive directors.

Senbank senior GM Etienne du Toit will be the non-executive chairman

The new company will retain the Hang Ten franchise for Southern Africa It will also continue to market underwear under the Arwa label

The announcement by Senbank said management would have a "substantial" shareholding

"The management team is led by MD Peter Richardson, supported by financial director Johan van Tonder and marketing director Ian Mostert."

Richardson said that in spite of the recession, which had hit other local clothing companies, "our end of the market has held up remarkably well We have full order books up to the end of November"

Discussing plans to build up the company's export market, and possibly seek a listing on the Johannesburg Stock Exchange in two years' time, he said "We have had three years of solid profits After another two we will look at the possibility of a listing on the JSE"

He said at present between 7% and 10% of the Hang Ten garments produced by the company went to other countries in the Southern African region including Malawi, Botswana, Mauritius and the Seychelles

But the market in neighbouring countries was still "largely untapped and there is a lot we can do there

"The local market has been enough to keep us moving, but two or three years down the line we plan to expand into other countries"

However, Richardson emphasised, "it is very important to us to continue giving satisfactory service to our existing customers. We shall not allow that to deteriorate in order to penetrate new markets"

He said Edgars was the company's biggest customer

"We are one of the few companies to have been given an Edgars' citation for good service and we are very proud of it

"It is extremely important to us to maintain these standards of service"

Discussing the takeover, he said there was a clause restraining him from disclosing the size of management's stake or the price paid for it.

"We are very excited — and a little apprehensive."

Etienne du Toit said the takeover was part of Senbank's restructuring of the Arwa group

"Leisurewear is a sound company with a good profit history and a strong management team

"When management came to us and suggested a buy-in we were happy to support it on those grounds"

Frame Group executive director Mervyn King, left, Institute of Directors executive director Richard Wilkinson and Anglo American legal adviser Alec Dawson, right, at yesterday's conference in Johannesburg on the Duties and Responsibilities of Directors in a New SA.
Pictures ROBERT BOTHA

Directors' duties 'ill-defined'

BPay 17/4/91 (232)

SHARON WOOD

THE ill-defined duties of company directors must be addressed in order to improve the position of the minority shareholder and enhance the image of free enterprise in a new SA.

This was the central message that emerged yesterday from a conference on Duties and Responsibilities of Directors in the New SA, hosted by the SA Institute of Chartered Accountants and the Institute of Directors.

"Directors cannot have extensive obligations imposed upon them without being informed of the content of those obligations", said tax advisory committee chairman Michael Katz.

Neither the present Companies Act, nor any of its predecessors, had tried to exhaustively codify the duties of directors, he said. Both the fiduciary duties of directors and their duties of care and skill had their source in the common law and in extensive case studies, he said.

But the task of educating directors would not be achieved by amending existing company legislation because it would not be exhaustive and would allow loopholes to develop, he said.

Instead the task should be fulfilled by organisations such as the Institute of Chartered Accountants and the Institute of Directors, which should arrange symposia and publish guidelines as to the duties of directors.

JSE executive president Tony Norton differed with Katz on how the duties of directors should be clarified He said a clarification would possibly be best achieved through statutory amendment and in serious breeches of standards of care by directors, a director should possibly become personally liable for his actions

In his speech, Norton focused on the need to improve the position of minority shareholders.

"The protection of minority shareholders is particularly important given that the corporate environment is characterised by the existence of a majority of companies controlled by stated interests," he said

He added that although minority shareholders had good theoretical legal representation, this was not as attractive in practice.

Norton said "the appointment of a shareholder ombudsman to screen and process small shareholder grievances is worthy of dicussion and debate"

Norton added said this could be dealt with under the Securities Regulation Panel.

Most speakers at the conference expressed concern about insider trading and questioned whether the new legislation introduced to deal with insider trading would effectively combat it

Postal workers continue strike over wages, Bill

ARGUS 17/4/91 (232)

By SHARON SOROUR, Labour Reporter

THOUSANDS of postal workers — demanding a "people's post office" and protesting against the voting in parliament today of the Post Office Amendment Bill — are still on a wildcat strike.

About 6 000 workers, including 1 000 in the Western Cape, stopped work yesterday to demand a "living wage" of R1 300 a month and an across-the-board increase of R500

Parliament is set to vote on the Bill today, which provides for the South African Posts and Telecommunications (SAPT) to be divided into two totally State-owned companies.

A SAPT spokesman said the capital-intensive telecommunications sector and the labour-intensive mail services would be managed separately "on business principles for greater productivity"

The Post and Telecommunications Workers' Association (Potwa) has strongly rejected the Bill as a "covert step towards privatisation" which would lead to potential job losses and the inability of lower income groups to afford services.

Potwa believed the Bill was untimely, and the government had no mandate to pass it, as the union believed restructuring and privatisation would have to be discussed with "all the people of South Africa"

"We demand a people's post office the continuation of the Bill is a recipe for upheavals," the union said

Higher liquidation figures invoke gloom

S/Dam 17/4/91 (a32)

GILLIAN HAYNE

THE number of liquidations rose from 105 cases in December to 147 cases in February, reversing the previous optimistic trend and prompting economists to paint a gloomy forecast for the coming months.

Central Statistical Service figures show liquidations for the three months to end-February were 7,5% higher than during the previous three months, although only 1% higher than for the corresponding period of 1990.

Credit Guarantee Insurance Corporation (CGIC) economist Luke Doig said the figures were in line with CGIC's statistics for the period, which had showed record highs in the number of claims paid out.

The worst-hit sectors were construction, which showed a 20% rise, and the wholesale and retail trade, which experienced a 7,1% increase in the number of liquidations for the three months to end-February, compared with the previous three months.

Doig said CGIC's statistics showed the building, clothing and textiles, and computer industries were the worst hit.

Although February is traditionally a slow month for companies suffering from cash flow problems caused by overstocking during the Christmas period, liquidations were 15% up in February compared with the same period last year.

He said the large decrease in liquidations in the last quarter of 1990 and the drop in the number of debts outstanding over 90 days made them hope the economy was improving. However, latest figures indicated companies were still having to tighten their belts, he said.

In January the number of companies which failed to pay their debts — the default and consent judgment figures — had rocketed 58% compared with January 1990, with the value of the debts up 120%.

Doig predicted that no improvement could be expected until late in the third or fourth quarter of this year.

Doig said the JSE industrial index's record highs were an anomaly and could not be justified.

Global entrepreneurial revolution flourishing

CAPE TIMES 17/4/91

Own Correspondent

GENEVA — A new study by the Geneva-based International Labour Organisation (ILO), says the world is in the midst of its third entrepreneurial revolution, far bigger than those of the 1880's and 1920's, because this time it is truly global.

The economic advantages of entrepreneurship are visible everywhere, the ILO study says

Large bureaucratic institutions are reeling under the impact of smaller, innovative, fast-moving, market-driven entrepreneurial organisations

In the US venture capital outlay to fuel new businesses registered a 200-fold increase in 10 years

While 1 000 of the biggest US companies shed a million jobs

Smaller companies added 20m in the same 10-year period

The recent flight of young Japanese managers to small entrepreneurial companies has been attributed to the inability of bureaucratic industrial giants to reward bright young managers with a flair for entrepreneurship

Large Swedish companies have also noted a similar brain drain

In China, since 1977, a million private businesses have been created

The replacement of bureaucracy by enlightened enterprise, and the transformation of bureaucrats into entrepreneurs, are signs of the times, the ILO says

As fewer upward opportunities become available in the big organisations, ambitious people start to think about going elsewhere or starting up on their own

The trend towards decentralisation, privatisation and labour flexibility requires a completely new set of managerial skills, and new training to produce managers who are more customer-oriented and less boss-oriented

CAPE TIMES 17/4/91

232

Postal workers in mass protest

JOHANNESBURG. — Countrywide mass protests by Post Office workers are to mark the tabling of the Post Office Amendment Bill in Parliament today, unionists have warned

The Posts and Telecommunications Workers' Association claims the law, which aims to split the post office into two state-owned companies, is a step towards privatisation, strongly rejected by the union due to fears of job losses

Approaches made to Registrar

Shareholders try to increase Stanbic stakes

(232)

B/Day 18/4/91

GRETA STEYN

MAJOR shareholders of the Standard Bank Investment Corporation (Stanbic) have asked the Registrar of Banks for permission to increase their stakes in Stanbic, a spokesman for the Registrar said yesterday.

He declined to confirm market talk that permission had been requested by all three big shareholders in Stanbic — Rembrandt (11%), Liberty (33%) and Old Mutual (22%) — or say whether it had been granted or refused

He said any shareholder with a stake of 10% and larger in a bank when the Deposit-Taking Institutions Act came into effect in February had to obtain official permission to increase its stake

Talk is that Rembrandt's greater power in the financial services sector through the formation of Absa triggered a plan by Liberty and Stanbic to increase their combined power Liberty apparently wants to see Rembrandt and Old Mutual lose influence in Stanbic while its own control grows

Speculation is that the plan hinged on Stanbic pushing through an increase in its share capital at its AGM on Tuesday. Old Mutual, believed to have engineered the block on the special resolution to increase the authorised shares by about 20%, apparently thwarted its rival's plans

An analyst suggested that Stanbic and Liberty were planning a share swap, with Stanbic increasing its stake in Liberty and vice versa Such a move would considerably reduce the influence of "outsiders" such as Old Mutual and Rembrandt

Stanbic's statement after the AGM this week said the possibility of issuing shares for acquisitions "cannot be excluded" and noted that only acquisitions greater in value than 30% of a company's worth needed shareholder approval.

This means a share swap between Stanbic and Liberty could have taken place without Old Mutual and Rembrandt voting on it.

It is unlikely that the Competitions Board and the Registrar of Banks will allow Old Mutual or Rembrandt to gain a signficantly larger stake in Stanbic, as Old Mutual already controls Nedcor and Rembrandt has Absa.

If they are allowed to increase their shareholdings up to a point, they will buy Stanbic shares as a defensive strategy against Liberty.

The run-up in the Stanbic share price this year — a 70% rise from the beginning of February to its peak of R51 on March 26 — was widely attributed to buying by Rembrandt and possibly Old Mutual.

Amid speculation of tension between Rembrandt and Liberty, talk is that Rembrandt was sending a signal that it would protect its interests in Stanbic.

The share price has since slipped by about 800c but Stanbic is still rated more highly than UBS. The latter will be re-listed as Absa

A senior Stanbic source said Old Mutual's move to block the increase in share capital was a form of "negative control" from the controlling shareholder of Nedcor, one of Stanbic's competitors

Unit trusts could be just the thing

By JOSHUA RABOROKO

WHEN most people, especially black businessmen, think of the JSE, they see a palace where only the rich can enter Sowetan 18/4/91.

Not so, says Mr Stafford Thomas, senior portfolio manager at Sanlam. "Unit trusts open the door for ordinary people - both black and white interested in investment.

Shares in South Africa's public companies are bought and sold on the stock exchange Some of these shares are excellent investments - as the companies grow and prosper, their shares become more and more valuable while in bad investments shares lose value

Taking a risk

So, buying shares means you take a risk. Investors play it safe by spreading the risk. They buy shares in several different companies

Such collection of shares is called a portfolio. If some of the companies in a portfolio fare poorly, the chances are that the others will do better.

Obviously, a lot of money is needed to buy a portfolio of shares This will allow one to predict safely; if one company fares badly, chances are the others may not.

So how will ordinary people be able to afford these shares? And how will they be able to buy many different shares? This is where unit trusts come into the picture (232)

Unit trusts sell share units, at reasonable prices. The minimum investment is R100 or R200 a month. When the money of all these investors, big and small, is put together, the total may be millions of rands

This money, says Thomas, is used to buy shares and build a profitable portfolio Managers who make a full-time study of the stock exchange, manage the portfolio They are assisted by highly qualified researchers and other experts.

Investors should remember that share prices do not only go up. They may also come down The market - meaning all the shares on the stock exchange - usually up if measured over several years. But sometimes the market goes down.

Sanlam portfolio offers two advices:

* Invest only the money left over after food, clothing, shelter and other essential purchases have been made;
* Do not regard unit trusts as a get-rich-quick scheme. Invest money that you will not need for about four to seven years.

 232

Pep set to buy Harties stores

Business Staff

PEP, the country's biggest low-income clothing retail group with more than 900 stores, is negotiating to buy Harties from recently listed Hicor.

Harties, which has just over 200 stores, also sells clothing, footwear, blankets, and household goods for cash in the same market segment as Pep.

There is another link between the two Cape-based groups Harties' executive chairman is Mr Renier van Rooyen, 34-year-old son of the Mr Renier van Rooyen who founded Pep

Hicor owns 90 percent of Harties' shares and was listed last November

In addition to its store interests, it also has a clothing manufacturing division that makes schoolwear, and children and men's clothing

Harties neeed a R9 million capital injection last year to ease tight financial constraints

Rapid growth curbed its ability to generate positive cash flows, the directors said in the last financial report

Harties planned to continue its stores expansion, but the rate of growth was expected to taper off

Hicor's operating profit increased 244 percent to R12 million in the year to February 1990

However it is expecting only a small increase in operating proft in the year to February 1991 and earnings a share to decline from 9,1c to 8,5c a share.

Harties, started by Mr Renier junior, grew from five stores to 180 and kept profitable

The shops are basic in fittings and appearance with gaudy decor, bright colours and simple furnishings. Average shop size is 230 square metres

Harties has more than 30 shops outside South Africa, most of them in Namibia and others in Lesotho, Bophuthatswana, Transkei, Ciskei, Venda

Rise in fees will ensure standards are maintained

Star 18/4/91

Fees charged by South African unit trust managers are among the lowest in the world but this situation is set to change

And while the increase will be too small to have any meaningful impact on the investor, it will ensure that standards of service within this highly competitive industry are maintained

Charges currently allowed in terms of the Unit Trust Act amount to only 0,5 percent a year — well below the 1-2 percent common in the United Kingdom and the United States, and absurdly low when compared with the fees of professional managers of private portfolios

"We are living with an historic situation — the fees were established when the Act was promulgated in the '50s, and they are long overdue for change," says Bernard Nackan, managing director of Investors Mutual Funds at Sage

"Costs of technology, management skills and administration have risen steeply

"And this is especially hard to bear in a small fund, where

Bernard Nackan, managing director of Investors Mutual Funds at Sage.

232

the basic outlay is similar to that of a larger fund

"If the industry is to continue to employ top-flight professional fund managers, we need to see an increase in fees to around 1 percent a year"

Unit trust investors pay an initial charge of up to 5 percent, which just covers the cost of sales commission and administration.

Thereafter, the only fee levied is an annual 0,5 percent on the market value of the fund, calculated monthly

Boom expected as market is un

unlocked

Star 18/4/91. (832) ( ) (SB)

A growth surge is expected for the unit trust industry for the next few years as the investing power of the increasingly sophisticated black market is unlocked

But, in the short term a great deal of work needs to be done by the industry — both in educating its market, and in packaging its products to meet the market's needs, says Tony Gibson, portfolio manager at Syfrets Managed Assets.

"Management companies will have to train staff who, in turn, can train advisers able to identify with and operate within the black market," he says

"It is difficult to explain the concept of unit trusts to people who have not had the benefit of quality schooling, and to whom the concepts of saving and investment are totally foreign

"At the same time we will have to win the trust of the market — to persuade people that it is not a 'white man's plot' to take their money, and to show them how they can use the capitalist system to further their own interests"

He predicts that the black market will, for some time, remain risk-averse Once it has been reassured that investment in unit trusts — once the basic principles have been understood — is a relatively low-risk proposition, it is likely to favour straightforward general equity portfolios

The size of the potential market is virtually impossible to estimate — but Mr Gibson points out that the stokvel market, an important element in the informal sector, is worth about R700 million

To start with, he suggests, stokvel clubs — semi-formal group savings schemes — could invest in unit trusts and so enhance the returns paid to their members

"This would be especially appropriate, for instance, to organisations like funeral societies, where constant cash liquidity is not a major issue but ready access to funds is important," he says

This, says Mr Gibson, is the route that needs to be followed by unit trust firms aiming for maximum growth "The South African unit trust industry has a good way to go, but the top end of the market is now fairly mature. Living space is badly needed — of the 17 funds on the market, only seven are making a real profit"

A unit to be trusted

232

Star, 18/4/91

Unit Trusts

A Star survey

Fedgro Unit Trust, launched on February 14 this year, initiated its portfolio on December 3

Since then it has grown significantly and at the quarter end had total assets of R15,8 million — compared with R5,8 million at December 31

The performance for the period has seen an increase in the value of the unit price, outperforming the JSE Actuaries All Share Index, despite the fact that as a new fund it featured high liquidity levels

"During the quarter we have seen strong growth in the JSE industrial market, a lowering of interest rates and continued weakness in the gold bullion price and — consequently — in the gold share market," says Ian Fraser, GM investments

"We perceive continuing value in the shares of selected major corporations and together with substantial institutional cash flows, leads us to expect a recovery in industrials"

On the international front, he points out that the Gulf War was shorter and more successful than expected — while international share markets have brushed aside fears of continuing recession

The managers took advantage of attractive share prices in the early days of the fund, while cash and deposits enjoyed high interest rates

"We will continue to build up a mix of high quality industrials as well as companies which we believe to have above-average growth potential, while restricting our direct exposure to gold producers"

Capitalising on bad times

232

Star 18/4/91

Maintaining a fully invested position through the recent weakness in the market has left Old Mutual Investors' Fund well placed to maximise returns for its investors over the medium to long term.

The latest performance figures compiled by the University of Pretoria indicate the fund occupying top position in the industry over the five (23,22 percent), seven (23,95 percent) and 10 (24,7 percent) year periods. In addition, investors have continued to show confidence in Old Mutual Unit Trusts, with total assets for its five funds increasing by well over R200 million during the past quarter, to more than R2,6 billion.

Assistant GM investments Rowland Chute said this good performance contributed to the Investors' Fund's record distributionof 60,95c a unit.

Following the strong movement of the industrial board of the JSE, the Industrial Fund concentrated on identifying shares which continued to offer good relative value. This fund, which was launched in May last year, outperformed both the Industrial Index and its competitors with a quarterly performance of 14,45 percent.

The Mining Fund was a net buyer during the quarter, with liquidity dropping from 22 percent to 17,5 percent. It added to its holdings in Amcoal, Rusplats, Genbel, Minorco and Iscor, and sold its holdings of Samancor, Fred Dev, Lydex, Randex and Potch Gold Areas. While the All Gold Index continued to weaken, the policy followed with the Gold Fund was to remain well invested, with liquidity falling from 12 percent to about 10 percent.

Fund's size not only criteria for success

232

Star 18/4/91

Unit Trusts
A Star survey

The dominant role in the unit trust industry, traditionally played by the larger funds controlled by the banks and life houses, may be under threat if the performance of Syfrets Growth Fund is anything to go by.

"The fund has led the unit trust industry's investment performance over the past three of its four years in existence. This indicates that size or market share may not be as relevant to investors making a choice of unit trusts as was once thought," says investment manager Tony Gibson.

Syfrets Growth Fund has delivered a compound annual growth return to investors of 31,8 percent since 1987, placing it at the top of the performance rankings of a sector made up of 37 different unit trusts, 24 of them launched over the past four years.

They form an investment industry that now has some R8,3 billion and about 75 000 individual accounts under administration.

The leading position consistently held by the Syfrets fund indicates that smaller funds may have distinct advantages over their larger competitors.

For example, the Unit Trust Control Act restricts fund managers from investing more than 5 percent of their funds in any one company's issued share capital.

Because of this, it may not pay the managers of larger funds to seek out smaller companies where they cannot accumulate sufficient strategic holdings to make their investments meaningful.

Consequently, it would not benefit a fund manager with R1 billion under administration to invest in a company with a market capitalisation of, for instance, R100 million, in that he could acquire only R5 million worth of shares. This could be too little in terms of his required exposure, or may not contribute meaningfully to the overall performance of his fund.

Smaller funds also have a definite advantage in being able to respond rapidly to stock market conditions in raising or decreasing liquidity levels, says Mr Gibson.

"It is easier for a fund manager to reduce or increase the liquidity of a R300 million fund by 5 percent than it is for one with R1 billion.

"The management of liquidity over the volatile past few years has had an important role in fund performance."

Industrials beckon foreign investors

By Neil Behrmann Star 15/4/91

15/4/91. (232)

LONDON — South African industrial shares are likely to be supported by international investors in the coming year

The proviso, of course, is that Wall Street, London and other international bourses remain in a bull trend

If they do, growing numbers of international investors are expected to buy leading SA industrial shares, particularly when sanctions are lifted and South Africa begins raising funds on international capital markets once again

Illustrating the change in mood, James Capel has published a report recommending the shares

Analyst John Taylor says the market is cheap for foreign investors

They can buy the shares via the financial rand market on a prospective P/E ratio of eight

"The South African market, with a market capitalisation equivalent to $124 billion, is not trivial," says Mr Taylor

"It comprises 1,2 percent of the Morgan Stanley Capital International World Index and is the 10th largest stock market in the world

"Both in size and sectoral flavour, it resembles the Australian market

"If social tension affects the economic situation and a period of stagflation follows, SA industrials still offer fair value

"If high growth rates of the Sixties and Seventies return, SA industrial shares will be perceived to be ridiculously cheap"

The problem, however, is liquidity With their billions of dollars, international investors will find it difficult to buy SA shares

So far, wealthy German, Swiss and French individuals, rather than institutions, have been the main buyers of SA equities

With the surge in the financial rand in the past year, they have made huge profits on SA bonds

Instead of switching all the funds back to their own currencies, they have been buying SA industrial shares

"Investors who are confident about South Africa's future want to participate in growth by buying industrial counters

"Despite the isolation of South Africa in recent years, the domestic market is prey to the same worries and fears as the major stock markets"

There may well be consolidation over the next few months, but there is only a slim chance that there will be a sharp correction

South Africa's return to international capital markets will in the end overcome any market setback

James Capel favours consumer-related stocks because of rapid growth in the buying power of blacks

Building and construction are now in recession, but the housing backlog will ensure a revival

Shares on the buy list are Barlow Rand, Edgars, Tongaat-Hulett, Iscor, Gencor, Sappi, Engen, Malbak and Anglo Alpha

But James Capel advises sales of Amic, Tiger Oats, Highveld Steel, Sasol and Plate Glass

"I know Iscor has its problems, but for the international investor the P/E is three, compared with 16 for British Steel," says Mr Taylor

He is advsing clients not to chase shares, but to accumulate them during periods of weakness

Six new trusts launched last year

232

Star 18/4/91

The unit trust industry experienced comfortable growth during 1990, according to chairman Roy McAlpine's statement in the latest yearbook of the Association of Unit Trusts.

Six new unit trusts — four general and two specialist equity trusts — were launched, increasing to 37 the number of unit trusts in operation.

The total assets of the industry grew from R6,6 billion to R7,6 billion — a decrease on the previous year's rate of growth from R4,4 billion to R6,6 billion — while the number of accounts rose from 568 000 to 736 000, the chairman states.

During the same year, R2,1 billion worth of units were sold — a 50 percent increase over the R1,4 billion recorded in 1989 and an all-time record.

"Although repurchases amounting to R985 million showed a meaningful increase over the previous year, the net in flow of R1,12 billion is also a record

"These figures are particularly gratifying when it is considered that they were achieved against a background of an overall decrease of 1,5 percent in the unit trust Capital Index from 164,7 to 162,3," Mr McAlpine says.

The Income Index — which rose by 38,8 percent in 1989 — also reflected a substantial increase of 24,8 percent in 1990, rising from 1 917,01 to 2 393,30

"This surprisingly large increase can be attributed to three factors," Mr McAlpine says

"First, most of the blue chip companies declared increased dividends in 1990.

"Secondly, interest rates were, on average, higher in 1990 than in 1989, thereby enabling trusts to obtain a higher return on the fixed interest component

"Thirdly, by the end of 1990 the majority of trusts had a lower equity content and a higher fixed interest content than was the case at the end of 1989," he says.

Specialist company opened up market

Star 18/4/91 (232)

The launch a year ago of Consolidated Fund Managers (CFM) — the first specialist portfolio management company in SA — introduced a new approach to unit trusts to the market

The company's objective is to give members of the public impartial, professional advice on all aspects of investing in unit trusts

"Equity unit trusts are linked to the performance of the stock exchange, and therefore an investor's timing of a unit trust investment is critical," says MD Clive Fox.

"Those investors who were drawn into the market in mid-1987, and again in early 1990, soon realised the importance of timing The long-term returns on units can be substantially enhanced by buying at the right time, and by exiting the market when the risk of participation becomes excessive"

Equity unit trusts recorded an excellent average performance of 44,3 percent in 1989 — but the same cannot be said of 1990, when these funds returned an average performance of 6,83 percent owing to the emergence of a bear market

"With investors now having nearly 40 unit trusts to choose from, there is also the need for professional advice on which unit trust to invest in," Fox adds

This situation is complicated by the fact that unit trusts are grouped into three basic categories

The largest amount of money has been invested in general equity funds, whose investments are spread across a broad selection of shares

Specialist equity funds, on the other hand, have more focused share portfolios, where investments are concentrated in specific sectors of the market These may in turn be relatively spread within that sector — for instance in mining funds — or very focused, as in gold funds

Consolidated Fund Managers managing director Clive Fox.

The spread of options available from different investment houses can also be confusing

Some industry observers argue that all unit trusts established on the market have performed well, and that it is relatively unimportant which fund the investor chooses

But, says Mr Fox, in the five years ending December 1990, the difference in annual performance between the best and worst performing funds was a staggering 16,34 percent a year

An investment of R20 000 each in these two funds would, at the end of the period, have shown a difference of R37 467

"Few investors have the time or expertise to investigate each fund in making this decision — and that is the service we offer," says Mr Fox

In addition to analysing the performance of the various funds, CFM monitors investment markets to advise clients on appropriate timing of investments

"Last year was not an easy year for investors in general," says Mr Fox "The JSE declined nearly 10 percent during that period, and gold shares fell on average by 40 percent

"We managed to achieve significantly better returns for our clients through a highly conservative approach to the market"

Dawie to disclose Foskor's fate

B/Day 19/4/91

BRENT VON MELVILLE

THE privatisation of Foskor is likely to be a major focus of next week's departmental budget speech by Public Enterprise and Economic Co-ordination Minister Dawie de Villiers

Government sources disclosed yesterday that the parastatal's privatisation was likely to be shelved, bolstering a similar statement made by Industrial Development Corporation (IDC) MD Carel van der Merwe

A ministerial spokesman confirmed yesterday that the issue of privatising Foskor would be one of the main features of the Minister's speech

There would also be references to SAA and Posts and Telecommunications, he said

The spokesman said it was likely the Minister's speech would allude to the volatile nature of the world phosphate market and would "more than likely" put the privatisation of Foskor on the backburner

Foskor has been widely suggested as government's next candidate for privatisation

Privatisation Unit head Peter van Huysteen said the cyclical nature of the phosphate market detracted from the attractiveness of Foskor as a private business

He said while he did not want to give anything away that might be in the Minister's speech, the issue of Foskor would not deviate much from what Van der Merwe said earlier this week.

In a speech to the Investment Analysts' Society, Van der Merwe said Foskor would not make a suitable stock for "widows and orphans" and at the same time selling to the bigger investors would raise the politically sensitive issue of concentration of power

260 232

Van Huysteen said the Minister would also deal with SAA as the Privatisation Unit had just completed a study into the airline as a prelude to the July 1 deregulation of the industry

The conclusions of the study would be made known

FOX FM 19/4/91

operations.

At 1 600c, the share price has almost doubled from a year ago The final dividend of 28c brings the total to 43c, which puts the share on a yield of 2,7% and a p e of 15,6 For a counter that looks capable of doubling its earnings every three years the price is not excessive

Gerald Hirshon

FM 19/4/91 (232)

UNIT TRUSTS FM 19/4/91 (232)

INDUSTRIAL BULLS

Investors looking to unit trusts for signals about the future of the high-riding industrial sector are not likely to be disappointed

While at face value there was a split in attitudes among fund managers in the past quarter — general equity trusts such as Momentum, Southern Equity, Safegro and Syfrets Growth significantly increasing their holdings of industrials, in contrast to declines at UAL, for example — sentiment remains reasonably bullish

As a percentage of the total value of general equity trusts, industrial shares edged up two points to 41% (R2,7bn) Much of this appreciation reflects reduced liquidity, though improved market values also helped

The biggest mover into industrial equities, in rand terms, was Syfrets Growth, which increased the value of its industrial portfolio by R39m to R137m (44% of its total portfolio) The trust raised its investment in Berzack and moved strongly into Unitrans

However, Syfrets Managed Assets fund manager Anthony Gibson is cautious about the prospects for industrial equities and suggests that the surge in the Industrial index reflects buyers' anxiety of being left out of a market recovery "This fear has superseded conventional investor logic, which would suggest that investment fundamentals do not justify present prices," he says

Safegro Unit Trust director Kevin Cockcroft is not wildly bullish about the industrial sector and says the depressed mining industry and sliding interest rates limit other opportunities Most industrial groups are much better managed than during the recession in the early Eighties, he says, he expects selected industrials to deliver 15% growth

Though Safegro pulled out of Barlow Rand and cut stakes in Rembrandt, Tollgate and SA Breweries, it jacked up holdings in industrial stocks from 38% to 48% of its portfolio, moving into Safren and buying more Anglovaal Industries, C G Smith, Tiger Oats, Afrox and Rembrandt Beh

Momentum had the biggest percentage exposure among general equity trusts to industrials, at 60% of its portfolio Momentum Asset Trust MD Peter du Toit says exposure is likely to remain high He believes government will have to stimulate the economy in the latter part of the year and adds that there is a serious shortage of investment opportunities The fund built up holdings in SunBop and SA Breweries and moved into W&A (though Du Toit now calls that a mistake)

At the other end of the scale, UAL's general equity trust cut investment in the sector by R21m, among other things moving out of Kersaf, NEI Africa, NEI Holdings, Robor Industries and Iscor Contrary to the trend, but in common with general equity trusts such as Norwich NBS and BoE, liquidity rose

UAL Merchant Bank senior GM Michael Eustace says these moves do not reflect a decision to limit exposure to the sector but are rather part of a shift in the portfolio mix. Liquidity is likely to come down to around 25% in the next six months as the fund moves into other investments — some of which will be in the industrial sector

"The Industrial index has had a good run and is due to level out, but I doubt it will come off much," says Eustace

Similarly Metfund equity manager Hendrik du Toit says the value of the trust's industrial holdings was maintained, as it was fullly invested

Sanlam increased the exposure of its Dividend and Industrial specialist funds to industrials, which make up more than 40% of the portfolios of its two general equity trusts Senior portfolio manager Stafford Thomas says that while the group is a strong supporter of industrials it has tried to maintain a balance and has probably retained a greater investment in mining stocks than most rivals Some mining stocks, particularly in diamonds, still have much to offer, he says

"The industrial market is still in a bull trend but I don't think our exposure can go a lot further," says Thomas

With high liquidity no longer attractive as interest rates ease, portfolio managers are likely to channel increasing funds into industrials — last quarter's R331m net inflow was the third highest ever This in itself could bolster the sector

Simon Cashmore

SBIC FM 19/4/91 (232)

SHARE PLAN REBUFFED

A bid for control of Standard Bank Investment Corp (SBIC) — or at least a fear of this on the part of major shareholders — now looks a real possibility

It is difficult to avoid that conclusion after Tuesday's shareholders' meeting, when a proposal to increase the authorised capital by 25,9m shares — or 20,5% — was not passed. This follows unusually high trade in the tightly held stock recently Just over 2m shares or about 2,1% of issued ords changed hands last month (*Companies* April 12)

Proposing the motion, the directors said the additional reserve capital was intended to provide for growth (possibly a major acquisition), issuing scrip in lieu of dividends, and issuing shares to management under the option scheme

It failed to gain the required minimum 75% of shares represented. There are 98m issued ordinaries, and votes representing only 47m were cast in favour About 10m abstained and about 19m voted against

MD Conrad Strauss says it's unclear who objected, as one shareholder exercised his right to request a secret poll, instead of the usual show of hands. There was no debate and nobody had put forward any objections.

"It is a mystery to me," says Strauss "These shares would have been under the directors' discretion. Is somebody querying the board's independence?" At present 22% of the authorised capital is not issued. Had the resolution been passed, unissued capital would have amounted to 33,5% of authorised ordinary capital, of which 2,4% would have remained earmarked for existing options

The remaining 31,1% unissued and non-earmarked capital would thereafter have been steadily eroded by scrip dividends and further options

Strauss contends this would not be out of line with local or international standards — Barclays Plc, for example, has about 25% of authorised shares under board control

Market talk is that Old Mutual was the main dissenter. This is plausible, given its 20,3% stake (about 19m shares) at SBIC's December 31 year-end It is not known whether Mutual was buying last month — Rembrandt almost certainly was — but Mutual could have lifted its stake slightly Asked to comment, Mutual chairman Mike Levett simply says the policy is never to comment on any particular company or situation.

There have been two main lines of speculation about recent buying Either somebody was accumulating shares as part of a plan to gain control; or an existing shareholder was seeking to build up a blocking stake to prevent such a bid. Small though the recent sales were, it may not be impossible to acquire enough stock to tie up the balance of power — depending on what alliances form

Apart from Mutual, major shareholders at year-end were Liberty Life 32,2%, Rembrandt 10,7%, GFSA 10,3%, Standard Bank Pension Fund 5%, SBIC Executive Investment Trust 2,6% and Mine Officials Pension Fund 1,1%.

As noted previously, when Donald Gordon vacates the Liberty chair, SBIC will appoint the next executive chairman of Liberty.

If Mutual is concerned about other major shareholders gaining control of SBIC and, perhaps, Liberty, the blocking stake theory may have gained substance at the meeting

Registration of shares bought last month should provide more clarity But a large bloc of shareholders has effectively expressed a lack of confidence in the board of the leading — and most successful — banking group, leaving little doubt that a far-reaching game plan has been put into action.

Andrew McNulty

IDC (232) FM 19/4/91

SALE HOPES DASHED

A statement in February signed jointly by then Ministers Wim de Villiers and Kent Durr and Industrial Development Corp (IDC) chairman Koos van Rooy said the IDC was expected to expand its role as financier of industrial enterprises and mobilise its full financial resources to this end

It added that assets would be realised to provide finance, triggering expectations that the IDC could soon sell some large investments Such hopes, it seems, were misplaced.

No such sales are thought necessary immediately, and almost certainly not this year In a presentation to the Investment Analysts' Society this week, MD Carel van der Merwe listed the IDC's marketable investments — and explained the obstacles to realising them with any urgency

That in itself is no surprise The IDC has never shown much enthusiasm about selling mature investments to the private sector. And, as was clear from the February statement, the purpose of disposals would be to provide finance; there was no indication that privatisation was the objective

Van der Merwe adds that the IDC has never been limited so much by lack of finance as by a lack of project opportunities

Listed holdings include 170m Sasol shares, with a market value of about R2,1bn, 300m Iscor (R580m), 144m Industrial Selections (R370m), 180m National Selections (R300m), 3m Sappi (R170m), and 15m Sentrachem (R84m) These total about R3,5bn, but, Van der Merwe points out, it is

FM 19/4/91 (232)

unlikely that they could be realised in a market as tight as the JSE without depressing prices

The Iscor shares cost R609m, more than their current value, so the IDC would be reluctant to sell, particularly as it has undertaken to market the bulk of the shares as a pro rata rights offer, implying a discount to market value "At the price the IDC would like," says Van der Merwe, "the offer might be one an Iscor shareholder could refuse."

The IDC also feels that its overhang has depressed the Sasol price, which at about R12 is thought by some analysts to be well below value But this of course is circular — as long as the market thinks the IDC shares may be sold, the discount may continue

A problem with such a large rights offer is that four or five institutions would have to take a large portion The IDC hopes to find other solutions, which could arise when State pension funds enter the equity market

Sappi and Sentrachem are relatively small parcels that could easily be placed But these are seen as important "partnership" shares Though the IDC controls Indsel and Natsel it has limited room to manoeuvre with these

The big unlisted holding is Foskor Van der Merwe says any decision to sell would have to be taken by the State, as this would be in the nature of privatisation The IDC feels that Foskor is not suitable for widows and orphans — it is a single product company, operating in difficult, cyclical markets (sounds just like a gold mine!)

Van der Merwe reckons it could fit well in diversified institutional portfolios. "You then enter the debate on the concentration of economic power, and other politically sensitive subjects, so it's a difficult decision"

The IDC has two large operating subsidiaries, Atlantis Diesel Engines and Sapeko The former is not doing well, is being restructured and is not expected to be a candidate for sale of control for many years The latter, an agricultural development arm, is not deemed suitable for a sale because, while it yields positive returns, there is no potential for adequate cash yields to private investors — though that surely depends on the price

Borrowings and cash flow will remain the first source of finance for new projects Van der Merwe says sales will, however, have to be made if only a small proportion of the projects now being considered get the green light — but there is no clarity on when this point will be reached

One or more of Van der Merwe's objections, of course, could be applied to virtually any privatisation — or, indeed, most flotations Any decent merchant bank could get around them in five minutes, some can be proved or disproved only by being put to the

continue

FM 19/4/91 (232)

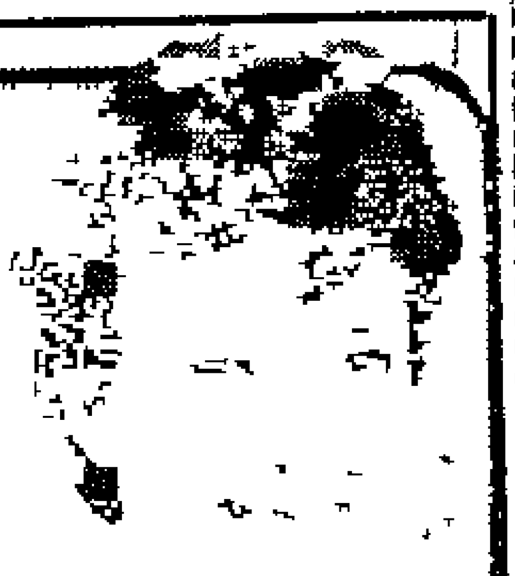
test It should be more important to mobilise capital — in the process, making the JSE a more liquid market — than hold on to listed shares indefinitely, waiting for a "right" moment to sell — that may never come.

The whole performance smacks more of self-justification for refusing to dismantle an empire which the IDC really has no business to maintain than of economic logic.

Andrew McNulty

DIAGONAL STREET

By JULIE WALKER



Genbel looks to Engen and UK holding

(232)

S/Times (Buss/T) 2/4/91.

COMMODITY prices will dictate Genbel's fortunes in the next two years, but this year's growth is already secured.

Managing director Anton Botha says he would have liked to reduce even further the gold content in Genbel's R3-billion portfolio of mineral and commodity investments, but it is difficult to do so

The gold holding is about 14% Much of the offloading from the 70%-plus content in 1987 has been done off the stock market because it is not easy to place large lines of stock through the JSE without depressing the share price

Mr Botha is confident of competitive growth from Genbel this year because of the expected contributions of major investments Engen and TransAtlantic, and from the benefits of restructuring various holdings

TransAtlantic is more readily associated with Liberty Life, but Genbel's 6,3% interest was acquired last year. The stake was initially offered to Gencor

Mr Botha says "Thirty years ago, Union Corporation owned 30% of Capital & Counties, now one of TransAtlantic's biggest investments

"The Capital & Counties holding was put into TransAtlantic in the early 1980s It was diluted over the years to 8,3% and raised to 14,6% in 1990," says Mr Botha

TransAtlantic accounts for nearly 11% of Genbel's investments

The biggest single holding

ANTON BOTHA Shedding gold

is in Genbeheer, which represents 17% of the portfolio. Impala accounts for 13,5%, Engen 11% and Sappi and De Beers each another 6,5%

Genbel has autonomy from major shareholder Gencor in the constitution of its investments But there is an understanding that Genbel will have the first right of refusal over a part of Gencor's acquisitions

The two worked together in placing 20-million Engen shares with institutions The energy group used to be 92% held between the pair, and a rights offer to raise outside capital for expansion became almost meaningless

The shares were placed at a 200c discount to the ruling price of R31 because it was worthwhile to offer large lines this way Some smaller lots were placed through the stock market

Mr Botha says that in both bull and bear markets, share prices are only an indication of true value.

He believes that negotiated commissions would go a long way to solving the problems besetting stockbrokers

Wholly owned Unisec, which formerly housed Genbel's short-term investments, now includes those made in the five-year time horizon

In addition to R200-million cash, Genbel also controls Randex, which holds exploration interests and mineral rights

Randex has diluted some of its gold interests and will diversify

Genbel's share price has been about 550c recently, a 16% discount to the net asset value of its investments The shares were 760c a year ago and 450c in January

Active portfolio management has done the share good, but as Mr Botha says, Genbel cannot buck the downtrend indefinitely

Genbel is one to watch when the economy recovers

UAL launches new products for investors

Star 22/4/91

232

By Jabulani Sikhakhane

UAL has launched two flexible unit trust-linked investment products, the Equity-Linked Provident Fund and the Capital Access Plan.

The Equity-Linked Provident Fund enables investors to build up a capital sum at retirement by investing in any one or all four of the UAL's unit trusts.

In terms of the prudency requirements of pensions and provident funds, 35 percent of the contributions will be invested in the UAL Gilt Unit Trust.

However, the investor may choose whether to investment more in the Gilt Fund or any amount up to 65 percent in any other equity unit trust.

UAL Management Company director Peter Anschutz says this effectively gives the employer, to whom the contributions represent a tax-deductible investment on behalf of the employee, the opportunity of building up a capital sum for his employees at retirement at a discount of 48 percent provided by the Receiver of Revenue.

The UAL's other new investment product is the Capital Access Plan, which provides an opportunity for the investment of capital sums such as the commuted one-third of retirement annuities and pension funds which previously had been invested in growth funds.

Investors may now use the Capital Access Plan to invest capital sums in a plan with potential for capital growth, enabling them to make tax-free capital withdrawals to supplement their income.

Consumer markets are set for a change

232 180

B/Day 23/4/91.

A COMBINATION of a deregulated competitive environment, growth in black buying power and the return of the multinationals will alter the nature of business in local consumer markets in the '90, says Perry & Associates MD Neil Ross.

"The informal sector has developed as a direct consequence of deregulation — but the established captains of industry and commerce do not understand how it operates or how this can be used to their companies' advantage

"For instance, white businessmen need to understand black ways of doing things, and the fuctioning of the burgeoning black distribution networks.

"It is not enough for white businessmen to be aware of such developments as spazas and stokvels when the integration of their business with the informal sector can give them a competitive edge in the new SA," Ross says.

Much has been said about the size and importance of the black market — but Ross says it will be open only to companies with access to the networks that reach the consumers.

Not only is the informal sector complex — but the situation is made more so by the rate of urbanisation.

Another factor which will impact on the local scene is the imminent lifting of sanctions and the return of multinational competitors.

"Local businessmen must keep an eye on global as well as local competition.

"They need to consider the advantage that could be obtained by a multinational competitor with regional domination of southern Africa.

"Multinationals will require instant distribution networds to launch their products — especially in the consumer sector.

"Regional dominance will start with dominance of South African distribution channels," he says.

Because of this, it is essential for local companies to select and develop their distribution channels.

Mr P G SOAL Mr Chairman, with respect, may I address you on that?

The CHAIRMAN OF THE HOUSE Order! The hon member may address me, but he cannot stop the clock

Mr P G SOAL Mr Chairman, on a point of order When the hon the Deputy Minister replied to the hon member for Houghton after he posed a follow-up question when the hon the Deputy Minister responded to Question 8, the hon the Deputy Minister invited him to ask that question when he had replied to Question 9 As the hon member for Houghton asked that question when there was still time available, I would ask you to allow the hon member for Houghton to ask his question

The CHAIRMAN OF THE HOUSE Order! There are questions on own affairs that have to be dealt with, and the time for questions on general affairs has expired I cannot extend the time, and neither can I stop the clock

Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament

*9 Mr D J Dalling—Manpower [Question standing over]

Medical Bureau for Occupational Diseases

*10 Mr P J PAULUS asked the Minister of National Health †

(1) Whether the post of Director at the Medical Bureau for Occupational Diseases has been filled, if not, why not, if so, (a) by whom and (b) as from what date,

(2) whether she will make a statement on the matter?

B803E

The MINISTER OF NATIONAL HEALTH

(1) No, the appointment of the candidate who has been nominated for the post of Director has not yet been finalised The appointment will be finalised as soon as the recommendation of the Commission for Administration has been obtained,

(2) no

Foskor: privatisation

*11 Mr P J PAULUS asked the Minister for Economic Co-ordination and Public Enterprises †

232

(1) Whether, with reference to his reply to Question No 20 on 5 June 1990, the investigation by consultants into the feasibility of the privatisation of Foskor has been completed, if so,

(2) whether Foskor is going to be privatised, if not, why not, if so, when,

(3) what is the current value of Foskor's assets,

(4) whether he will make a statement on the matter?

Hansard 23/4/91

B804E

The MINISTER FOR ECONOMIC CO-ORDINATION AND PUBLIC ENTERPRISES

(1) Yes The investigation has shown that the privatisation of Foskor may form part of stabilising and rationalising the phosphate industry in South Africa This aspect, as well as the marketing of phosphoric acid internationally, and the position of the relevant role players in this regard are receiving attention at this stage

(2) No decision has yet been taken

(3) R363 677 000, based on share capital and reserves as at 30 June 1990

(4) No

White Paper on Land Reform

*12 Mr J CHIOLÉ asked the Minister of Planning, Provincial Affairs and National Housing †

(1) Whether any documents or copies of documents regarding the Government's intention or proposals in connection with the White Paper on Land Reform were furnished to the ANC, officials of the ANC or bodies allied to the ANC, or discussed with any such person or body, before the said White Paper was officially released, if so, what was the (a) nature and (b) purpose of the liaison concerned,

(2) whether, after such liaison, any changes were effected before the said White Paper was released, if so, what are the relevant details?

B808E

The MINISTER OF PLANNING, PROVINCIAL AFFAIRS AND NATIONAL HOUSING

(1) No

(2) Falls away

Mining at St Lucia

*13 Mr R F HASWELL asked the Minister of Environment Affairs

(1) Whether he has received an environment impact study on proposed mining on the shores of Lake St Lucia, if so, when will the study be made public,

(2) whether he supports the creation of a park which incorporates and links Lake St Lucia with the Sodwana State Forest and the Mkuze Game Reserve,

(3) whether he will make a statement on mining activities within the boundaries of our national parks?

Hansard 23/4/91

B814E

The MINISTER OF ENVIRONMENT AFFAIRS

(1) No The environmental impact study currently under way will only be completed in the beginning of 1992 Any individual or organisation who still wishes to contribute to the study is free to do so Interested and affected parties are also given regular updates on the progress of the study It is also the aim to produce a draft report before the end of this year, which will be made available to the public for comment

(2) I support the creation of such a conservation area However, before the area can be declared a conservation area all parties who have vested interests must be consulted Such consultations are already under way for a considerable period of time

(3) Legally no mining activities may be undertaken within the boundaries of declared national parks and I subscribe to this Regarding the St Lucia environment, I wish to reiterate that the area in respect of which mining rights exist is not situated within the boundaries of a national park or any other park or conservation area, but that the mentioned environmental impact study covers a wider area than only that to which mining rights are attached and thus also includes conservation area

Myburgh Park development project

*14 Mr J VAN ECK asked the Minister of Planning, Provincial Affairs and National Housing

Hansard (23/4/91

(1) Whether the Cape Provincial Administration recently approved a housing development project in Langebaan known as Myburgh Park Phase 2 (and Extension), if so, when,

(2) whether the area scheduled to be developed to the south-west, south and north-east of Stompneusrots was proclaimed a nature area in 1984 and deproclaimed in approximately 1989, if so, why was the status of this area changed,

(3) whether he will comment on the opposition to the development of this nature area for residential purposes expressed by a Prof Retief, particulars of whom have been furnished to the Minister's Department for the purpose of his reply, if not, why not, if so, what are his comments

(4) whether it was brought to his notice that no application for the rezoning of this area from a nature area and/or land for agricultural use to land for residential use had been submitted and that the legal requirements for rezoning this land had allegedly not been met, if so, what steps does he intend taking in this regard,

(5) whether the alleged marketing of this land up to the high-water mark is being effected in accordance with the provisions of Plan 1 069 in terms of which the permit for this housing development project was granted, if not, what steps does he intend taking in this regard?

B820E

The MINISTER OF PLANNING, PROVINCIAL AFFAIRS AND NATIONAL HOUSING

The Cape Provincial Administration is not responsible for rezoning within the jurisdiction of white local authorities It falls within the area of responsibility of the Administration House of Assembly Because of the above

Trafalgar reopens battle for Saambou

232

Star 25/4/91.

By Ann Crotty

It looks as though the control position at Saambou may be thrown wide open with the news that Trafalgar is coming back with a second offer pitched at 180c a share

In January Trafalgar surprised the market with a conditional offer to purchase 30 percent of Saambou at 140c a share Ahead of that offer the share had been trading at 130c

The offer resulted in Trafalgar building up a stake of only three percent

More significantly, the offer precipitated a counter move by Fedsure aimed at establishing a 30 percent stake in Saambou

This would give it effective control and protect it from another unfriendly bid There were also believed to be some longer-term operational benefits

The Trafalgar offer may unhinge Fedsure's attempt to play the white knight

The Fedsure/Saambou deal, struck on January 31, involved the sale of a Fedsure asset (Planet Finance) to Saambou in exchange for the issue to Fedsure of 39 million convertible debentures (CDs) at 140c a CD

The CDs were convertible over a three-year period to March '94 at the election of Fedsure On full conversion of the CDs, Fedsure would have a 30 percent stake in Saambou

The fragmented nature of the share profile meant this stake would give it effective control — at 140c a share

A general shareholders' meeting was apparently planned for mid-May to approve the issue of the CDs Approval needs at least 50 percent of those present (or submitted proxies) voting in favour

Given the shareholder profile and the fact that the Saambou management and board supported the transaction, initially it seemed that support for the deal was guaranteed

More recently strong buying of Saambou encouraged the view that a third and unknown party might be attempting to interfere with the plan

Now, amid this speculation, Trafalgar has announced it will be making an offer to acquire 30 percent of Saambou at 180c a share Apparently one of the conditions of this offer is that the Fedsure deal is not implemented

Trafalgar's Pieter Hougaard says the offer is based on the existing number of shares in issue, but adds that Trafalgar reserves the right to waive this condition

The offer will be open until mid-June, which means it will overhang the shareholders' meeting due in mid-May to vote on the issue of the CDs

Depending on how many shares it picks up between now and the meeting, Trafalgar could determine its outcome and therefore the future of the Fedsure/Saambou deal

One important factor wor ing in Fedsure's favour is th 45 million of the 85 million shai in issue are held by a large nu ber of small investors who w tend to be apathetic or to vote line with the advice of the Saar bou board and management

But the recent strong buying Saambou suggests there could l scope for Trafalgar to tie in wi another party in order to inte fere with the Fedsure deal.

The bulk of the recent buyir has been done in the name of (Main St — a nominee compan that is associated with Old Mu tual, Nedbank and UAL

The identity or motive of th buyer is unknown (it is not Tra falgar), but aggressive buyin since December has resulted i the nominee lifting its stake fron four percent to 13 percent, mal ing it the largest single shareholc er

Other significant shareholder include Investec with 10 percen (there is some uncertainty over a link between this stake and Prestasi), Sanlam with 9 percent, Metropolitan with four percent anc CC Exchange (thought to be Prestasi) with four percent.

On the basis of short-term prospects and current asset valuations, analysts caution against shareholders looking to an Absa-type battle.

FOCUS

Special payout raised taxpayer hackles

(232) (232) BDay 26/4/91

was being made at taxpayers' expense because of state subsidies which Putco had been receiving

The company itself has never disclosed the extent of the subsidies it received from government but they are substantially more than the operating losses and include amounts which provide for the replacement of the bus fleet based on an estimated vehicle life of 15 years An estimate of each year's subsidy can be made from the Transport Department's annual report but even that does not specifiy what Putco gets In all, government pays out about R450m a year in taxpayers' money to subsidise transport

Putco constantly pleaded poverty and cited rising fuel costs, smaller loads and strikes and resultant higher wages as the rationale for raising fares

The special dividend payments were made from reserves of R172m built up from cash flow earmarked for fleet renewal The company said that reserves were far more than needed to replace buses even at 1990 prices and the money was made over to shareholders, who the company said had earlier forgone full dividends to build up the reserves Given the state of the people transport industry and with no improvement in sight, the company argued the dividend was the only choice

A spokesman for Putco said the bus company was controlled ultimately by the Carleo family of Italy through controlling shareholder Carleo Enterprises He argued that as Carleo Enterprises — which at last count held 52% of the shares — was a private SA company, none of th payout would leave th country Analysts say tha remains to be seen.

When the special div dend was paid, Putco MI Jack Visser went on recor saying this did not signi withdrawal from the bu market The company re mained confident of th need for buses

Share-watchers hav since been keeping a clos eye on Putco Properties i case there was a quick pro fit to be made from anothe such move

Cape Times 26/4/91

Share-watchers focus on Putco's moves

232

Own Correspondent

JOHANNESBURG — Putco's share price went on a roller-coaster ride in May last year, when market rumours had it that the ailing company was about to distribute a special dividend to its long-suffering shareholders

The company duly, on May 17, announced a 310c special dividend on its 26,4m ordinaries, almost double the share price on the day

The move was roundly slammed by taxpayer watchdogs who claimed the huge dividend was being made at taxpayers' expense because of state subsidies which Putco had been receiving

The company itself has never disclosed the extent of the subsidies it received from government but they are substantially more than the operating losses and include amounts which provide for the replacement of the bus fleet based on an estimated vehicle life of 15 years

An estimate of each year's subsidy can be made from the Transport Department's annual report but even that does not specify what Putco gets

In all, government pays out about R450m a year in taxpayers' money to subsidise transport

Putco constantly pleaded poverty and cited rising fuel costs, smaller loads and strikes and resultant higher wages as the rationale for raising fares

The special dividend payments were made from reserves of R172m built up from cash flow earmarked for fleet renewal

The company said that reserves were far more than needed to replace buses even at 1990 prices and the money was made over to shareholders, who the company said had earlier forgone full dividends to build up the reserves

Given the state of the people transport industry and with no improvement in sight, the company argued the dividend was the only choice

A spokesman for Putco said the bus company was controlled ultimately by the Carleo family of Italy through controlling shareholder Carleo Enterprises

He argued that as Carleo Enterprises — which at last count held 52% of the shares — was a private SA company, none of the payout would leave the country Analysts say that remains to be seen

When the special dividend was paid, Putco MD Jack Visser went on record saying this did not signal withdrawal from the bus market. The company remained confident of the need for buses

Share-watchers have since been keeping a close eye on Putco Properties in case there was a quick profit to be made from another such move

STANDARD'S PUBLIC SNUB

SHIFTING ALLIANCES

F m 26/4/91

232

OLD LOYALTIES UNDER NEW PRESSURES

Great earthquakes or upheavals are sometimes foreshadowed by unexpected small shudders — such as the one that occurred last week when Old Mutual's man unexpectedly raised his hand at Standard Bank Investment Corp (SBIC)'s AGM and succeeded before he left in blocking the banking group's attempt to increase its issued share capital

Certainly it had to be seen as a public rebuke by a large shareholder, especially as three SBIC directors who are also Old Mutual directors retired that day from the bank's board. It smacked, too, of bad manners For, at first view, it was no more than a routine and prudent provision that was being blocked

Shareholders' meetings in this country are usually quiet affairs at which dissension rarely occurs It is not often that the giant institutions disagree publicly Differences are more likely to be settled in private. Until last week, SBIC was no exception Nobody has outright control of SBIC but the big shareholders — some of whom compete directly with one another — have for years seemed to get on well enough.

The puzzle that investors and customers are trying to piece together now is what this sudden and rather petty public demonstration either means or masks

One clue is that Donald Gordon, chairman of Liberty Life, which is SBIC's biggest shareholder with about 33%, is tartly criticising Old Mutual, a direct competitor of Liberty Life But are Gordon's protestations justified? Could Mutual's vote have been more of a defensive nature — to protect its own (20,2%) SBIC interest, or the competitive position of Nedcor?

What is interesting in the circumstances, is that Mutual was not the only shareholder unenthusiastic about the proposal, which could be seen to have the potential to upset a delicate balance of power Holders of about another 10m shares took the more polite, but equally effective, route of abstaining. A special resolution requires the support of at least 75% of shareholders represented at a meeting, either in person or by proxy Rembrandt, holder of 10,5m shares or 10,7% of SBIC, has that honour — its abstention ensured the proposal would fall flat.

That raises another possibility. Have longstanding relationships between powerful institutions and their shareholders been altered by the recent formation of Amalgamated Banks of SA (Absa), the new and giant financial services group in which some of the institutions and their shareholders already mentioned also have interests? Could this have raised dormant susceptibilities and subtly altered allegiances?

Cross-holdings between SBIC and Liberty, as well as the role the former will play in anointing Gordon's successor, mean that these two groups have grown increasingly like Siamese twins When Mutual and Rembrandt chose to snub the SBIC board's plan to increase the authorised share capital by about 20% more shares, leaving 33,5% of the shares under the discretion of the directors, they were snubbing Gordon too

Until recently, that would have been almost unthinkable Mutual and Liberty, of course, are old rivals But Gordon and the Rupert family (controlling shareholders of Rembrandt) are personal friends Each has supported the other in their financial activities Richemont, for example, has about 20% of Liberty's UK company, TransAtlantic, Richemont and Rembrandt are among Liberty's major portfolio investments. Both parties participated in the GFSA deal when Cons Gold sold out

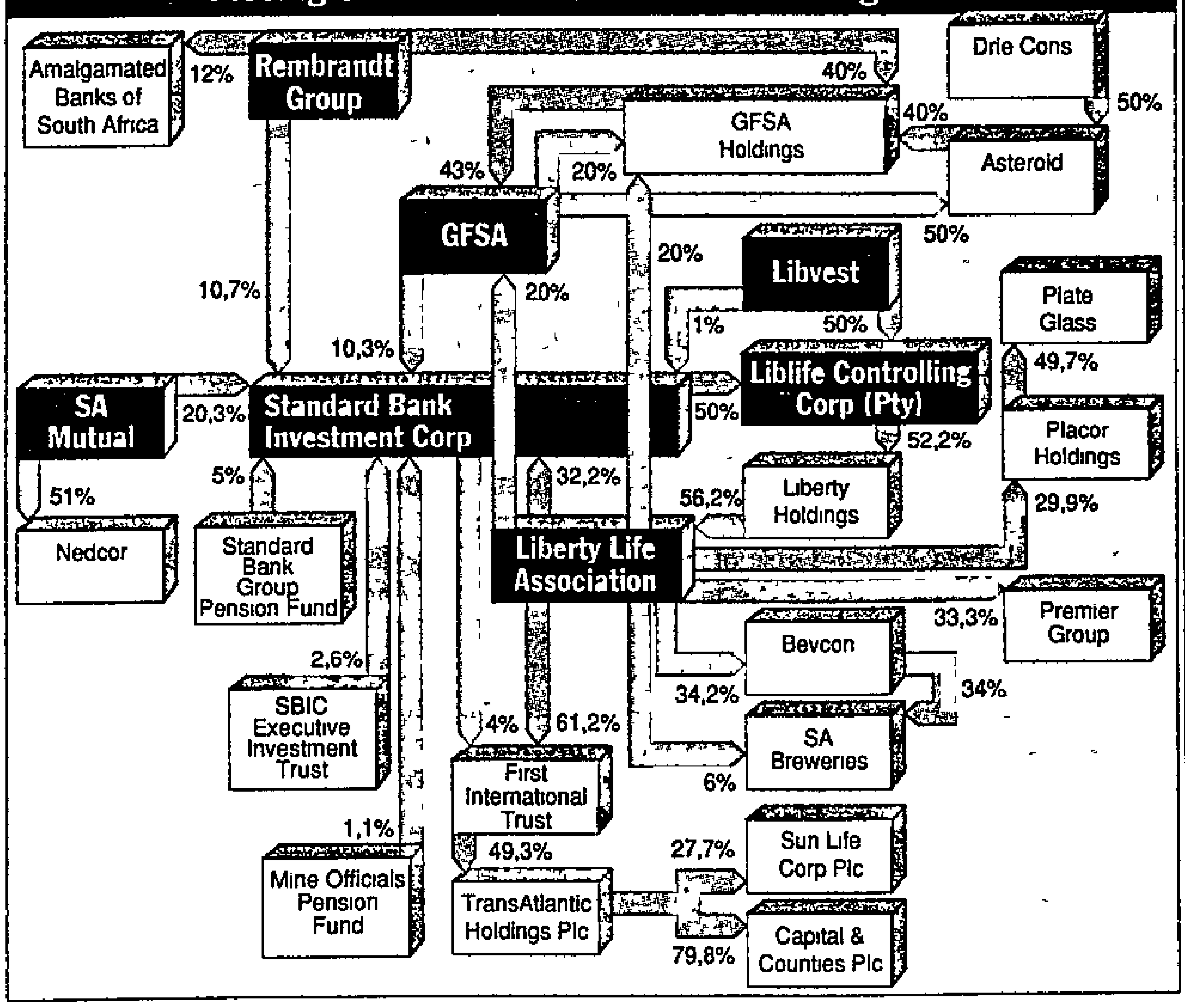
But both Gordon and Rembrandt have let it be known that things are no longer the same between them A rift occurred some time ago and deepened when Rembrandt consolidated most of its other interests in the financial services sector in Absa, thereby creating what could turn out to be a tough competitor for SBIC and, potentially, Liberty, when substantial insurance interests are also brought together

Gordon says he felt that, as he had been instrumental in Rembrandt acquiring its stake in SBIC, Rembrandt should relinquish its SBIC shares when Absa was formed He proposed an arrangement which would have resulted in Liberty buying the SBIC shares, while Liberty would sell its 7% holding in UBS

Rembrandt did not find the terms of the proposal attractive and retained its SBIC shares Liberty lodged a proxy supporting the Absa resolution, but Gordon says he remained concerned that a competing interest was holding a powerful position in SBIC which was not far short of the stake held by the SBIC-Liberty axis

He made his concerns and criticisms known around town. When this reached Rembrandt, especially deputy chairman Johann Rupert, his reaction was swift and pointed Immediately before the shareholders' meetings of Absa, Volkskas and Allied on March 26, Rembrandt started buying

Piecing the financial services network together



considered now, acquisitions could be made

This sounds reasonable but it is also rather open ended At least one significant shareholder feels the proposed issue was simply too large without having the purpose clearly specified It is noted that UK company law has special provisions to protect shareholders in the event of shares being issued beyond a specified level. This does not apply to the same extent under SA law In the UK an increase in capital requires only an ordinary resolution (with approval of a simple majority), but in SA it involves a special resolution, which enables votes to be blocked by a minority shareholder


Levett


De Villiers

De Villiers says without the intended increase in authorised capital, the group is left with surplus capital of about 15m shares "That is all right for now, and our growth should not suffer, but sooner or later we will have to go back to shareholders," he says "Some water will have to flow under the bridge first." There is no need for a rights issue for the next several years, though De Villiers points out that the issue of shares instead of dividends is in the nature of a rights issue

The planned share issue was not unduly large After rights issues and mergers by other banking groups, the surplus capital would have been above the local average, but not necessarily out of line with international banks A merchant banker says many local companies have a larger proportion of shares under control of the directors, and clients are often advised to increase their capital to avoid signalling plans such as a rights issue The financial flexibility and, in this case, improved ability to ensure compliance with the capital ratio requirements of the Deposit-Taking Institutions Act, may be a further consideration

Clearly, though, the veto of the share plan emphasises the sensitivities of shareholders in the present context For that matter, Gordon, in combative mood, does not quite give the impression that it is business as usual As the Sun Life board would attest, he is no stranger to shareholder battles

But it is questionable how much room Gordon or the other protagonists really have to manoeuvre in the current climate. The Takeover Code would almost certainly be a constraint for Liberty, as it already owns more than 30%, an acquisition of a further 5% during a 12-month period would trigger the requirement for a full bid at the highest price paid.

It is easy to speculate on motivations If Mutual could take control of SBIC, that would raise the possibility of merging their insurance interests into a mega-assurer, while Nedcor, a Mutual subsidiary, could be moved into SBIC From Rembrandt's standpoint, a successful move on SBIC could enable a deal between Absa and SBIC, with Liberty and Momentum put together.

At present this all sounds like fantasy. The idea of the Competition Board allowing such megamergers sounds preposterous But perhaps in five or more years such restrictions will have vanished, and strategic positions taken now will become crucial

Mutual chairman Mike Levett simply says Mutual's policy is never to comment on particular companies or situations That may be all right as an investment tactic But other SBIC shareholders deserve to be told just why the share plan was vetoed — and whether concerns about Nedcor's competitive position was a factor

Before deciding on its next move, SBIC's board wants to rebuild some bridges This will be done partly through discussions with major shareholders It could also be achieved partly through new board appointments

At last week's AGM, three directors retired — former GFSA chairman Adriaan Louw, Safren chairman Alistair Macmillan and former Barlow Rand chairman Mike Rosholt These, interestingly, are all members of the Mutual board However, De Villiers emphasises they were SBIC directors before joining Mutual, company rules require directors to retire at the AGM after their 70th birthday New appointments will probably be announced in about a week Rembrandt does not have a director on the SBIC board, apparently out of concern about conflicts of interest — though SBIC regards Joep de Loor in that light

But then virtually none of the big players in corporate SA is disinterested, or can easily avoid conflicts of interest That is the essence of the drama to which Old Mutual's protest last week points Even if bruised relationships are repaired soon, the advent of the DTI Act and its redistribution of competitive advantage and the emergence of Absa, and the new relationships it has forged, makes certain that the financial services sector is in for a period of flux and there will be more surprises

Andrew McNulty

RAINBOW/HLH FM 26/4/91 (232)

FUNDING THE POULTRY EXPANSION

As expected, Rainbow Chicken has announced a rights issue to fund its large acquisitions from Premier Group It remains to be seen how many of the shareholders will take up their rights But for Rembrandt-controlled Hunt Leuchars & Hepburn (HLH), which owns about 25% of Rainbow, the effects will include an increased exposure to the poultry industry, with its low margins and fluctuating earnings — though the long-term growth has been good

HLH maintains an almost ungeared balance sheet but is raising R223m in its own rights issue to underwrite Rainbow's R252m issue Rainbow's issued shares will be increased by 34%. The ultimate underwriter is Rembrandt, which will inject more than R100m into Huntcor, which controls HLH

HLH is able to exercise the rights of S C Methven, which owns 68% of Rainbow The Methven family realised some of their interests in Rainbow at the time of the listing, and HLH considers the family "less than likely" to take up their rights in this offer Should HLH take up its own rights and those of the Methven family, it will increase its shareholding in Rainbow to 42%

The Rainbow year-end will change from June to March, to bring it into line with the Rembrandt stable HLH will continue to equity-account Rainbow But HLH executive Andrew Gallow stresses that the group intends to increase its holding in Rainbow but not to take control

This is the second time HLH has held a rights offer to fund its investment in Rainbow In June 1989 it issued shares worth R148m, at a price of 775c, when it acquired the 25% stake It was almost fully subscribed with just 0,5% of the shares not taken up The HLH price has risen to 1 300c, so shareholders have not done badly since then

HLH has evidently proved to be a useful partner which gave full backing to two key Rainbow moves the decision to integrate backwards into feed mills, and the recent acquisition of Rainbow's main competitor, Bonny Bird, and 50% of Epol animal feeds The present rights issue is designed to fund this deal

However, the new Rainbow shares, at 270c, are being pitched 15c below the June 1989 issue price of 285c Because of the legendary reputation of the company's founder, Stanley Methven, and Rainbow's reputation for efficiency, it was awarded instant blue-chip status The issue at the listing was 92% oversubscribed, though most brokers considered them expensive at a p e of 10,9 on the forecasted earnings

But Rainbow's performance as a listed company has been bumpy EPS for financial 1989 of 26,8c exceeded the forecast of 26,1c, but Rainbow was 1c short of its 1990 EPS target of 32,3c More significantly, earnings declined by 11% at the December interim compared with the December 1989 interim

Analysts agree that Rainbow's offer at 270c does not offer value in the short term One broking firm predicts EPS of 20c in the year to March 1991 — giving a p e of 13,5 — and 23,6c in 1992, well down on 31,3c for the year to June 1990

But there is disagreement about Rainbow's long-term prospects One analyst argues that Rainbow is at the bottom of its earnings cycle and will enjoy the benefits of the Bonny Bird acquisition by 1993

"Much of Bonny Bird's older capacity had been shut down before it was sold to Rainbow," he says "Rainbow's tight management systems should ensure the former Bonny Bird operations make a full contribution by the beginning of financial 1993 (April 1992) "

The long-term growth in demand for white meat, which has grown almost as rapidly as the demand for red meat has declined, underpins the optimistic view The pessimistic view, held by Ed Hern, Rudolph's Sid Vianello, is that Rainbow's decision to build its own feed mills for R237m — instead of continuing to buy feed from Tiger subsidiary Meadow Feeds — has turned Rainbow from an interest earner to a borrower He says the potential profitability of the mills is difficult to assess

Rainbow's strong cash position has enabled it to ride out economic downturns in the past Says Vianello "The key to Rainbow has always been that it has been a highly-focused business which concentrates on just one product "

As for HLH, analysts fear that its earnings from Rainbow will be of lower quality than those from its interests in sugar, spices and timber

Nevertheless, Vianello believes the HLH offer is more promising than is Rainbow's — largely because a diversified portfolio should have better long-term prospects than a counter dedicated to the volatile poultry industry

Stephen Cranston

CONS MINING FM 26/4/91

LAING DEPARTS

In an unexpected and sudden parting of ways, Consolidated Mining Corp (CMC) MD Glenn Laing has split from the group's controlling consortium led by Norman Lowenthal, Gerald Rubinstein and his original Southgo partner, Roy Flowerday

Laing has formed a new mining company

FM 26/4/91

called Revere Resources SA, with an overseas partner he declines to identify He intends building a mining group concentrating on surface and opencast mining operations, but will not provide further details of his plans at this stage

Reason for the split, according to both Laing and Consolidated Mining director Norman Lowenthal, was an irreconcilable

Cons Mining's Laing *a difference of opinion*

difference of opinion on how CMC should be managed and on the group's longer-term objectives Both stress the parting is amicable

Says Laing "The essential difference between me and my former partners is that I turn 40 this year while the rest of them are aged between 53 and 60 In my planning I'm looking 20 to 25 years ahead, while they are looking five to 10 years down the road

"I want to go for long-term growth while they are looking at setting-up the group to cash in their stakes in about five years," adds Laing "I am not prepared to stay with the group if it's going to be sold out from under my feet in five years' time "

Lowenthal confirms this difference in viewpoint but denies the group would be sold in five years "Five years is a long time in SA," says Lowenthal "We've been through a rough time and the group cannot simply keep on growing We have to consolidate and make money for the shareholders In five years we can reassess CMC's future "

Laing says the structure of the Wolhuter

continue —7

SAA to go it alone as a commercial airline

Political Staff

SOUTH AFRICAN AIRWAYS is to be restructured as an independent commercial venture, competing with other airlines for airport facilities

The Minister of Public Enterprises and Economic Co-ordination, Dr Dawie de Villiers, said yesterday that he had told Transnet to began restructuring SAA as a self-sustaining business Transnet would also open its facilities to other airlines

Replying to parliamentary debate on his department's vote, Dr De Villiers suggested SAA's international and domestic services would be separated to remove cross-subsidisation

The decision to commercialise SAA is based on the findings of consultants appointed last year to investigate its role in a deregulated market

The airline would be independent of Transnet and would present financial statements, Dr De Villiers said

It would no longer receive preferential treatment Airport infrastructure and facilities — including central reservations and training facilities — would be opened to other airlines

"I believe the .. public can look forward to an improved service," Dr De Villiers said

At an aviation conference earlier this week, SAA's chief executive, Mr Gert van der Veer, recommended the scrapping of government control of international air fares and said other SA-based airlines should be allowed to compete on international routes

Before Dr De Villiers's announcemnt in Parliament, Mr Tony Leon, DP, Houghton, slammed SAA's price fixing and bilateral agreements. He said SAA fares had risen by 160% since 1985 as a result of the government's "protectionist practices"

"Perhaps an alternative would be for SAA to lease out its aircraft on the overseas route until such time as sanctions are over At least this would enable our consumers to have affordable overseas travel," he said

Govt plan for better economic structure

CAPE TIMES 26/4/91

Political Staff

THE Minister of Economic Co-ordination, Dr Dawie de Villiers, yesterday announced a new expanded economic restructuring programme rearranging government spending to place more emphasis on safer economic reform

He said the economic restructuring announced by the late Dr Wim de Villiers was already reaping benefits and the revised plan agreed to by the cabinet involved economic policy directives that included

- Increased competition through further deregulation
- Cutting growth in state spending after a review of its responsibility in the economy.
- A determined application of business principles such as cost-benefit and other evaluative techniques in the public sector
- The elimination of the practice of funding part of government consumption spending through loans

He said a much more co-ordinated approach had to be followed Job creation and economic growth were the highest priority for SA and "we must guard against striving after other objectives, such as regional development, in a manner that is at the cost of economic growth and job creation"

He also indicated that he was investigating appointing a group of consultants from the private sector rather than one adviser to assist with economic policy formulation and co-ordination (as announced recently by President F W de Klerk)

With the greater stability in exchange rates, greater wage stability over the past few months and the recent decrease in the petrol prices there could be a lessening of price rises in the foreseeable future

This would enable businesses to cut costs, be internationally more competitive and have lower price increases, resulting in a lowering of inflation

During the next two years the government's programme for curbing inflation would be scrupulously supervised and provide for a variety of measures to promote a more efficient functioning of the market system

Brewer rolls out shares barrel

(232) (ECON) (SOC) City Press 28/4/91.

By LULAMA LUTI

AFTER campaigning for 80 years for more say over the sorghum beer industry the black community is now poised to control it

The black-controlled National Sorghum Breweries (NSB) – which has an annual turnover of R350-million – this week announced a share issue The NSB share issue opens on May 17 and closes on June 14 Company employees will get preference, with about 30 percent of the issue being reserved for them

The remaining 70 percent will be offered to distributors and consumers Runners, retailers, and shebeen and tavern owners will get special consideration

During the share issue period there will be an intensive 'enlightenment' programme for prospective shareholders As a back-up to the programme toll-free phone lines will be available Advisers will man them for 12 hours a day

The company, run by a two-man board under the chairmanship of well-known businessman Mohale Mahanyele, will not go for listing on the Johannesburg Stock Exchange for the time being

Shareholders will not be allowed to hold more than 10 percent of the company's shares, said Mahanyele, so takeover bids by big companies can be avoided

Group managing director Sam Mosikili said he hoped the enlightenment programme would "dispel suspicion and ignorance about shares in the black community"

The sorghum beer industry accounts for more than a third of all alcoholic beverages consumed in South Africa and has been under government control since 1908 NSB took over control from the government last year

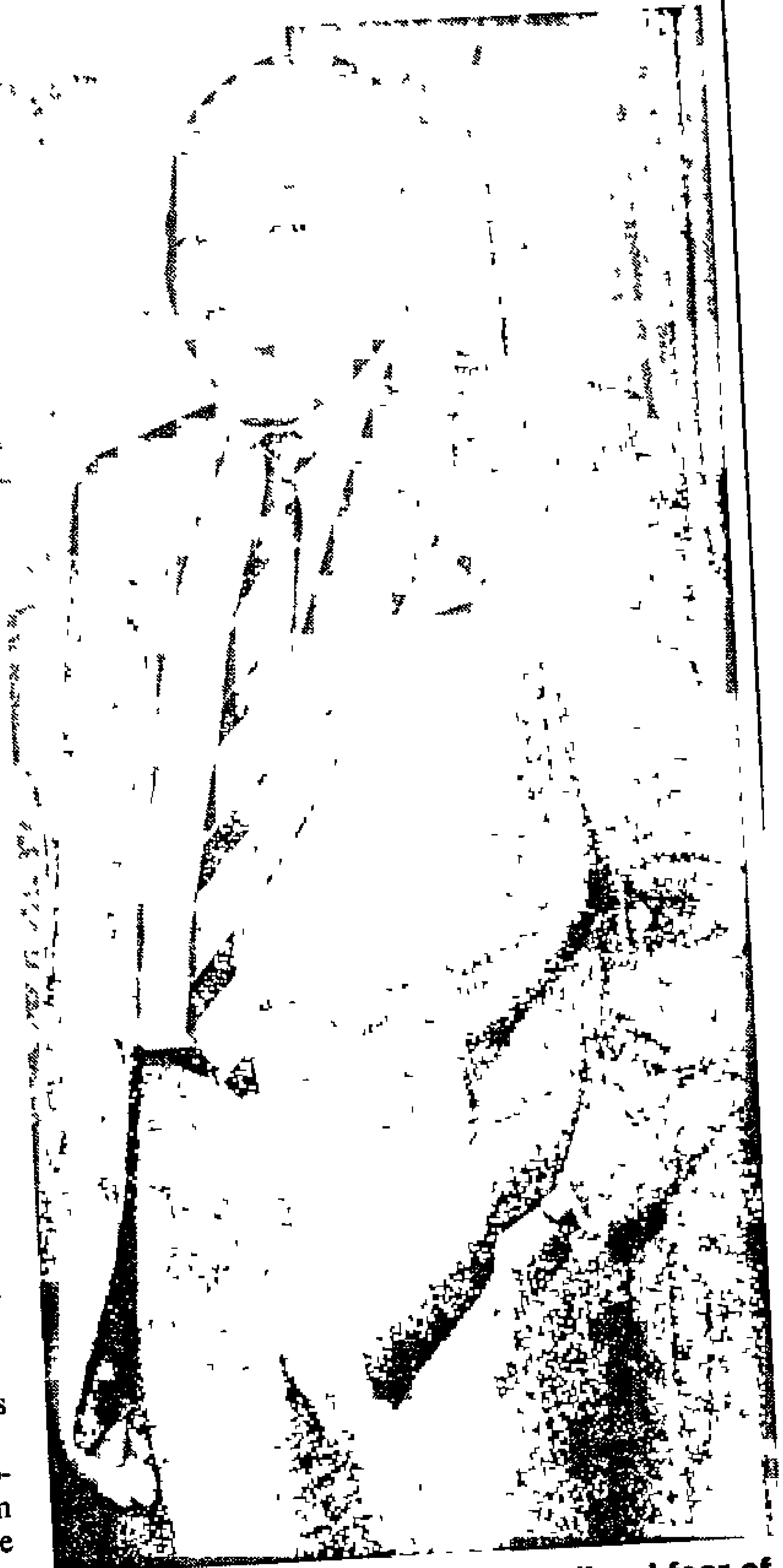
The directors hope the privatisation of the company will mean it will be wholly-owned by employees and members of the community

Said Mahanyele "If we are to even out the disparity in the economy we must ensure that we give opportunities to black people

"Without meaningful black involvement in business the much-vaunted new South Africa may never become a reality"

NSB has 18 breweries The largest division is iJuba in Natal

"I hope traditional supporters of the sorghum beer industry will seize this opportunity to obtain control of this, their industry," said Mahanyele



Mohale Mahanyele . . . hoping to dispel fear of black community towards ownership of shares.

R100m Putco payout looms

S/Times (Bus IT) 28/4/91. (232)

By DON ROBERTSON and DAVID CARTE

PUTCO shareholders are in for their second bonanza in a year after a board decision to sell the company's buses and other assets.

The board is dominated by the Carleo family who hold 52,5% of the shares

Shareholders are expected to receive R100-million or more from the sale They pocketed a special dividend of R82-million over and above a normal R2,5-million last year after tax on dividends was scrapped

The share price nearly trebled from 80c to 225c on Thursday after Wednesday's decision

If values placed on buses and properties by stockbrokers' analysts are realised, the price could have added upside potential

For years Putco has cried poor, publishing minimal profits or large losses in spite of big but unquantified State subsidies

Profits and losses were stated after depreciation provisions — R40-million last year and R35-million the year before (see table on Page 3)

Offer

Strong cash flow in spite of poor profitability has seen to it that residual asset value has stayed sky high The possible asset strip announced this week has been expected by many analysts for years

Net asset value, says managing director Jack Visser, is at least the published R100-million, or 378c a share If buses do not fetch acceptable prices in SA, they can be sold abroad Some analysts believe net asset value could exceed 400c

The Southern African Bus and Taxi Association (Sabta) has indicated that it could be interested in buying Putco if it looks profitable

Dr Visser does not take the offer seriously

"They couldn't raise the finance last time we spoke," he says

In consultation with the Department of Transport, Putco has identified parties who could be approached to buy divisions of the company

JACK VISSER Everything loaded against the big bus operator Picture TOM EDLEY

It wants to sell without disrupting services or laying off staff members, whose numbers are down from 10 900 in 1985 to 6 000

Dr Visser says some operations would fit in with those of competitors, notably in Durban and Pretoria These operations could be profitable after rationalisation The Soweto-Dobsonville service is barely profitable and could be difficult to sell

Dr Visser has been asked by Putco chairman Albino Carleo to complete negotiations within two months

Dr Visser attributes Putco's decline to inadequate fares and subsidies — and falling load factors because of inroads by mini-buses

"Buses are more economical than mini-buses, provided they are fairly full Unfortunately, our city layouts usually mean each bus can do only two peak-hour trips a day

"Unlike the mini-buses, we are heavily regulated We set fares annually in consultation with the department Taxis can change fares when they like We are wrongly seen by our customers as part of the Government or the system Mini-buses have more public sympathy

"They can load and get about more quickly They can also get closer to destinations They can go right into city centres We can't More affluent blacks prefer them and don't mind paying the higher fares"

Putco is not alone in its plight Last week, Boputhatswana Transport Holdings (BTH) said it would lay off 600 workers and withdraw 200 buses This followed a boycott after fares were increased on April 1

Putco decided in 1985 to stop buying new buses and to shrink its fleet because numbers transported had fallen from 353-million in 1984 to an expected 120-million in the current year

Bus subsidies in SA increased from R150-million in 1980 to R540-million in 1989 Operators say the R540-million represented only R127-million in 1980 money Last year, subsidies rose to R628-million, but only after the Southern African Bus Operators Association (Saboa) warned that unless they were increased the industry would collapse

In the current fiscal year, the subsidy will rise to R645-million, which Dr Visser says is still not enough to cover inflation of about 20%

Dr Visser says the company plans to have only 2 000 buses in operation by the end of June, with another 600 in "mothballs" This compares with 2 662 last year

Shrink

In the six months to December, Putco lost R14-million, but by introducing cost-cutting measures, a profit of R900 000 was earned in February

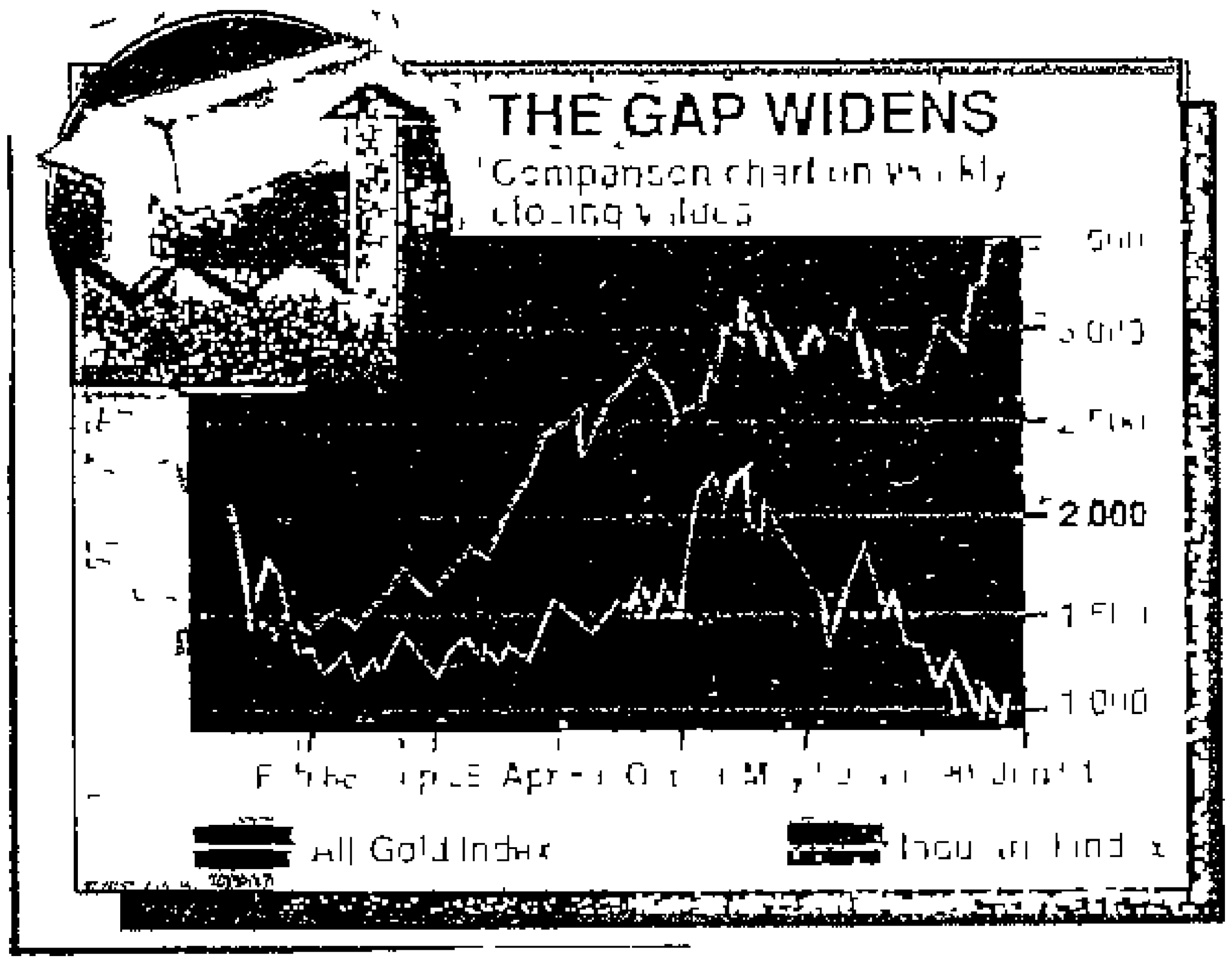
Dr Visser says "Putco has reached a stage where it has become difficult or impossible to 'shrink' the company any more It is a miracle that we have stayed alive for so long"

He insists that the decision to sell the company or close it down, is not a "threat" to the Government

Transport Minister Piet Welgemoed has assured passengers that the Government will see to it that Putco's services are not disrupted

Putco has bought few new buses since 1985, but has renovated 200 a year in its own workshops Each renovation costs R180 000 Dr Visser says the renovated buses leave the workshop worth R200 000 each

The 400 renovations could thus be worth R80-million One analyst says the 1 650 older buses still in operation could be worth R40 000 each, making another R66-million The 600 in mothballs are reckoned to be worth R25 000 each or R15-million



Tax uncertainty lifts industrials

S/Times Bus/T 28/4/91 (NSA) (232)

By CURT VON KEYSERLINGK

THE GOVERNMENT'S failure to make clear rules for taxing profits on share dealings has helped push the industrial share index to a record high, say brokers

The index hit 3 552 points on Friday for a gain of 34% since last October

"Prices are rising because there are few sellers," says Dawid Meades of Meades De Klerk "Many people are holding on to their shares because they do not know if they will be taxed on the profits they make if they sell

"I have a client who bought shares for R1,30 apiece last year," says David Cobbett of Simpson McKie "He wants to sell now, but fears he may be taxed because they are now quoted at R2,10"

Receiver

The confusion over tax has arisen because the Government has not yet given guidelines to distinguish between someone who buys shares in the expectation of selling at a profit in the short term — he is classified as a dealer and therefore taxed on his profits — and an investor who manages his portfolio to maximise his long-term gains

All that is known for sure is that the Receiver will not tax profits on shares sold after they have been held for at least 10 years There is less clarity on the tax implications of dealings with shares that have not been held that long

Mr Meades says that by world standards, the value of shares traded on the JSE is a small percentage of total market capitalisation

Quoting from a recent presentation by the Old Mutual, Mr Meades says shares are so tightly held that it would take an investor between three and six months to acquire R10-million worth in companies such as Nedcor, Liberty, UBS, Amic, AECI, Sappi and Safren if he were able get 25% of those shares coming on the market

It would take between 12 and 18 months to build up a similar position in companies such as First National, Stanbic, Fedsure, Murray & Roberts, Premier, Pick 'n Pay and TSI

It would take more than 18 months to do so in NBS, Volkskas, Afrox, Dorbyl, Ellerine, McCarthy, SA Druggists, Consol, Edgars and Foschini

"There is such a shortage of scrip that Sappi's share price hit an all-time high even though it reported a 38% drop in earnings earlier this month," says Mr Meades

Mr Cobbett says "SA Breweries is a good share, but its price seems high because it will soon face competition in beer."

Other factors in the market's rise are strong institutional cash flows, a dearth of rights issues, an improved political outlook and better economic prospects Lower inflation trends have given hope of further interest rate cuts in the next quarter

Consolidated Fund Managers says the fact that few big rights issues are likely soon will put more pressure on fund managers to buy industrials

"Gold shares are no longer in fashion," says Sanlam senior general manager Ronnie Masson "So a lot of institutional money is flowing into industrials Industrial shares are becoming expensive, but I do not expect a crash — perhaps a minor correction.

Nervous

"Foreigners have for some time been net sellers of SA stocks, but recently it seems that some are shifting out of golds into industrials Others, who have never done so before, are asking about industrials.

"It is perhaps because they are considering investing in SA, but are still nervous about setting up their own factories here They are dipping their toes in the water by buying shares that they can get out of at short notice"

Mr Masson says the gold index was higher than the industrial index before the October 1987 crash, but the opposite is now true

Turnaround planned for cash-strapped NCI

B/Day 29/4/91. (232) (NCI)

MARC HASENFUSS

DESPITE market speculation that New Company Investments (NCI) has serious liquidity problems, chairman Mike Clarke remains optimistic about the group's future.

"There is no disputing that times are tough, but this venture capitalist is not running away"

Clarke said at the weekend that the group would be embarking on a very specific turnaround strategy Details of the strategy were not disclosed by Clarke, but letters would be sent to shareholders this week

The group's last interim report showed a net loss of R3,5m for the six months to end September 1990, resulting in an accumulated loss of R12,4m

The JSE has been a major stumbling block in NCI's growth path Clarke maintains that the JSE's rules and regulations made it virtually impossible for NCI to get an underwriter for a rights offer.

He said the JSE had come to a point where a major attitude shakeup was necessary "The JSE has degenerated into a vehicle that no longer encourages entrepreneurship but instead promotes risk aversion"

The share has not come close to its 23c high in June last year after contradictory market rumours pushed the share down to well under 10c It moved from its 1c low to 2c on Friday

Initially shareholders perceived that the share would reach 40c-50c after listing, and tried to persuade the market to rate the share by feeding the market with information, Clarke said

He said his agenda was long term, and he did not want to hype the share before NCI consolidated its businesses

Clarke said because the share never performed to expectations resentment became apparent among those shareholders

This resulted in other, mostly inexperienced, shareholders being phoned by anonymous sources claiming to have inside information about NCI, causing the share price to fluctuate in recent months

Three-month trial phase for proposed JSE second-tier index

B/Day 29/4/91 . SEAN VAN ZYL 232 / 180

THE JSE research department's proposed second-tier index will be put on a three-month trial phase beginning next month, said spokesman Reiner Buss

He expected the index would come on line by the beginning of September with no additional costs passed on to JSE members. However, it would also have to be put before the JSE's general committee for approval

With over 80% of the market's total capitalisation tied up in about 77 companies out of a total of 753 counters, Buss said keen interest has been expressed by brokers and investors to establish a reliable actuarial monitor on medium-sized companies.

The JSE overall actuaries index is driven largely by the true blue chip stocks, about 20 companies controlling over 50% of total market capitalisation, which therefore determine the index's movement

Although the response to the JSE's second-liner index proposal last month was generally positive, Buss said uncertainty on the selection of the companies represented in the index has come up, and the JSE has requested interested parties to submit recomendations. "I will be meeting with Johannsburg parties who responded, over the next two weeks"

Cornerstone

However, he added that the trial run, consisting of three different indices from the upper, middle and lower end of the market, based on market capitalisation, will be monitored until the end of August "The final selection of 100 companies from these indices will then be chosen for the index"

Buss said the "cornerstone" in selection will be the marketability of shares. "The liquidity of the shares will have to be above the market average" The financial well-being and performance of the companies would also be a determining factor However, he conceded that low capitalised companies would be automatically ruled out in the selection process

While most brokers commented that the introduction of a second-tier index would stimulate both institutional and small investor interest in medium-sized companies, a senior partner at a leading firm felt it would just create confusion in the market. He said there are already two indices monitoring the industrial sector and a third would complicate the issue.

Furthermore, he said the existing indices are determined on a weighted capitalisation basis, which has also been proposed for the second-tier index, which distorts the true picture of the market He also felt it would be a long time before the index would be accepted by traders

Premier scoops Score, Metro in R300m deal

CAPE TIMES 29/4/91 (136) (232)

Own Correspondent

JOHANNESBURG. — Food giant Premier Group is to acquire Score Food Holdings in addition to Tradegro subsidiary Metro in deals estimated to have a value of about R300m.

The transactions will see the merging of the businesses of Metro and Score Food Holdings.

The Metro acquisition — estimated by analysts to be at 300c a share — will be followed by Metro undertaking a rights offer underwritten by Premier for more than R100m.

In an announcement today Premier, the Score Food group, the Tradegro group and Metro say that agreement in principle has been reached for Premier to acquire 70% of Tradegro's 36% shareholding in Metro. It will extend an offer to acquire 70% of each minority shareholder's holding.

This would leave Premier with an effective 50% to 60% holding in Metro.

Cash and carry group Metro's rights offer — estimated at over R100m — will be undertaken in order to reduce its debt. Metro's interest-bearing debt increased by 45% to R124,6m (R86m) in the 26 weeks to end-December, contributing to the group falling into the red. It reported an attributable loss of R342 000 (earnings of R15,5m) on a 23,5% increase in turnover to R2,14bn (R1,73bn).

Following the completion of the rights offer, the entire issued share capital in Score Foods — 15,1-million shares — will be exchanged for shares to be issued in Metro, thereby merging the businesses of Metro and Score. All transactions are subject to the conclusion of formal agreement.

Premier CE Peter Wrighton said yesterday the reason for the acquisition was that Premier believed that effective distribution to smaller customers was important. Premier was "also expecting an increase in social spending which would benefit the Metro and Trador markets". Trador is the core cash and carry business of Score Foods.

The deal had been planned 10 years ago, when many major players were becoming involved in distribution, Wrighton said.

Premier already has an existing stake in Score Foods, whose core business Trador has about 34 stores.

Score Food's annual report for financial 1990 shows that Premier had an effective 20,27% holding in Score Food, a 23,79% holding in its holding company Score-Clicks, and a 25% holding in Score-Clicks's holding company Score Discount Food Holdings. Premier's holding has presumably increased since then.

Last year Pepkor subsidiary Shoprite acquired 27 Grand Supermarkets from Score for R49,4m, leaving the group with wholesale grocery chain Trador, as well as Score discount foods stores.

Score Food MD Carlos Dos Santos said yesterday that the deal would see Score Food taking control of the retail interests, including Metro's Fairways stores and Score discount food stores. Turnover for the retail interests would be about R750m to R800m.

He said that control of the retail and wholesale interests of Score Food and Metro would be held by Score-Clicks and the Premier Group.

Star 29/4/91

Investors in scramble for Putco shares

232

By Sven Lunsche

Putco's share price surged 180 percent last week, from 80c to 225c, in the wake of the announcement that it would sell its six operating units

Buyers have so far not been forthcoming, but analysts estimate that the units are worth the published net asset value of around 380c a share, giving them a combined value of R100 million.

If all the operating companies were sold, the cash would be paid out to shareholders — hence the buying wave.

However, it is questionable whether a bus company is a profitable investment these days, given the competition from the black taxi industry.

On the other hand, Putco's has about 2 000 buses on the road, and while they are generally in poor condition, their replacement value is about R500 000 each.

To avoid the cost of starting new services, municipalities or Regional Services Councils could well be tempted to buy the operations

Premier in huge deal with Metro and Score-Clicks

(232)

Star 29/4/91

By Ann Crotty

Industrial/food conglomerate Premier has announced its intention to acquire control of Metro and the Score-Clicks group in a massive deal that will involve a rights issue by Metro and the merging of the country's two largest cash-and-carry operations.

If the transaction is concluded, it will give this food-manufacturing group control over the biggest cash-and-carry operation in SA.

There are no details about the price at which the deal will be struck, but at this stage market sources believe the Metro leg of the deal will be priced at around 300c a share and payment is likely to be effected through Premier shares Metro is the country's largest cash-and-carry wholesale operator

Score-Food which owns Trador, the country's second-largest cash-and-carry operation, had a net asset value of just over 300c a share at end-financial '90

Today a joint cautionary was issued by the seven companies involved in the deal — Premier Group, Hi-Score, Score-Clicks, Score Food, Tradehold, Tradegro and Metro

It says Premier will acquire 70 percent of Tradegro's shareholding in Metro and will extend an offer to acquire 70 percent of each minority holding

A rights offer will be undertaken by Metro to reduce debt. And the entire issued share capital in Score Foods will be exchanged for shares in Metro

The third leg of the deal will result in Premier getting effective control of Hi-Score, which is the listed controller of Score Foods and Score-Clicks.

(Premier's interest in this group has been built up over the last ten years and at end-March '90 it included a 20 percent stake in Score Foods, a 24 percent stake in Score-Clicks and a 25 percent stake in Score Discount Food Holdings — an unlisted company that has ultimate control of the group)

Peter Wrighton . . . planning deal for some time

The size of the Metro rights issue will not be known until Premier has got a better hold on the debt position of the company

This will involve completing a due diligence and identifying divisions of Metro that will not fit into a much more focused operation.

Indications are that Premier will focus on the cash-and-carry wholesale outlets of both Metro and Score.

For Metro this means the possible disposal of Frasers, Trade Centre and Fairways

For Score it means the possible disposal of its retail outlets These operations may be sold off or given a separate listing

It is likely that the rights issue will be around R100 million and be pitched at about 300c a share The issue will be underwritten by Premier

The enlarged Metro operation (including Trador) will have more than 200 wholesale cash-and-carry warehouses and be headed by Score's Carlos Dos Santos

Premier chairman Peter Wrighton said at the weekend that the group had been planning a deal of this sort for some time.

He referred to the one 1c redeemable preference share in Tradehold which was issued to Premier in the late Seventies as part of the conditions surrounding a R9 million loan made by Premier to Kimet (Kimet was a predecessor of Tradehold)

The share carries considerable rights in the event of a break-up of Tradehold.

In addition, Mr Wrighton noted the steady investment that Premier had undertaken in the Score group over the past 10 years.

It is unlikely that any of the other manufacturers will make much fuss about a manufacturer (Premier) getting control of a distributor (Metro)

There is a great need for a strong cash-and-carry market in SA. Metro and Trador are major customers of some of these manufacturers The deteriorating management situation at Metro and Trador has been the cause of considerable concern among the manufacturers.

As Mr Wrighton pointed out "For us the effective distribution to smaller retail customers is becoming as important as manufacturing"

Because of the relative ease of entry into the C&C market, Premier will not be able to abuse its control position.

For Premier, the move will add a new division to a group that some analysts believe is becoming too dependent on the manufacture of mealie meal and bread.

Deregulation of fuel industry 'unlikely'

(232) ZILLA EFRAT (193)

GOVERNMENT is believed to have been advised not to go ahead with the full deregulation of SA's fuel industry.

The authorities declined to comment yesterday, but Mineral and Energy Affairs Minister George Bartlett is expected to make an announcement in his departmental budget speech in Parliament on Friday

A source said it was found deregulation would not work in a small country like SA, but added that some streamlining could be expected in the fuel industry. B|Day 30/4/91

Department of Mineral and Energy Affairs director-general Piet Hugo said certain recommendations had been made to Cabinet by the National Energy Council (NEC)

Cabinet had made a decision on these on Wednesday which would be confirmed by its minutes today Hugo and an NEC spokesman declined to comment on the decisions

It has been reported that deregulation could bring about some price competition at the refinery and filling station level. It could also create more freedom for imports and exports of refined and unrefined products and lead to some retrenchments in the industry

Genbel helps boost flagging Gencor

(232) (IK4)

B Day 30/4/91.

MATTHEW CURTIN

GENBEL, Gencor's investment arm, confirmed its position as the rising star in the group as six months of large transaction surpluses offset a 16% drop in Gencor's operating income and boosted earnings by almost 3c a share to 62,6c.

In the six months to end-February, attributable income from Genbel and investments rose from R179m to R331m, while attributable income for the group as a whole rose to R738m (R701m). In 1990, Genbel and investments contributed 29% of the group's income, a contribution which now stood at 45% at the interim stage

However, Gencor executive chairman Derek Keys said that over the year "the level of operating income is likely to be in line with that reported during the first six months". Transaction surpluses would be modest in the next six months and earnings would fall below last year's levels (R1,4bn)

Keys said in a statement yesterday the upgrading of Genbel's portfolio in recent years was bearing fruit, and "together with substantial transaction surpluses arising principally from disposals of gold mining shares in July 1990, this resulted in a sharp rise in its contribution". In contrast, performances of most of Genmin's businesses were badly affected by lower commodity prices and a stronger rand.

The group's gold mining, platinum, and ferrochrome operations all suffered reduced earnings, and while TransNatal weathered lower coal sales volumes, attributable earnings from Genmin fell to R208m (R278m) in the interim.

Engen, the group's fuel and energy arm, and Malbak, which holds the group's industrial interests, turned in stable but relatively weaker contributions Better refining margins in the wake of the Gulf war helped Engen improve earnings, but Keys said its contribution to Gencor was dampened by higher North Sea exploration expenditure.

● KEYS

Malbak pulled through the unfavourable local economic climate, and Keys said "profits at a pre-tax level showed a pleasing rise in the circumstances Earnings on an increased number of shares were marginally higher".

However, Sappi's contribution to earnings fell by R53m in comparison with the first six months last year.

There would still be a "modest increase" in the year-end dividend, and the interim dividend was raised a cent to 15c a share.

Gencor Beherend, whose only asset is a 54,8% interest in Gencor, earned 56,9c (54,7c) a share in the interim, while its dividend rose to 13,3c (12,5c) a share.

Public's need to know 'secondary'

(232)

B/Day 30/4/91.

ROBERT GENTLE

JSE president Tony Norton yesterday reaffirmed the exchange's general policy of not making public its disciplinary proceedings, saying these were an internal matter for the JSE.

"We are a memberhip body, and therefore discipline is a membership issue," said Norton in an interview. "The public's need to know is secondary"

He was reacting to an editorial in Business Day yesterday calling for the JSE to be more open about its disciplinary procedures in the interests of the investing public

● NORTON

The JSE did not want to add the "external dimension" of media publicity, said Norton.

"All the public needs to know is that we take discipline very seriously," said Norton, adding that the JSE had a code of ethics.

While he understood the argument that the public wanted to see this discipline working, he did not feel the JSE was obliged to "parade individual cases".

Section 3.350 of JSE Rules and Directives states that the JSE committee "may in its discretion and in such manner as it may deem fit, notify or cause to be notified to the public" expulsions or suspensions.

Asked what criteria the committee used, Norton said. "Each case is unique We use our discretion."

Norton dismissed talk that the committee only made public cases involving small broking firms, while bigger firms, whose members were often on the committee, went unpunished. "Discipline is exercised without fear or favour Committee membership does not come into it."

Meanwhile, the JSE inspectorate confirmed that it alerted the JSE committee as far back as January 1990 about the case involving the now suspended Karen Claassen of prominent stockbroking firm Kaplan & Stewart.

From that point onwards, said inspectorate head Ian Fullerton, it became a matter for the committee.

Asked why it had taken the committee 18 months to follow through, Norton spoke of the normal time lags involved in settling a case. "Proper justice takes time"

The JSE would use its annual address on May 15 to give more details on disciplinary cases brought during the course of the year, Norton said.

Anomalies dog financial markets

232 B Day 30/4/91.

ROBERT GENTLE

THE new urgency in the ongoing debate on the need for change at the JSE has brought into focus an uncomfortable realisation: the SA financial market regulatory structure is, to use a Marxist phrase, finally coming face to face with its own contradictions.

Overtaken by the financial innovations of the past decade, it reflects neither the interconnection of different financial markets (shares, bonds, derivatives) nor the broad worldwide movement towards level playing fields

Although they are all essentially offering the same services — speculation and investment — the referees in Pretoria have yet to get all the players onto the same field with a competitively neutral set of rules.

Last week Reserve Bank deputy governor Chris de Swardt commented on the undesirability of restrictive membership requirements being entrenched in enabling legislation like the Stock Exchanges Control Act He was speaking as chairman of the Financial Markets Advisory Board, the body discussing the future of the SA financial markets

De Swardt did not rule out the merging of the Stock Exchanges Control Act, which governs the JSE, and the Financial Markets Control Act which governs derivatives (futures and options) and bond trading

Merging these two acts necessarily means harmonising, among other things, the membership requirements in order to create a level playing field Since there can be no question of the open bond and derivatives markets becoming restrictive, the restrictive JSE would have to become more open

This would end one anomaly members of the JSE can — and have become — members of the SA Futures Exchange (Safex) and the Bond Market Assocation (BMA) However, BMA and Safex members may not join the JSE

There are other anomalies. The JSE has an advantage on price information because its members are on the equity trading floor where shares trade Before the advent of futures and options, this was not an issue But it is now that the JSE is a member of Safex, and in direct competition with other futures participants in broking firms, banks and institutions

Exposure

Share index futures do not exist in a vacuum but derive their value from the underlying shares Trade in these instruments is therefore dependent on knowing what the underlying share market is doing — and vice versa The problem is that JSE floor members are privileged to see where the market is coming from and where it is going Everyone else, trading on screens around the country, has to wait until the prices are flashed on Reuters

Another anomaly arises in taxation Share transactions are subject to Marketable Securities Tax (MST) Futures transactions are not Futures have an unfair cost advantage, because a share transaction can often be replicated by means of a synthetic position in the futures market

For example, instead of buying a De Beers share, you make use of the fact that De Beers is heavily represented in the All Share Index and you buy an equivalent number of All Share Index futures You gain exposure to the JSE by trading on Safex — a concept investors have already cottoned on to

Another anomaly is unnecessary fragmentation of exchanges and product overlap This in itself is not bad — the US has a number of competing exchanges which works wonders for innovation and choice But it can hamper liquidity in a small, closed, limited resource market like SA's

Thus we have Safex offering options on share index futures, the soon-to-be-launched TOM offering options on the very same indices as well as on shares, merchant banks offering forwards on shares — on which options can be written, and so on

This results in a mish-mash of options products which, depending on the ones you choose, are cheap or expensive, guaranteed by a clearing house or over the counter, available everywhere or only at JSE stockbrokers.

Another anomaly is the absence of a cross-market risk management system that recognises the interdependency of markets The result? Millions of rands are often tied up in guaranteeing non-existent risk

As an example, an investor could have a shares position with the JSE and a futures/options position with Safex and be perfectly hedged (that is, a loss in one market will be offset by a gain in the other, implying no risk)

Yet, because the JSE and Safex each operate with their separate rules, financial guarantees have to be lodged with each

It is for this reason that the Universal Exchange Corporation (Unexcor), the body owned by the merchant banks, is working towards the integration of all clearing, computer and service activities of the JSE, Safex and the BMA This will compute the net risk position, as well as reduce clearing and trading costs

But perhaps the most serious result of the non-integration of our financial markets is that the exchanges could end up working against each other in a serious market crash instead of together

In the October 1989 crash, for example, US futures exchanges suspended trading in accordance with their own pre-set circuit breakers, but the New York Stock Exchange, under its own rules, stayed open

Problems

Harmonising the SA financial markets along the principles of competitive neutrality, cost-efficiency and liquidity will not be easy

The JSE is right in saying there will be immense problems with a dual capacity system stock exchange But it is wrong to use this as an excuse to preserve the status quo. The onus is on all concerned to come up with the requisite legislation — for example, tough anti-cartel rules, audit trail technology — to smooth the way towards a new dispensation

● See Page 17

Blacks' bid to reclaim land fails

B Day 2/5/91

TANIA LEVY

ABOUT 150 people from Osizweni in northern Natal yesterday tried unsuccessfully to reoccupy land at Charlestown from which they were removed in the 1970s

They will now meet Natal Provincial Administration MEC for Local Government Val Volker on May 6

Yesterday police prevented the group from re-occupying the land and holding a ceremonial feast to honour ancestors whose graves remain at Charlestown

They were taken to the Charlestown police station where some were handled roughly by police, the Association for Rural Advancement (Asra) said in a statement yesterday

At the police station, the group handed a memorandum to NPA Settlement Services assistant director Philip du Toit, who undertook to schedule the meeting with Volker

The memorandum called on government to immediately restore the people's land, and noted their objection to its proposed sale

The proposed sale of the land had strengthened their resolve to return before June, the memorandum said

The group said they would continue trying to return to Chralestown if the issue was not resolved satisfactorily during the meeting on May 6

Asra said the plight of the Charlestown people highlighted the need for government to urgently address the issue of restoring land rights to black people

Although the Charlestown people had title deeds to their land, they were forcibly removed after the passing of apartheid legislation

The association said there was an urgent need for mechanisms to be established to arbitrate and negotiate land claims

UK millionaire missing: SA men sought

IAN HOBBS

LONDON — Kent detectives are investigating two unidentified South Africans following the disappearance and suspected kidnapping or murder nine days ago of shipping container tycoon Simon Law

Kent's CID said it feared Law, 35, might be dead already or in grave danger and it "very urgently" needed to contact the two South Africans

The alarm was raised by Law's common law wife of 16 years, Tarn Phillips, 36, who is convinced that he was murdered after a kidnapping attempt went wrong

Detective Superintendent Owen Taylor said members of a 60-strong team of detectives he was leading would fly to SA soon

He said Law disappeared from his R3,5m mansion farmhouse in Elmsted, Kent, on April 22

Hours earlier, the two South Africans had visited Law's house

Police have ascertained that the two men flew out of London the following day, April 23

Phillips said Law's shipping container bus.ness, started about 18 months ago, had extensive SA involvement She said there had been "hitches"

Speculation Lyntex may owe up to R30m

B Day 2/5/91 (232)

BRENT VON MELVILLE

TROUBLED DCM-listed Lyntex Transport Exchange (Lyntex), now in provisional liquidation, has creditors clamouring at its door for an amount that sources say could be in the region of R30m

Industry sources believe its creditors include Volkskas Bank, Trust Bank, Commercial Bank of Namibia, Shell, BP, MAN, Overland Express and Imperial, among others

Lyntex MD Tony Teixeira did not comment on the claims, and said the application for liquidation had been prompted by the fact that Trust Bank had called in Lyntex's overdraft

On Tuesday he said it was "a sad day for Lyntex" in that for many of its 230 employees it would be the last working day

He said that as he had a 71% stake in the company, he personally stood to lose between R4m and R5m

The Trust Bank move followed the disclosure earlier this month that Lyntex was being sued by at least five firms for more than R1,6m

Airport

Part of that includes a claim by Overland Express for R112 000 from Lyntex subsidiary Totex Management Services and Intercept Carriers

Teixeira and chairman Eugene Marais were apparently confronted at Jan Smuts Airport on Friday by creditors who thought Teixeira was trying to leave South Africa Teixeira denied he had any such intention

Overland Express's Manny Silva, however, stuck to earlier claims that he confronted Teixeira and Lyntex chairman Eugene Marais at the airport last Friday and that a fracas ensued

He said another unnamed creditor also became involved. Silva said he had since laid assault charges against the two directors

Since its listing in December 1987, Lyntex boasted as its chairman the controversial Joe Berardo, who was appointed in early 1988 and who left Lyntex, and most of his SA connections, in 1989 in the wake of a parliamentary investigation into the exportation of a R2m collection of rare cycads to Madeira

At 10c, Lyntex's share price is not even reminiscent of its 77c high in February 1988

Control of Imperial shifts

BDay 3/5/91

MARC HASENFUSS

ALMOST 6-million Imperial group shares worth R72,5m changed hands yesterday on the JSE as control of the group passed from the Abelkop family shareholders, many of them non-resident, to a group of seven of SA's largest institutions and Imperial MD Bill Lynch.

On the market, about 3,3-million Imperial shares were sold at 1 250c each to the institutions. In a separate transaction off the market Lynch bought 2,7-million shares at the same price.

Commenting on the transactions, Lynch said that there would be no change in the day-to-day running of the group or to the board of Imperial.

"Today's transaction means that control, that is 30% of the company's shares, now rests in the hands of management with about 60% of the shares spread amongst the institutions."

Lynch said the non-resident family members felt that it was appropriate for control of Imperial to be in local hands and when buyer interest was expressed, family members elected to accept the offer of 1 250c.

Imperial, a diversified industrial holding, owns 75% of Imphold, the company controlling Imperial car rental, Imperial truck hire, Imperial Motors and Regent insurance.

232

Bargain

In the interim period to end December, Imperial reported a healthy 20% increase in earnings to R9,8m (R8,1m) or 1 750c (1 460c) a share with all divisions performing solidly.

Before yesterday's special bargain deal the share had doubled in value to 1 225c from 610c in May last year.

Imphold shares were offered at 500c yesterday with no takers. The share has climbed to a high of 475c from its 210c low in May last year.

Imperial family sells out

(232)

Star 3/5/91

By Ann Crotty

In a number of deals done on and off the market yesterday, almost six million Imperial Group shares — representing 43 percent of total equity — changed hands at a price of R12,50

According to an official announcement, a group of seven of SA's largest institutions and the MD of Imperial, Bill Lynch, were the buyers

The sellers were the family shareholders, many of whom are non-resident.

Mr Lynch bought 2,7 million of the shares off the market at R12,50

Although the R12,50 represented little advance on this week's trading level, it is sharply ahead of the level of 750c that was dominant a few months ago

Control has passed from the family shareholders, but there has been no mention of a change of control or an offer to minorities

This suggests that the seven institutions and Mr Lynch did not act in concert

It seems that the previous controlling shareholders were holding out until the share price reached a level at which they were prepared to sell

When the R12,50 level was reached, they quickly offered their shares to the institutions

After yesterday's transaction Mr Lynch has around 25 percent of the group's shares Ahead of yesterday's deal, Momentum had around 25 percent. It is not known if Momentum was involved in yesterday's buying

Minorco offers to buy Canadian company

Cape Times 3/5/91 232

By AUDREY D'ANGELO
Business Editor

MINORCO has offered to buy a Canadian company — the Hudson Bay Mining and Smelting Co (HBMS) — and save it from having to close down because it cannot afford to comply with strict environmental regulations

HBMS is a 100%-owned subsidiary of Inspiration Resources Corporation (IRC), a diversified natural resources company listed on the New York Stock Exchange

A statement issued by Minorco yesterday said that under the proposal, which expires if the agreement is not signed by June 1, it would pay Canadian $100m in cash for HBMS

It would also provide interim finance towards a major modernisation programme to meet environmental regulations, estimated to cost another Canadian $187m.

The statement said the modernisation was also necessary to reduce operating costs and improve the profitability of HBMS

Jobs for about 2 650 people who work at the HBMS mining complex at Flin Flon in Northern Manitoba are at stake The fully integrated mining and metallurgical complex extracts zinc, copper, gold, silver and other metals

IRC and HBMS have been unable to raise the finance necessary for the modernisation programme, according to Minorco's statement.

"This purchase and the accompanying finance are vital to HBMS' future," said Gerard E Munera, CE and President of Minorco (USA) — a US-based company created in March 1990 to manage Minorco's investments in North America Minorco (USA) owns 42% of the voting stock and 56% of the equity of IRC

Munera said "Environmental considerations will force most of HBMS' operations to close by January 1, 1994 unless an outside party is willing to secure HBMS' future by providing significant credit support to allow urgent construction to proceed

"IRC's receipt of proceeds from the sale will also significantly strengthen IRC's financial position"

The statement says Minorco has agreed that, if the purchase agreement is signed, it will provide up to Canadian $20m before September 30 towards the Flin Flon environmental improvement programme

"The availability of this interim financing is conditional on HBMS' receipt of satisfactory commitments from the Canadian Federal Government and the province of Manitoba to provide Canadian $80m in financing for the project," the statement continues.

Munera said Minorco intended to retain the present management at HBMS

The proposal does not preclude IRC from soliciting competing offers for IRC

The statement stressed that Minorco is "a European based" company.

Unit trusts make money for managers too

Star 3/5/91

By Derek Tommey 232

South Africa now has 40 unit trusts — up from 31 at the end of 1989 — and a profitable business it is too

The annual report of Standard Bank Fund Managers (SBFM) has three trusts under its wing — the Gold Fund, the Mutual Fund and the Extra Income Fund

Together they generated an income of R15,2 million last year — R3,3 million more than in 1989

Initial charges on sale of units produced R7,1 million (R5,2 million), service charges another R3,5 million(R3 million), dividends R515 178 (R410 201) and interest R1,3 million (R585 421)

"Other" income was R69 220 (R99 372) and the profit on unit trading was R1,7 million (R2,6 million)

Expenses amounted to R11,8 million (R8,6 million) They included R883 867 (R764 352) for the services of investment advisers, a R352 00 (R322 000) administration fee and R110 927 (R122 657) for depreciation.

Directors' fees, audit fees, trustee fees, pension for past directors and interest paid took a further R124 216.

No details are given about the balance of expenses, which amounted to R10,4 million, but a fair amount presumably was paid out as commission

Net profit before tax was R3,4 million (R3,2 million) Tax took R1,45 million (R1,46 million), leaving a balance of R1 957 million (R1 819 million), which was paid out as dividends.

This is equal to a return of 69 percent on the R2,82 million Standard Bank invested in the management company

FM 3/5/91 COMPANIES (232)

mining financials (including De Beers/Anamint). The directors say properties are worth R21,1m, or 210c a share, more than book value. Allow for this, and the present price is little more than half net worth.

The share should thus have little downside risk. Sound but unexciting long-term prospects would be considerably enhanced if the operations division could be made to perform again

Michael Coulson

FM 3/5/91

COMMERCIAL FINANCE CORP

RICH IN ASSETS

(232)

After a brief return to profitability in 1989, the operations division proved chairman Kees van der Pol's optimism to be "misplaced in view of the unfavourable economic climate." The volume of contracting work secured was less than expected and inadequate to cover overheads, even though these were further reduced

The earth-moving and foundry associates appear to have made positive contributions, but the net result was that a 20% increase in investment income was dissipated into almost unchanged earnings and a nominal increase in distribution

Van der Pol says the directors are "deeply concerned" at the results of the operations division But bearing in mind its "excellent performance" in (much!) earlier years, and "potential to do so again, once the economy has turned around, our strategy must be to take a longer-term view "

FM 3/5/91 (232) COMPANIES

Activities: *Property and engineering subsidiaries and a portfolio of listed investments*
Chairman: *C van der Pol, Executive director W J Swain*
Capital structure: *9,92m ords Market capitalisation R59,5m*
Share market: *Price 600c Yields 3,7% on dividend, 6,9% on earnings, p e ratio, 14,5, cover, 1,9 12-month high, 700c, low, 480c Trading volume last quarter, 21 000 shares*

Year to Dec 31	'87	'88	'89	'90
ST debt (Rm)	0,5	1,8	1,4	2,4
LT debt (Rm)	—	1,2	3,9	1,9
Invest income (R000)	2 001	2 470	2 920	3 512
Trading profit (R000)	1 464	2 515	3 416	1 449
Pre-tax profit (R000)	3 410	4 555	6 065	5 782
Net profit (R000)	2 354	2 584	4 069	4 105
Earnings (c)	23,6	25,9	40,9	41,3
Dividends (c)	15	17	21	22
Net worth (c)	568	657	904	891

TRADING TRAUMA
Taxed profits as % of total

	'90	'89	'88	'87
Investments	84	64	85	85
Property	29	29	40	42
Engineering	(13)	7	(29)	(33)
Other			4	6
Total	100	100	100	100

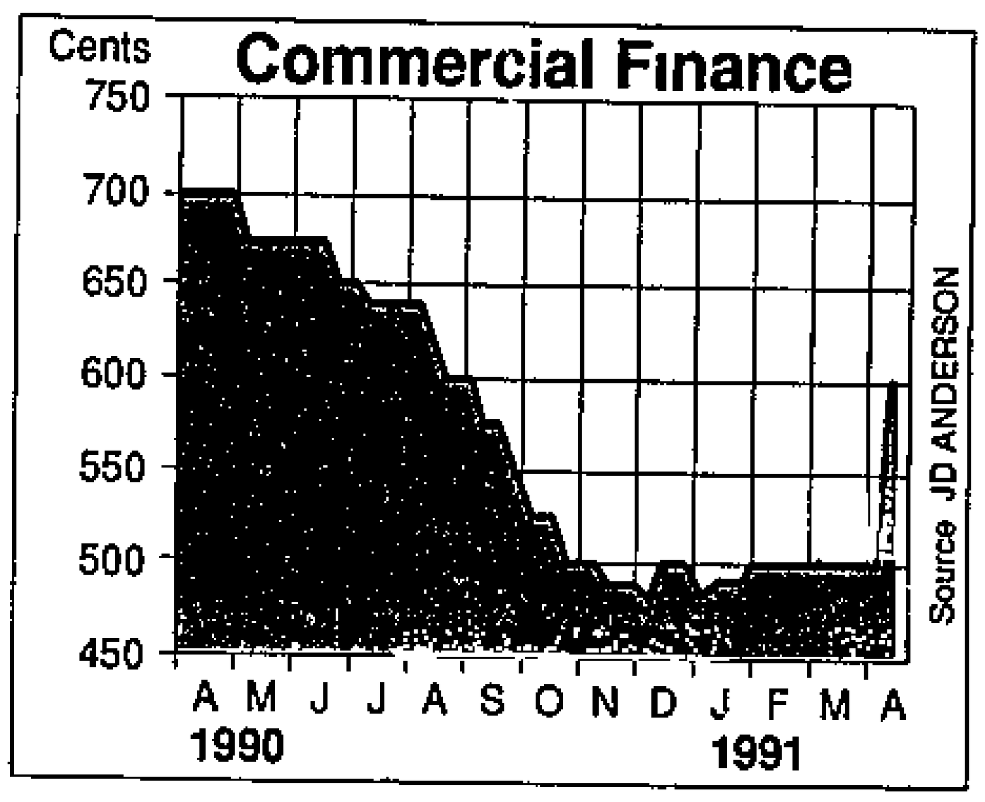
CONGELLA FEDERATION

	1987	1988	1989	1990
Net profit (R000)	927	1 013	1 207	1 258
Eps (c)	109,5	119,6	142,5	148,5
Dividend (c)	40	44	49	57

About R900 000 attributable profit, or just under 25%, came from 72%-owned listed (but seldom traded) subsidiary **Congella Federation**, whose own investment and property interests had an even less eventful year

Van der Pol fears the operations division will no more than break even this year, but group earnings "should show an improvement " As a non-recurring special dividend of R500 000 was received last year, this is not as cautious as it sounds

The yield pattern is not exciting, but there is a strong asset base A quarter of the R62,7m share portfolio is in Tongaat-Hulett, 16% in Specialty Stores/Storeco, and 27% in



Continue →

Picture ROBERT BOTHA

Brokers ask JSE for screen trade in gilts

B. Day 3/5/91 (232)

ROBERT GENTLE

JSE gilts brokers, concerned about dwindling trade on their floor in the Annexe, are lobbying the exchange for permission to deal directly on screen — like banks and other institutions

JSE chairman Peter Redman confirmed a petition had been presented to the JSE by all its gilts brokers — estimated at 27 — and that a meeting would be held on Monday to discuss the issue

He was reluctant to comment on the JSE's position on floor-versus-screen trading in gilts until he had studied the "motivation for the brokers' request".

It is commonly acknowledged in the market that banks and institutions account for about 80% of all gilts trade

Spokesmen from three JSE broking firms prominent in gilts trading said the reason behind the request was concern at dwindling floor trade in gilts

They said that when the floor was quiet, JSE gilts brokers had to watch helplessly while trade continued on screen among the banks and other institutions

One said trading on screen would broaden his client base, enabling him to deal with clients he could not even see from the floor. He made the point that JSE brokers dealt on screen in futures, and wondered why this should not be so with gilts

All three brokers expressed concern that this could be the thin end of the wedge

They said that with floor trading in futures already discredited, and floor trading in gilts now in doubt, obvious questions would be raised about the need for continued equity floor trading

The long-term implication of this was that automated screen trading would eventually come to dominate the entire SA financial market

A Standard Merchant Bank spokesman had no problem with JSE gilts brokers competing with banks on screen "Good luck to them

Defaults

"But we would want their risks to be covered"

An Investec Merchant Bank spokesman also welcomed the move in principle, but expressed concern over undercapitalised smaller brokers and the extent to which the JSE guarantee fund covered defaults

A JSE spokesman said the guarantee fund was limited to R1m per broker per claim

An average size gilts deal is estimated at R5m

The Investec spokesman said if undercapitalised JSE brokers ended up on screen, no one would deal with them — and this would distort the overall price structure

Premier seeks Competition Board nod

MARCIA KLEIN

PREMIER Group has approached the Competition Board prior to agreement on its acquisition of Tradegro subsidiary Metro, and Score

Competition Board chairman Pierre Brooks confirmed at the weekend that the board had been approached by Premier on an informal basis for clarity on restrictive competition

The board's preliminary assessment, based on information at its disposal, had been that there would be no problems with the deal in terms of restrictive competition, he said

B/Day 6/5/91

"There are many other players with a substantial share of the market," he said These included Wooltru company Makro and Shield Trading (232)

In areas where the businesses of Tradegro subsidiary Metro and Score's cash and carry operation Trador overlapped, the board had found that in each area a major competitior still remained

In terms of the deal, Premier would become a dominant player in the wholesale industry

Remgro's mining star is on the wane

B/Day 6/5/91 (232)

BRENT VON MELVILLE

THE mining holdings of the Rembrandt Group (Remgro) once represented the brightest star in its galaxy of interests That perception has changed

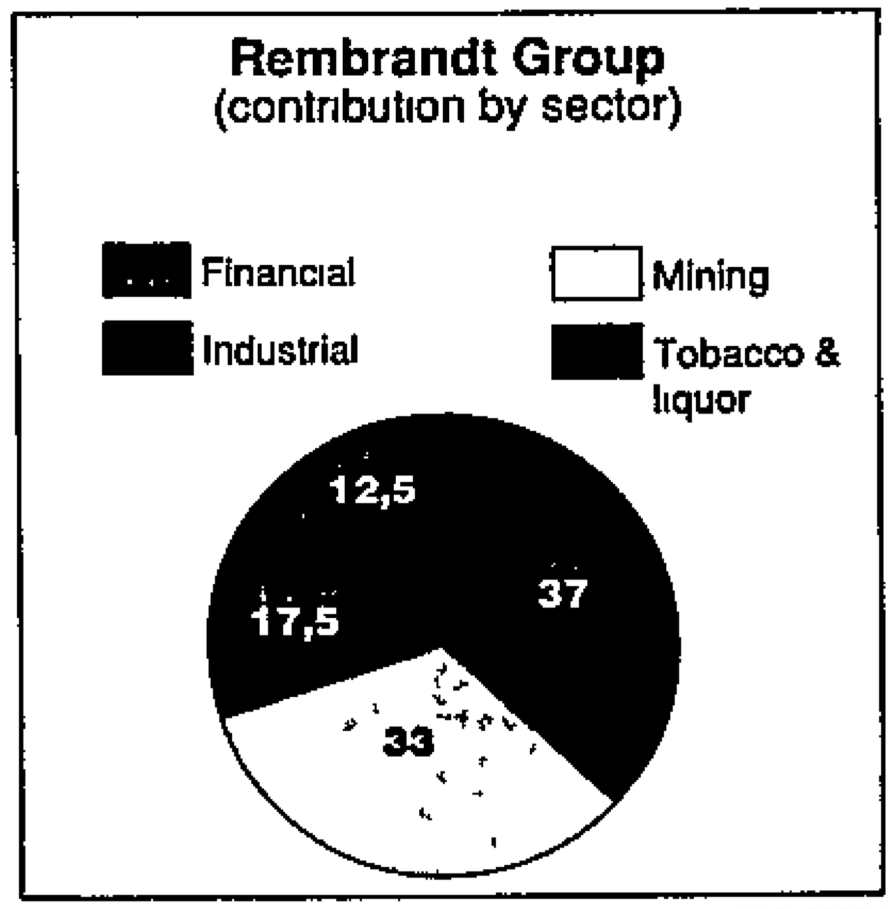
Market opinion is that Remgro's GFSA, Gencor Beherend and Trans Hex holdings no longer fit in with the conglomerate, which has traditionally derived most of its profits from its tobacco and liquor interests

Remgro's mining stock exposes it to the rigours of the volatile and currently depressed gold market Its 18% holding in GFSA translates to a controlling holding through GFSA Holdings, held with Liblife and Asterix. Its 28% holding in Gencor Beherend represents a 13,7% stake in Gencor

Last year Remgro's mining interests accounted for about 32% of attributable profits of R751,9m Most of it came from GFSA and Gencor, with diamond stock Trans Hex contributing a smaller, but significant amount

Analysts believe Remgro is slightly overrated in view of its relatively high exposure to the fortunes of the gold price Remgro's mining interests will undoubtedly cut into its margins, margins which have been kept aloft essentially by its core businesses

"GFSA, which Remgro bought heavily into in 1986 and then 1989, is one mining house with such a heavy dependence on gold that it cannot do much to buck the trend," says Simpson McKie's Neall Brown



Graphic: LEE EMERTON

Mathison & Hollidge's Barry Sergeant agrees that GFSA may be Remgro's weak link in the chain but points out that the mining house holds up well relative to other gold counters, propped by the strong performances of highly rated gold mines Driefontein and Kloof "However, despite the fact that Remgro's mining holdings are among the best, there is no question that gold earnings are shrinking relative to its other interests"

Sergeant forecasts static earnings growth this year for GFSA Earnings last year were 338c a share, and the dividend is likely to remain at 200c for a fourth straight year.

Conversely Gencor looks set for relatively strong earnings growth While Genmin's fortunes are still dependent on Gengold's performance, its other interests (coal, specialist metals, platinum) add diversity and act as a hedge against the labouring gold market Based on interim figures full year results are likely to exceed expectations

Analysts are looking to the mining division to lose ground to the financial services and corporate earnings sector (recently transformed into Absa) and industrial sector, led by its larger slice of chicken group Rainbow In the longer term Rainbow will prove to be Remgro's pot of gold, analysts believe

The market has apparently taken this into consideration and has rated Remgro accordingly. The feeling is that relative to other blue chips, it has ended up with the right mix to ride out the recessed market conditions

That perception saw the share price peak at R19,50 last month although it has since fallen slightly Late last week the counter came off 45c to R18,25 on relatively heavy trade against the background of a quiet market At its current price Remgro boasts a p e rating of 12,11 times and a dividend yield of only 1,62%

There is still difference of opinion on whether its rating is merited One analyst reasons that since putting its foreign interests into the separately listed Swiss-based Richemont, Remgro's earnings potential has been severely diluted "It no longer has its foreign cow to milk and has to rely solely on its indigenous assets"

For its part Richemont is still one of the highest rated stocks on the JSE The rand hedge continues to move to new plateaus, and gained 15c on Friday to R25,25 The current price pushes it onto a p e of 23,1 times and a dividend yield of below 1, at 0,8%

Said an analyst "The fact is the majority of institutional investors are looking much further down the line for quality stock That is why blue chip industrials have been under such heavy trade The recovery potential is seen as much better than that of the mining board"

Remgro refuses any comment

Splits remain over benefits of dual trading on the JSE

B 10 ~~ 7/5/91 (232)

MAJOR reforms to the JSE would worsen the concentration of power enjoyed by dominant companies by encouraging them to buy up brokerages, the JSE has said

Some bankers say if brokers were allowed to trade in shares with their own clients and if financial institutions dealt directly on the JSE, business would be boosted and everyone would benefit

JSE chairman Peter Redman responded "Who do you think would be the predators of the broking firms? The subsidiaries of the big institutions

"Within reason you cannot increase liquidity in a market simply by being a market maker"

The JSE is the world's 12th largest exchange in capitalisation, and its overall index was one of the top five performers last year But it ranks only 20th in its ratio of turnover to capitalisation Liquidity is 6%, whereas the ratio for major markets is typically 50%

The 51 broking firms with 343 senior exchange members work as "single capacity" agents buying and selling shares for clients in open call on a trading floor

Under dual capacity, brokers could buy and sell shares to and from their own clients

Financial Markets Advisory Board chairman Chris de Swardt said last month laws which exclude banks and institutions from the exchange might have to be amended

He said the JSE had to "adapt to world-wide changes"

The board was discussing whether a negotiated commission system could replace the present sliding tariff of 0,2% to 1,2% of trades and whether it would be compatible with JSE membership which excluded corporate bodies, he said

UAL Merchant Bank MD Geoff Richardson told Finance Week he was cautious about becoming involved in broking, saying no London banker who had gone that route had "done much else than lose vast sums of money"

But he added, "I think there is some role which merchant banks can play in the trading of equities and I'd be surprised if this didn't happen in the next five to 10 years"

JSE chief operating officer Mike Thompson said "Five or six companies control 80% of the shares listed on the market and in each of those groups is a bank

"How would it (the bank) draw the line between its own dealings and its dealings on behalf of its client? That's something we fear"

He said discipline would be more difficult if the JSE changed to a dual system and automated trading presupposed "that the person pressing the button on the computer is acting ethically" — Reuter

Hoechst invests R2,5m in the SBDC

B Day 8/5/91

THEO RAWANA

(232)

CHEMICAL giant Hoechst yesterday announced it had bought a R2,5m share in the Small Business Development Corporation, the largest single capital investment by an international company in the SBDC so far.

Hoechst SA MD Reinhard Traub said the company viewed the investment in the SBDC as a continuation of its involvement with small business development since 1987.

Hoechst, a subsidiary of the German multinational Hoechst AG, sought and received permission from the mother company to make the investment, SBDC PRO Dawie Crouws said.

In terms of the investment contract with Hoechst, the SBDC also bought Hoechst's previous head office site and buildings in Industria for R6,772m

The contract also entailed the conversion — estimated at R1,5m — of buildings on the site to provide premises, services and training for small business entrepreneurs, said Crouws

Completion of the complex — to be known as Tower Hive — by the end of the year would provide 70 additional lettable units, totalling 9 500m² of floor space

This would bring the SBDC's total floor space for such small business facilities nationwide to 836 000m² (equal to 170 football fields) with 5 170 units, Crouws added

Conversions at the Tower Hive had already started and some units were already occupied The aim was to accommodate small business entrepreneurs in fields such as metal work, woodwork, electronics, service and chemical industries, upholstery, clothing, appliance repairs, light manufacturing, printing and sign-writing.

Accepting the R2,5m cheque, SBDC MD Ben Vosloo said he was optimistic the investment would mark an upsurge in foreign investment in southern Africa

"The SA economy would benefit greatly if other SA subsidiaries of big international companies could follow this example They are on the scene and can best advise their mother companies on the most suitable opportunities for investment that will encourage economic growth in the region," said Vosloo

Eastern Cape bus company is liquidated

By REG RUMNEY W/Mail 10/5-16/5/91 ~~259~~ (232)

THE crisis in the bus industry is underscored by the liquidation of the Eastern Cape's CTC Bus Company

The liquidation of the company has meant the disposal of 297 buses, the retrenchment of around 524 employees — on the books for the 1990 financial year — and buildings and other other assets worth millions of rands.

A boycott sparked by a fare increase in May 1989, followed by strike in December that year crippled the company, which ceased operations in April last year

The company operated in East London, Mdantsane, Bisho and Alice.

Managed by the South African Development Trust Corporation, it was jointly owned by the SADT and the Ciskei People's Development Bank The SADT 1990 annual report shows CTC has had operating losses of millions of rands every year for the past four years. In 1990 spending exceeded income by R13-million

According to the official newsletter of the SADT, the company incurred considerable losses over the last few years because of.

- Passenger resistance to fare increases.
- A big drop in the number of bus passengers, who switched to the burgeoning taxi industry
- Escalation of operating costs faster than fares
- Industrial unrest in the company.
- Passenger boycotts, "enforced by outsided political intimidation".

In recent years the company has received government grants to help it with its cash flow problems, but this was no lasting remedy

HLH smiles in recession

Star 10/5/91 (232)

Finance Staff

Hunt Leuchars and Hepburn (HLH) has raised its attributable income by 18 percent to R118 million (R100 million) in the year to end-March

The larger number of shares in issue reduced the increase at the per share level to 12 percent at 91,2c (81,4c) The total dividend was raised by 12,8 percent to 32,5c (28,8c) a share.

Commenting on the results, chief executive Neil Morris says the results are most satisfactory given the difficult trading conditions experienced by all companies, particularly in the second half of the financial year

Turnover in subsidiary companies increased by 26 percent to R587 million (R464 million), but income from associated companies fell by four percent to R34,1 million (R35,4 million), largely due to the effect of pressures facing HLH's timber markets and high mortality and lower selling prices in the broiler chicken industry

"Sales by spice producer Robertsons showed a 30 percent increase over last year, which was an excellent achievement given the difficult trading environment," Mr Morris said

"It was also noteworthy that, despite the acquisition of Bovril, Marmite and the Monate brands and businesses, as well as the expansion of the milling and citrus activities at Transvaal Sugar, borrowings only increased by R50 million"

Referring to the acquisition by Rainbow Chicken of Bonny Bird Chicken Farms and a 50 percent interest in the Epol Feed division of Premier, Mr Morris says details of the rights issue to fund the transactions were being circulated to shareholders

The expected benefits of the Bonny Bird acquisition will only be felt in the second half of the year and this will result in added pressure on 1992 earnings, he said.

"We therefore expect that earnings will not rise at the same rate as in prior years," Mr Morris said

Huntcor, HLH's investment holding company, improved net income from R77,5 million to R91,3 million, while the total dividend was raised to 65,5c (58,1c)

IMPERIAL (232)

FAMILIES SELL FM 10/5/91

Following some large transactions last week, the Apelkop and Wilder families have relinquished their effective control of the Imperial Group Yet no offer has been made to minorities, nor is any offer envisaged

The two families collectively held some 45% of the issued shares in Imperial Group, whose sole asset is a 74,88% stake in Imphold Its diverse interests include car rental, truck hire and Toyota vehicle and Hino truck dealerships

Most of the shares held by the families were sold in transactions both on and off the market Seven institutions bought 3,15m of the shares (amounting to 22,4% of the issued capital) through the market on Thursday, at a price of 1 250c This compares with the previous trading price of 1 225c

At the same time, MD Bill Lynch acquired 2,7m shares off the market Lynch already held 700 000 shares, so his total stake has increased to 24% He says he bought as many shares as he could afford, also at 1 250c All the families' shares except 500 000 (or 3,6% of the equity) held by the Wilder family have been sold About 2% of the shares are held by other members of management A holding of 30% is the level which normally triggers a mandatory full offer under the Takeover Code

Lynch says the shares that went to the institutions are widely spread between them, and there were no agreements between any of the buyers He contends that there is no concert party and nobody now holds effective control In view of that, it was felt that there was no need to refer the deal to the Takeover Panel.

"I wanted the shares to be widely spread," he says "I did not favour the Big Brother approach The institutions concerned have seen fit to back the management and we would be quite prepared to take the consequences if they are not satisfied with our performance "

When the *FM* asked the Takeover Panel for its view, acting executive director Hermie Engelbrecht said that, until the panel makes an official statement, no comment could be made if a matter had been referred to it, and nor could he say whether the panel was in fact looking at the Imperial case He also could not comment on the principles which may be relevant should the controlling shares be sold to a wide range of shareholders

This would be in line with the attitude shown by the panel during the Allied bid

Continue →

FOX FM 10/5/91. (232)

earlier this year and is obviously unsatisfactory At least the JSE, when it was responsible for handling such matters, was willing to express an opinion The Takeover Code clearly states in its general principles that minorities should be treated equitably in any change of control The Imperial case, admittedly, is not straightforward if there is, in fact, no new control situation — but, at the least, a control situation has been relinquished The Takeover Panel should form an opinion and then state it publicly as soon as possible *Andrew McNulty*

PINNACLE HOLDINGS

FM 10/5/91 232

SHAREHOLDERS REVOLTING

Shareholders in Pinnacle Holdings, who lost their investment when the company was put into liquidation late last year, are to sue the directors, auditors and share broker Share & Property Brokerage for misrepresentation, says shareholders' committee member Tony Lewis-Williams. The action will be among other things under Section 160 of the Companies Act, which states that anyone involved with putting together a listing prospectus can be held liable for untrue statements in it.

Pinnacle, an investment holding company with interests in property, mining and banking (including 10% of Alpha Bank, which is now in curatorship), issued its prospectus on July 1 1988 Its directors' activities have been the subject of a Section 417 inquiry presided over by Judge Oscar Galgut, a retired judge of the Appellate Division

Evidence that certain statements in the prospectus were misleading and information was omitted has been presented

Among the claims is that the directors placed 1m shares privately before the listing, at R1 each, but failed to mention this in the prospectus Three days later, shares were sold to the public at R2 each. Shareholders argue that this was a material omission and a contravention of Section 160

They allege also that shareholders who bought at R1 sold shares to subscribers at R2 once the subscription limit had been reached This could contravene Section 169 of the Act which says that, if shares are oversubscribed, the amount oversubscribed should be repaid to subscribers

A newsletter sent to shareholders alleges that directors and other purchasers of privately placed shares were able to "double their money in a couple of weeks " Evidence was produced at the inquiry that Pinnacle chairman Attie Botha, who was also an executive director of Alpha Bank, sold around 899 000 shares, realising a net profit of R1,4m in four days

A further example of misrepresentation in the prospectus alleged in the newsletter is the claim that two portions of Grootboom farm were bought in 1987 for R200 000 each. The directors' valuation in the prospectus, which they said was based on a peri-urban valuation, was R1,8m. The shareholders' newsletter states that, had it been properly valued at cost or cost plus a reasonable appreciation, Pinnacle would have been insolvent when the prospectus was registered

In addition, evidence indicates the property was bought in April-May 1988, and the peri-urban valuation was obtained in 1982 The balance sheet annexed to the prospectus was for the year ended February 28 1988, so Grootboom should appear for the first time the following year Both portions of Grootboom were sold by Pinnacle's liquidators for a combined R250 000.

Another misrepresentation claimed in the newsletter is that the prospectus said funds raised from the listing would be used to capitalise the company, the main object being "to fund an investigation into . obtaining a merchant banker's licence."

Such an investigation had however already been done. Minutes of general meetings long before July 1 record the company had been given the green light to register as a merchant bank

Joubert

There is also a possible contravention of the Act, which says funds obtained from a listing should be put into a trust and cannot be used for business expenses. Evidence suggests that parts of the subscribers' funds were used to repay loans and for business expenses

During the inquiry it also appeared that the investment in the Flamingo Lake Development "was an extremely unfortunate if not reckless and/or negligent decision of the directors, possibly making (them) liable for losses which the company suffered in terms of Section 424 of the Companies Act." So directors can be held liable if it appears that any business of the company was being carried on recklessly

Botha won't comment "as the matter is sub judice and all evidence has not been put to the inquiry "

Another director accused of misrepresentation, former Alpha Bank CE Reinhold Joubert, who formed the bank (then called Pinnacle Merchant Bank) with Botha, also has no comment

Nor will shareholders' attorney David Levithan comment, other than to say summons will be issued on various parties.

The inquiry was expected to be completed this week but has now been postponed until July Transcripts will be sent to the Attorney-General ■

Top broker lobbies for 'big bang' on JSE

B Day (232)

ROBERT GENTLE

A LEADING stockbroker on Wednesday circulated an informal proposal within the JSE calling for institutional shareholding in stockbroking firms and dual capacity trading

The circular also calls for stockbrokers to be allowed to charge separately for research, and wants banks to help the JSE write off its debts by end June 1991

The circular lists the following reasons for its recommendations

☐ Loss of clients to mutual funds and life assurers,

☐ Runaway costs in JSE administration,

☐ Strategic errors made by the JSE,

☐ The JSE's substantial level of debt, and

☐ Poor economic conditions and unhelpful taxation legislation

"Many of the JSE brokers are in any event facing ruin by financial strangulation Therefore they might as well take their chances in a big bang," it says

It also asks for a moratorium of five years during which the number of stockbroking firms will be limited to a maximum of 50

Commenting on the circular, JSE president Tony Norton said "It does not reflect the views of the JSE committee From calls I have received, it does not reflect the opinion of the majority of brokers"

He said he would have preferred the matter discussed in private, but said no action would be taken against the stockbroker involved

Asked if the exchange was worried by the circular, Norton said "Some members have different views That is normal in any large group of independently minded people"

Beer barons turn tables on whites

Sowetan 14/5/91

232

THE sour taste of apartheid lingers in South African sorghum beer, which is about to make capitalist shareholders of thousands of black drinkers.

The black businessmen who run state-owned National Sorghum Breweries Ltd (NSB) - the world's biggest sorghum beer company - plan to sell shares in the firm from Friday

But apart from the company's white staff, only blacks need apply

The colour bar on ownership is the latest twist in the politically charged history of the brew

For many years the Government used it to help pay for apartheid

"We are now in the final throes of ensuring that this industry will return to its rightful owners, the black community," NSB executive chairman Mohale Mahanyele said

Policy

"Our company policy is aimed at black economic empowerment and addressing an historical wrong "

Blacks have been brewing sorghum beer for about seven centuries, but in 1908 Natal barred them from distributing it so white municipalities would have a monopoly

The monopoly was extended to other white municipalities, including those around Johannesburg

They set up beerhalls and used the proceeds to pay for services in black townships

With the creation of so-called black homelands in the 1960s, beer profits were diverted from the townships to the territories which apartheid dictated were the real homes of South Africa's blacks

Police raids on illicit home

FOCUS

brewers were part of daily township life

Beerhalls became sumbols of apartheid and were attacked in anti-Government protests

The official names which whites gave sorghum beer reflected changing racial labels - from "kaffir" beer, to native beer

Since the Government set up NSB with a board of independent directors in 1970, brewery products have been given names like Zebra, Leopard, Country Brew and Kalahari

Nutritious

Sorghum beer is packed with protein, carbohydrate and vitamins and is low in alcohol

It is as nutritious as an intravenous drip, and for the non-traditional consumer, equally palatable

Mahanyele said white staff of NSB, including some top executives, would also be able to buy shares so ownership would not be exclusively black

Target

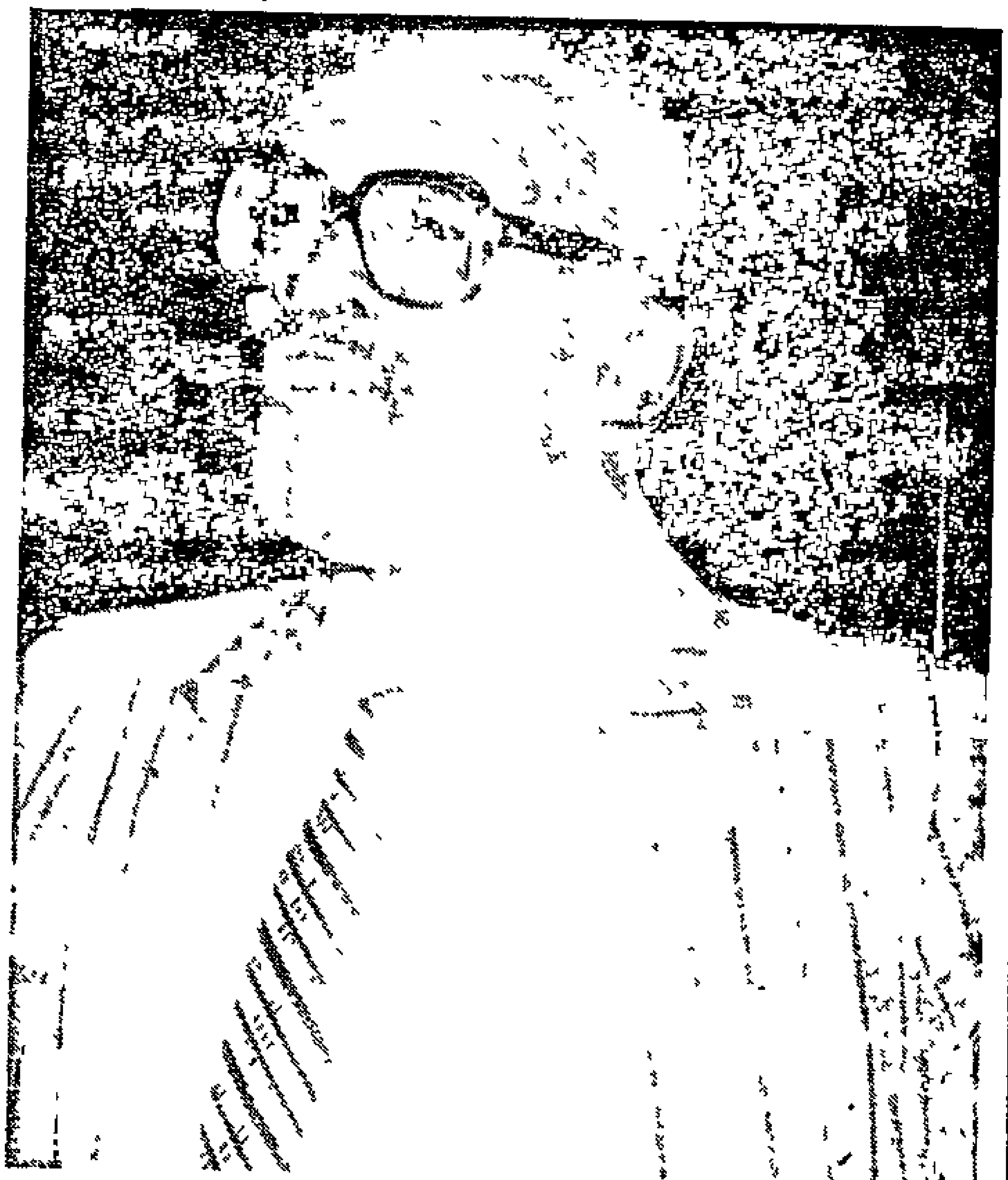
"This is not regarded as a privatisation It is regarded as returning something that has been taken away from the black community," he said

"The share offer is particularly aimed at consumers of the product, who are 98,9 percent black

"It stands to reason the people who benefit from this offer should be the black community "

But the blacks-only policy has come in for criticism

Business Day newspaper said in an editorial "It's fine that employees and distributors be offered preferential allocations



MOHALE MAHANYELE: "Our company policy is aimed at black economic empowerment...."

"What sticks in the craw is that the remainder of the shares are reserved for what NSB coyly describes as sorghum beer's 'traditional consumers' What's wrong with openly offering the shares to everyone?"

Critical

The paper also criticised the NSB decision not to offer the shares on the Johannesburg Stock Exchange initially but act itself as trader in the stock

Mahanyele said this was to protect the share buyers, who would generally be small investors with no more than R100 or R200 to spend

Their equity would be guaranteed for the first year

"Why must the 'traditional consumers' be treated as juveniles?" asked the newspaper

"Are NSB's managers to decide who will own the company's shares after privatisation? Will prospective shareholders need to carry a pass classifying them as 'traditional consumers?'"

The cost

Mahanyele said he expected hundreds of thousands of people to buy shares

Shares will be priced at R1 each but the number on offer will be disclosed only on Friday

The company, with an annual turnover of around R300 million employs 3 500 people and runs 18 breweries - *Sapa-Reuter*

Sowetan's cartoonist Len Sak is on leave. His work will reappear when he returns.

Political comment in this issue by Aggrey Klaaste and Deon du Plessis Newsbills by Sydney Matlhaku Sub-editing and headlines by Ivan Fynn All of 61 Commando Road, Industria West, Johannesburg

Eersteling shares suspended

B/Day 15/5/91. (232)

MATTHEW CURTIN

THE JSE yesterday suspended the listing of Eersteling, the gold mining company managed by Severin Mining Development (SMD), which was placed in provisional liquidation last week

At the time of the suspension, Eersteling's shares stood at 4c, down 91c from a high of 95c in May last year The mine's market value was R3,2m — but borrowings at end-March were R5,3m

SMD directors Steen and Franka Severin could not be contacted for comment yesterday

Frankel Kruger Max Pollak analyst Rob Gillan said Eersteling was valueless Not only did the mine's debt exceed its market capitalisation, but it had no break-up value Although the mine had a modern gold recovery plant, which some suggested was worth about R20m, in today's depressed conditions in the gold mining industry there were unlikely to be buyers

He said the mine had important but worthless gold reserves, as Eersteling's working costs were so high it needed a gold price of R43 000/kg to break even The current gold price was about R32 000/kg, and there was no sign the dollar price of gold was going to reach the necessary $450 mark in the near future

The company's other options were to swap its debt for equity, or to sell the mine off although conditions in the industry

☐ To Page 2

Eersteling

B/Day 15/5/91 (232)

☐ From Page 1

militated against a barely lucrative deal being struck. SMD sold its 81% controlling stake in its second gold operation, Rand Leases, in December

Severin said last week Eersteling was no longer able to borrow the money it needed for essential development work. Without this the mine lacked the flexibility to fight the low gold price and rising costs

New development work needed about R3m Severin said she could not advise shareholders to sanction this after an appraisal of Eersteling's position

Analysts said the mine had been overcapitalised, crucial development work had been neglected when the mine began operations, and directors had banked on over-optimistic expectations of the gold price.

Penpin to delist subsidiary

B/Day 15/5/91

(232)

LINDA ENSOR

CAPE TOWN — Supplier of building materials Pennypinchers Holdings (Penpin) plans to delist its subsidiary Pennypinchers Boards (Penboard) as part of a reorganisation of the group into separate retail and wholesale divisions

In announcing the poor final results of the two companies today, directors say the need for a separate listing for a subsidiary specialising in timber boards and related products no longer exists

"It is felt that the interests of shareholders of Penboard will be best served if they are afforded the opportunity of either realising their investment or becoming shareholders of Pennypinchers Holdings," the announcement says

Final results for Pennypinchers Holdings for the year to end-December were ravaged by lower margins and a higher interest bill

These had the effect of converting a 32,4% rise in turnover to R228,3m (R172,5m) into a slightly lower operating income of R6,1m (R6,19m). The situation was little helped by a rise in the tax rate to 41,6% (33,5%) which contributed to the 13% fall in attributable profit to R3,2m (R3,6m).

Earnings a share from aggregate operations fell 26% to 15,21c (20,49c) and the total dividend dropped to 7c (9c) after the declaration of a final payment of 3c

Rapid expansion took its toll on the group and management has now focused its strategy on the core business

The group plans to swing to cash sales instead of credit and has invested over R2m in refurbishing nine retail stores

Subsidiary Penboard fared little better with its 46,5% rise in turnover to R68,9m (R47m) translating into a 33% drop in operating income to R1,7m (R2,5m) due to the start-up costs of the Transvaal operation, reduced margins and high stock levels

A higher tax rate saw attributable income fall 45,3% to R35 000 (R64 000) and earnings by 31,3% to 8,15c (11,87c). A final dividend of 1,5c brought the total for the year to 3,5c (5c)

Norton announces operating shortfall of R6,65m for JSE

BDay 16/5/91

(232)

ROBERT GENTLE

JSE president Tony Norton yesterday reaffirmed his faith in the exchange's self-regulatory, single-capacity agency structure and warned against introducing "seductive elements" from other markets

Norton was delivering his presidential address on the release of the JSE's annual results, which showed an operating shortfall of R6,65m compared with a surplus of R372 000 last year

The shortfall consisted of about R2m on the purely operational level, with the balance attributable to costs on the Traded Options Market and other related items

"No market will ever be perfect, but it can be demonstrated that the JSE takes the most relevant form for the community it serves," said Norton.

"It has evolved to meet the needs of the investment and business communities, ever ready to adapt to new circumstances, but guided by the experience won over the 103 years of our existence "

Norton strongly defended the JSE's disciplinary procedures, and disclosed that 20 investigations had resulted in formal charges against members or their staff during the past year In 15 of these cases, the parties had been found guilty, with penalties ranging from reprimands and censures to suspensions and expulsions. No names were mentioned.

"We take self-regulation very seriously," said Norton, adding that it was more cost-efficient and effective than leaving regulation to government officials

"No matter how diligent and competent they may be, they cannot have the same knowledge and understanding as those drawn from within the industry who are driven to create and maintain clean markets," he said

The appointment of the government task force under Cape Attorney-General Frank Kahn received the exchange's full blessing and co-operation

"To those who have pointed to this development as justification for radical changes in the way the JSE operates, I must issue a reminder that it was our team that picked it up first, and the JSE which reported it "

The JSE had no doubt that its agency-based system of independent natural persons acting as agents for clients on a fixed commission basis was fundamentally an honest one, Norton said

"It is not a time for experimenting with untried ideas from elsewhere Rather, we need to hold in reserve every ounce of our hard-won experience "

● Picture· Page 6

Bankers 'in no rush' to join JSE stockbrokers

232 BDay 16/5/91.

ROBERT GENTLE

BANKERS have welcomed the idea of being allowed to have a shareholding in JSE stockbroking firms, but said they would not necessarily rush in if the proposal was adopted.

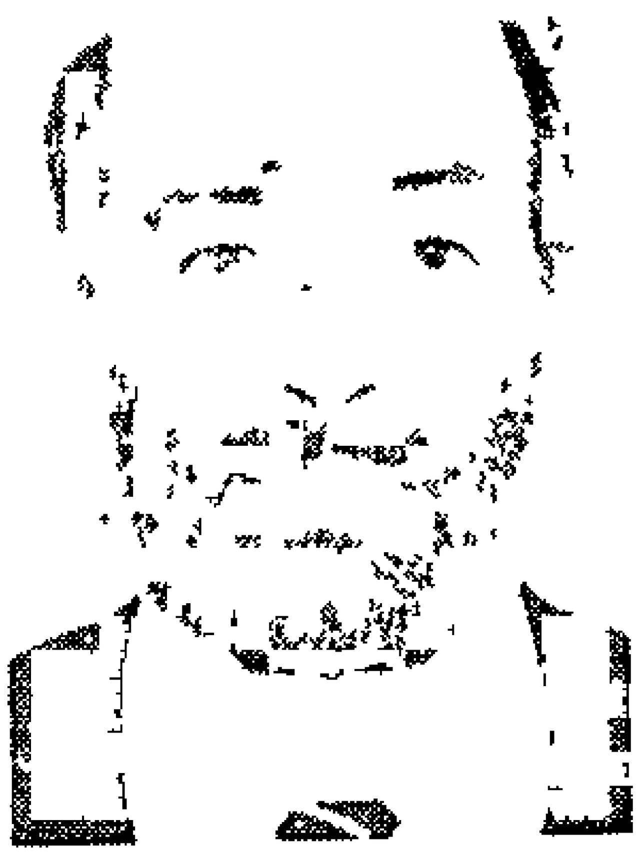
They were reacting to a suggestion made by JSE stockbroker John Cutten of Hayes Cutten calling for banks to be allowed to hold up to 50% of a stockbroking firm and help the exchange wipe out its debts

Allied Bank deputy treasurer trading Charles Buchanan said a banking presence among stockbrokers would usher in the kind of better risk management associated with well-capitalised firms

First National Bank assistant treasurer Mike Law said that while he welcomed the proposal in principle, he would rather wait for deregulation — "which is going to come anyway" — and set up a separate trading arm

He said the London Big Bang experience had shown that it was expensive for banks to buy up stockbroking firms

● VOSLOO



● FERREIRA

Standard Bank MD Mike Vosloo said that while he opposed fixed commissions and barriers to entry, he felt the JSE was functioning adequately and that there were benefits to its single-capacity structure

"We would not resist an evolution towards dual capacity, provided it was an orderly process," he said

Volkskas Merchant Bank senior GM Jan de Kock said the value of banks as shareholders would only be realised in a screen-based, dual-capacity market

Rand Merchant Bank (RMB) chairman G T Ferreira, a vocal proponent of a more open JSE, said RMB had no ideas about moving into stockbroking firms, especially if the aim was just to help settle the JSE's debt problem

"It is not that we particularly want to get into the JSE, but that the JSE should be open to whoever wants to get in so that liquidity and cost effectiveness can be improved," he said

Meanwhile, Sidney Frankel, CE at Frankel Max Pollak Vinderine, confirmed this week that about two years ago, his firm had come within a day of signing a deal that would have resulted in it gaining control of a small bank

However, the firm called it off after realising that the resulting risk profile would not have been to its liking

JSE spells out hopes for 'cash generation'

B Day 17/5/91 232

ROBERT GENTLE

THE JSE has ended one of its most difficult years with an operating shortfall of R6,65m (surplus of R372 000 last year) and borrowings of R55,2m, an increase of R12,5m on the previous year.

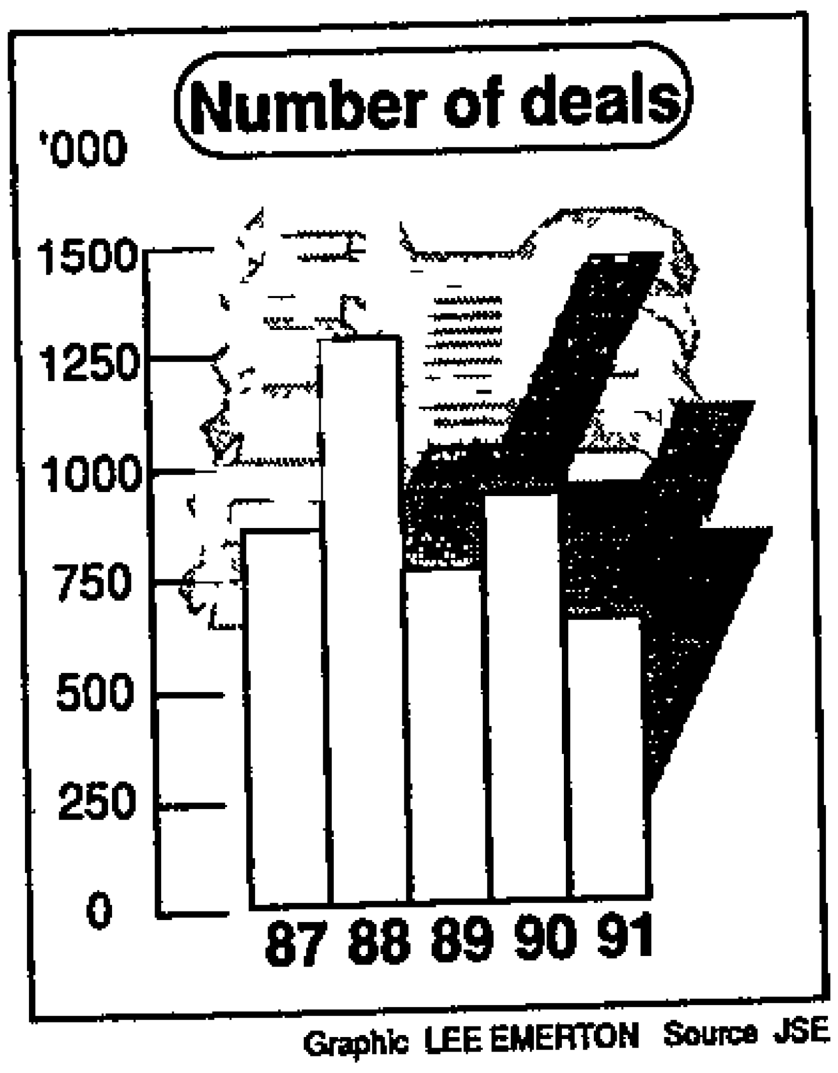
The exchange has had to dip into reserves and effect a transfer from this year's income on the Guarantee Fund to help square the shortfall

The income statement shows expenditure for the year moving up from R47,6m to R61,4m, an increase of 29%. These were mainly in administration (up 37% to R15m), computer back-up site cost (up 87% to R3,11m), interest charges (up 78% to R8,62m), depreciation (up 42% to R9,35m) and operating costs on buildings (up 37% to R8,37m)

In addition, there was R3,44m provision for doubtful debt arising from slow payment of rent in respect of the JSE's trading floor in the Annexe. The futures section of the floor was closed during the year, leaving only the bond trading section, now occupied by JSE gilts brokers.

A key item in the balance sheet is the continued computer systems development work on projects like the soon-to-be-launched Traded Options Market (TOM) and the broker dealer accounting system (BDA)

This was reflected in the notes under Software and New Market Developments in Progress and increased by 36% to R22m (R16,1m)



Graphic LEE EMERTON Source JSE

Commenting on the results in an interview, JSE president Tony Norton said the exchange was now peaking on its cash flow and that the "conservative" budget for the coming year showed it generating cash

While the debt of R55,2m was not insignificant, Norton said, it constituted "prudent gearing" when viewed against the R100m-plus market value of the exchange's two buildings

Moreover, the debt was not an overdraft but a 13-month notice facility which meant the JSE always had 13 months to refinance.

He said the presentation earlier this week during which the JSE Committee presented brokers with the picture behind the increases in expenditure had seen a "healthy and constructive" exchange of views.

"We have bitten the bullet," said Norton, alluding to the fact that the exchange had had to dip into reserves "If we have a good year, we might claw back a bit of the surplus."

● Comment: Page 10

SA BREWERIES FM 17/5/91 232

WAITING FOR BEER 182

Though all listed subsidiaries of SA Breweries have now reported the full picture will emerge only once results of the powerful Beer Division are known Analysts predict overall earnings growth of 13%-17%, with 18%-23% from the Beer Division

FM 17/5/91 182 232

What can be predicted is that beverages, alcoholic or not, will remain the mainstay Last year 53% of group attributable earnings was generated by the unlisted Beer Division but, in years in which the rest of the group is weaker, this can be up to 60% Beer sales have been growing annually 10% by volume

The other star is 67,5%-held soft drinks interest **Amalgamated Beverage Industries**, with earnings growth of 25% The Coca Cola franchise is the core of this business, with volume growth of 6% a year Real earnings growth can be expected from other beverage interests, which include 30%-held Distillers Corp and Stellenbosch Farmers' Winery, Traditional Beer Investments and Appletiser Overall, beverages account for more than 70% of group profit

Results in general retailing and manufacturing subsidiaries were more mixed than usual, manufacturing and **OK Bazaars** (see separate article) dragging down the rest. Outside drinks, only Edgars' earnings beat inflation Southern Sun, now an unlisted subsidiary, looks unlikely to show real earnings growth, though it still has a lucrative 20% stake in Sun International

Two other unknowns are the additional replacement cost depreciation, a form of inflation accounting which took R45m off taxed profit last year, and foreign earnings, which added R48m, and could exceed R60m if previous growth is repeated

If OK's 26% earnings fall took analysts by surprise, that at **Da Gama Textiles** was more predictable. Textile companies have been reporting either earnings declines (Romatex) or losses (Unispin and Frame).

Despite a 30% decline in earnings Da Gama remains the star of the sector and maintained an operating margin of 19% Da Gama remains almost ungeared and is a net earner of interest It has borrowings of less than R2m on shareholders' funds of almost R200m. With this kind of balance sheet and profitability it does not have to justify its place in the portfolio.

Earnings of **Afcol's** managed interests grew by 1%, but it was dragged down by a 27% drop in earnings from equity-accounted interests, mainly 23% of the troubled textile company Romatex and the office furniture interests owned jointly with M+A Afcol's overall earnings fell by 14% There was no turnover growth in the last quarter and management is looking for only modest growth in earnings this year Fortunately, gearing was reduced from 41% to 37%.

In line with the relative resilience of consumer spending, **Lion Match** pushed profit after tax up 20%. The bottom line increased by just 10% as there was no contribution from the equity accounted associate, Chet.

continue →

FOX FM 17/5/91 232 182

The match interests, Wilkinson Sword razor blades and Interpak packaging all did better Earnings fell only at the appliance division, which includes the Pineware and Rowenta brands

Outside beverages, **Edgars** stands out. Earnings growth is not quite as high as at credit competitors like Foschini and Wooltru's Specialty Retail Group of 32% and 35% respectively But 22% growth in a recession is welcome.

Edgars is not strictly comparable with competing, smaller credit chains It has a much wider customer base, is not so exposed to high-margin high fashion and is held back by continued problems of its cash chain, Jet The Edgars chain itself achieved a 33% growth in after tax profit

Its marketing-led strategy is still gaining market share — in clothing, footwear, textiles and accessories, from 15,5% to 16,8% Sales grew by 25% to nudge R2,5bn, compared with average growth in the sector of 14% Operating margin was squeezed, so operating profit rose by 23%, because of a 31% increase in finance costs, only partly offset by a lower tax rate, attributable earnings increased by 22%.

Edgars has confounded criticism that it was growing on the back of easy credit. Gearing has fallen from 64% to 59%, despite the pressures of managing the growing debtors' book Cash flow before investment activities changed from a net R26m use to a R39m retention. Group MD George Beeton says more emphasis will be put on cash flow.

Amrel has stayed aloof from the boom in retail furniture, which led to such spectacular results — and high debt — at such as Rusfurn, the JD Group and Profurn. For the fourth year running it emphasised asset management and the quality of debtors in preference to sales Attributable earnings grew by just 6% on sales growth of 21%

Amrel, however, accounts conservatively and unlike most provides comprehensively for deferred taxation, more than R18m was provided for current and deferred tax An additional R5,7m was set aside as an abnormal item to cover increased bad debt

It has gearing of 75%, low in the world of retail furniture, and not much higher than 71% at OK Bazaars, which is an 85% cash business. It looks better placed than most furniture companies for the downturn

Unless some unusual numbers are brought out of the hat this week, SAB is unlikely to repeat last year's earnings growth of 20%, but will still be well ahead of most industrial companies, where earnings on average have dipped by almost 10%. *Stephen Cranston*

Bigger role for private enterprise, says FW

(232)

ARGUS 18/5/91

IN his opening address to the conference, State President, Mr FW de Klerk said South Africa was on the threshold of a new housing policy in which private enterprise would be on an equal par with the public sector.

"The South African Housing Advisory Council has also been instructed to propose a new housing policy for South Africa. Its report is expected this September and we hope it will enable us to implement an acceptable and practical national housing policy to replace the present fragmented and outdated one."

The country had enormous housing problems, he said.

Between five and seven million people could be regarded as squatters.

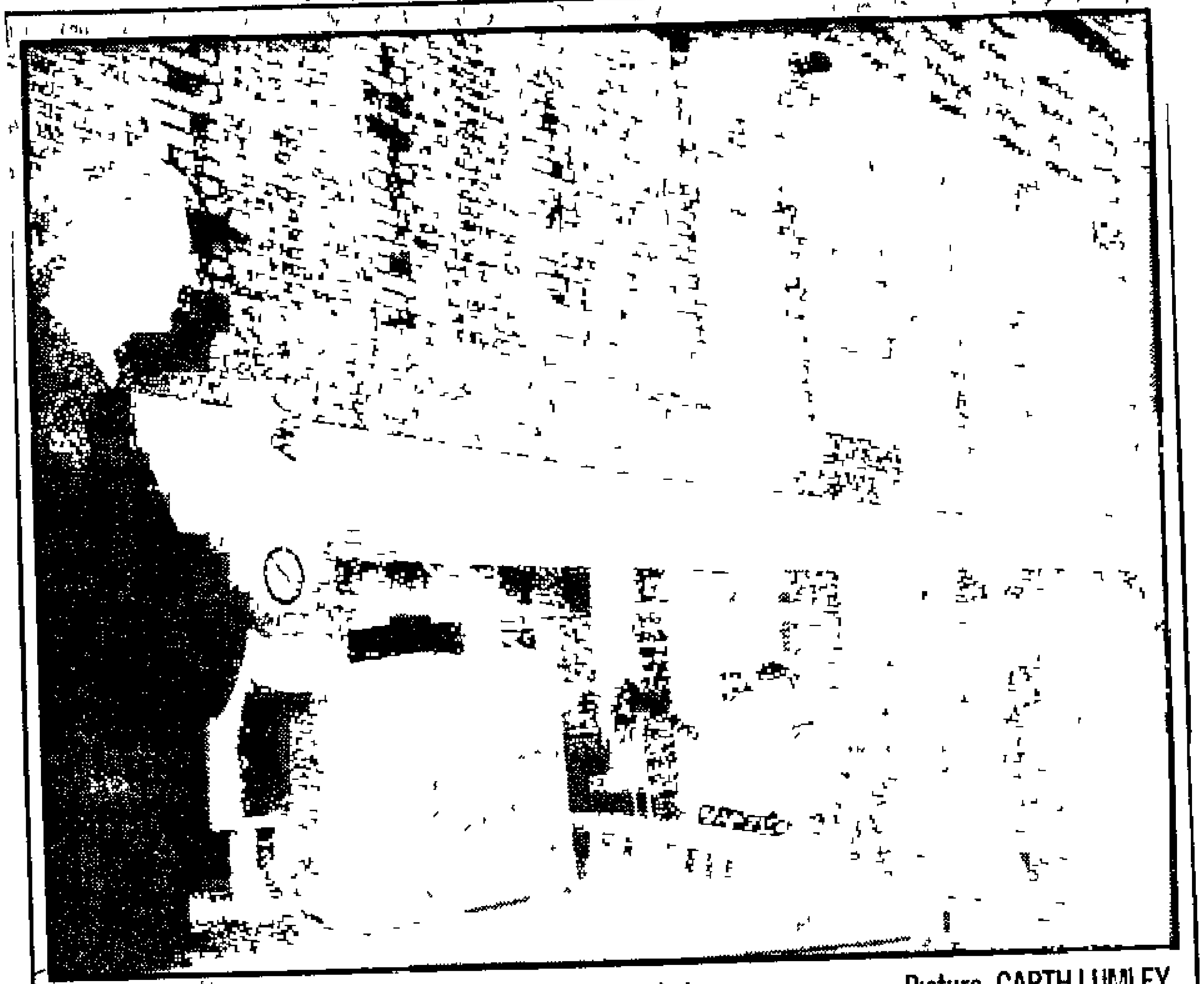
Approximately 70 percent of the black population could not afford a house for as little as R10 000.

Before the end of the century the metropolitan areas would have to house a further nine million blacks.

At 2,9 percent a year the country had one of the highest population growth figures in the world.

The population was doubling every 30 years while the country's natural resources could maintain only 80 million.

The government placed a high priority on housing, but exclusive State control and responsibility for the provision of housing was outdated.



TONY NORTON: Not the time to experiment with untried ideas

Picture GARTH LUMLEY

JSE is floored by R3,4m provision

232

STimes (Bus Times) 19/5/91

By JULIE WALKER

IN ADDITION to an operating loss of R6,7-million for the year to February 1991, the JSE made provision for doubtful debt of R3,4-million against the non-equities trading floor. It made a profit of R372 000 in the previous year.

These figures were disclosed this week by Tony Norton in his annual presidential address to members of the JSE.

SA introduced a dual floor and screen system in spite of opposition from other operators in the bond and futures markets, such as banks and discount houses, because the JSE wanted a floor

The floor has failed The JSE has been obliged to provide against possible non-recovery of expenditure on and rent receivable from the trading floor

Mr Norton spoke of the cost efficiency of self regulation.

"Government officials, no matter how diligent and competent they may be, cannot have the same knowledge and understanding as those drawn from within the industry.

"They are placed for surveillance in a way that outsiders could never hope to be. The system works because members and their staff report fellow members and their staff, whom they can easily observe in this open outcry market of ours"

Mr Norton said it was not considered sound policy to comment overmuch on disciplinary proceedings But in the past year 20 investigations resulted in formal charges against four members or their staff and 15 were found guilty. Penalties ranged from reprimand to expulsion.

He referred to the shock disclosure by the JSE itself of alleged dealing irregularities.

It is a pity though that Mr Norton was unable to convince all at the exchange that "it is not a time for experimenting with untried ideas from elsewhere".

Referring to computer expansion costs, Mr Norton lamented that "this expenditure has not always been commented on with a full degree of understanding of its role".

"There is no sense in importing seductive elements from other markets merely because they work elsewhere"

The speech was delivered on the JSE equity-trading floor Many modern bourses long since switched to screen trading, particularly in non-equities, to keep costs down.

Perhaps the hard-pressed stockbrokers cannot understand why almost R5-million has been wasted on the development of computers for the Traded Options Market (TOM), which was to have opened in mid-1989.

The theme of his speech to members was that the JSE was not perfect, but it took "the most relevant form for the community it serves".

Another R33m in AA Mutual payout

S Times (Bus Times) 19/5/91

By DIRK TIEMANN

CREDITORS and policyholders with claims against the defunct AA Mutual's short-term insurance business should ensure their whereabouts are known to the liquidators.

They are in line for a R33,2-million payout, to be posted in 164 493 cheques on May 31 But if experience is anything to go by, at least 10% of that amount will not be claimed

When the first dividend payout (but third liquidation account) of 30c in the rand was made in November 1989, creditors were sent cheques valued at R32,3-million But cheques for more than R3-million were returned

The first two liquidation accounts were payments to the Receiver of Revenue and preferred creditors, but apparently involved only minimal amounts

The total payout from the liquidation amounts to about R70-million if all the equalisation dividends paid to late claimants are included

There have been three equalisation dividends totalling about R4,1-million Creditors and policyholders who have missed both major dividends are entitled to 55c in the rand if their claims are accepted by the liquidators.

About 45 000 people will not get a cent because their dividends are less than R20 They may stand in line for a dividend later if the accumulated dividends due to them exceed R20

SSS 232

Underwriting

The money left over after the final distribution will be paid into the Guardian's account six months after the final distribution late in 1992 Claims can still be made on this account; but any leftovers eventually go to the State

The liquidators claim the final dividend will be about 96c in the rand This amount includes revenue from the sale of the AA Life building at 27 Diagonal Street for what the liquidators hope will be about R70-million

The final dividend will be reduced by 5,4c because of a secret "overall settlement agreement" reached among a few major creditors in February The liquidators will pay Fedlife R12-million from the assets of the estate to be distributed among AA policyholders and other creditors

This means that Fedlife will be refunded for part of the R35-million it paid Natie Kirsh for a major shareholding in the AA Mutual Fedlife cancelled the deal after it discovered that the AA had huge underwriting losses In terms of the settlement Fedlife will get R27,5-million

The liquidators say they opted to settle and so discount potential claims against the business totalling R200-million to expedite the dividend payment and to save legal costs

The liquidators were at one time worried that three claims for about R75-million might be decided against them That could have cut the final dividend by 23c and bring the total payout to 70c in the rand

Mr Kirsh will repay only about R10-million of the R35-million he received, a fact which has raised a few eyebrows

This settlement was reached five years after the AA Mutual was put into liquidation

Sorghum workers get free shares

S Times (Bus Times)

232 183 29

By DON ROBERTSON

19/5/91

THE GOVERNMENT's promise to privatise the sorghum beer industry is being fulfilled with this week's issue by National Sorghum Breweries (NSB) of 44-million shares at R1 each

The proceeds will be used to repay a R44-million loan in full to the Government. It is effectively the purchase price of the company

The offer, which opened on Friday and will close on June 19, is aimed at employees, distributors, retailers and consumers Should all the shares not be applied for, the balance will be offered to the public

Each of the 3 500 employees will be given 200 free shares out of an allocation of 13,2-million, which will be bought by the NSB Employee Share Trust. To finance this, the trust has borrowed R13,2-million from the State, repayable, free of interest, in three years

After the allocation of about 700 000 free shares to employees, the 12,5-million balance will be offered to them at a discount of 30%, or 70c each The 30c a share discount must be repaid within three years. The 30,8-million shares remaining will be offered to selected public groups

The issue price looks attractive Forecast earnings for the year to June are 29c a share and a dividend of 11,6c is expected, based on 2,5 times cover In the following year, earnings are expected to decline to 25c and the dividend to 10c

Shareholders will not qualify for a dividend in the current year and can expect to receive the first payment of 10c in September 1992

Long-term prospects for the JSE 'hothouse'

B Day 20/5/91.

BRENT VON MELVILLE

THE JSE should be viewed as a financial "hothouse" which will continue to move up in the long term, says Consolidated Fund Managers (CFM) MD Clive Fox

Speaking on personal financial planning at a Price Waterhouse conference last week for foreign residents, Fox said the JSE could be viewed as such because it was known that the market was highly illiquid where a severe shortage of quality script prevailed

It was also believed that institutions held in excess of R50bn in liquidity, with an annual net cash flow of nearly R25bn During 1990, the JSE traded about R23,7bn worth of equities

(232)

The situation would continue until exchange control was lifted and institutions were free to invest on a global basis. "Should there by any improvement in the operating climate through the normalisation of international relations and a renewed accessibility to foreign capital markets, a substantial improvement in equities over the longer term may be anticipated "

Company offers 44 million shares

232

THE offer of nearly 44 million shares in National Grain Sorghum Breweries Limited marked an important and significant milestone in South Africa's economic history.

This was said by Dr Dawie de Villiers, Minister of Economic Co-ordination and Public Enterprises, at the weekend.

"This company should pave the way into a new socio-political and economic era in South Africa where blacks and whites participate fully on equal terms to enrich the total community." - *Sapa*

Sowetan 26/5/91

COMPANIES

Pep Ltd share sales to help group earnings

B\Day 21\5\91 (232)

LINDA ENSOR

CAPE TOWN — Last week's sale by Pepkor of 3-million of its Pep Ltd shares for R81m will offset the diluting effect which the conversion of debentures will have on this year's group earnings, chairman Christo Wiese said in an interview yesterday.

"The sale will have a major impact on Pepkor's earnings this year," he said, adding that it was possible that growth in operating profit might flow through to earnings a share growth

Wiese said Pepkor, which owned 95% of Pep Ltd, had been approached with a bid by a major institution which Pepkor wished to have as a shareholder The sale, concluded at R27 a share, increased the spread of shareholders in the group

The conversion of debentures in Pepkor and Pepgro, triggered this year by the final dividend to be paid in June, will mean that earnings a share will be calculated on the basis of 15-million shares in issue as opposed to 11,7-million

Wiese would not commit himself to a real increase in group earnings this year, but said there would be real growth in dividends

Real growth in earnings would depend on the performance of the group's core businesses — Pep Stores and Shoprite — and the contribution made by recent acquisitions, namely Smart Centre, Frasers' mine stores and Harties

Wiese said it was important to note that Pepkor management believed its tax rate had stabilised at about 41-42% and would remain there for the next three years

The impact of the rising tax rate was evident in Pepkor's attributable earnings for the year to end-February which rose 17% to R79,4m (R67,8m) on a 28% increase in pre-tax profit

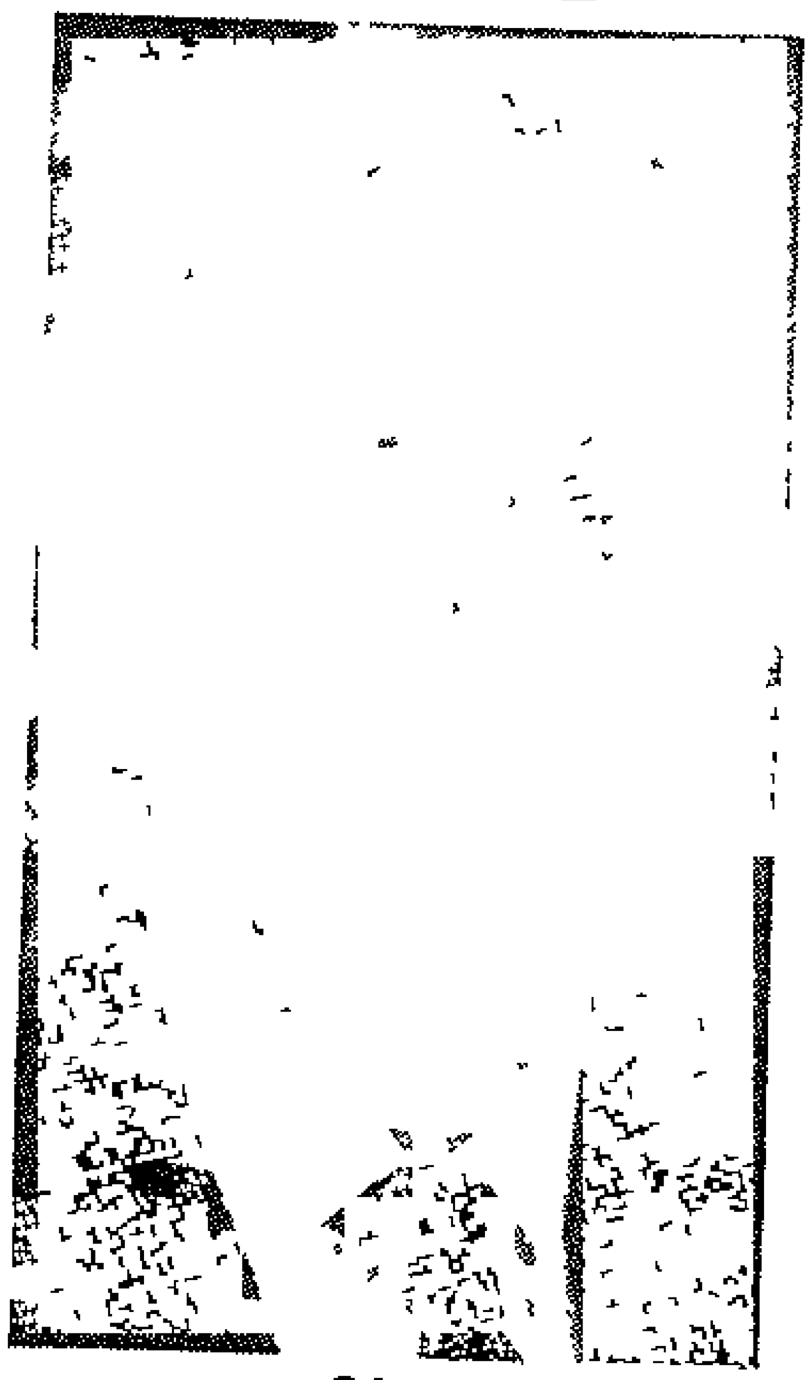
Contributing factors to the stabilisation in the tax rate were the group restructuring, the fact that the group operates in a number of tax regimes and the increase in export concessions Exports were expected to grow to about 1,5-2% of total sales this year, and perhaps to a substantially greater amount thereafter

Once the new UK operation had been tried and tested, steps would be taken to expand into Eastern Europe Political stability and improved relations with Africa north of the Limpopo could also see a growth in exports

Wiese said Pepkor, which has cash resources of about R200m, was examining other acquisition possibilities at the moment

Organically the group, which has about 1 500 stores, would continue to open about 100 new outlets annually

As regards trading conditions Wiese said "We hope the economy has bottomed out but it is definitely at a very low point of the cycle We planned for 1991 being a very tough year, but it could be tougher than anything we imagined However, there is a general consensus that there will be an upturn by year-end and we are planning accordingly"



● WIESE

In the longer term Wiese believed the group was well placed to take advantage of the fact that in the emerging SA the disposable income of the low wage earners was going to increase faster than that of the elite

He said there had been a tremendous increase in credit sales despite the recession and that the group wished to increase its credit sales until they represented between 15-20% of total sales Presently, credit sales represent about 8% of the total

Industrial shares adjustment 'likely'

B Day 22/5/91 (232)

LINDA ENSOR

CAPE TOWN — The bull market is in full swing, although a correction in industrial share prices which have climbed strongly during the past few months is likely, says Old Mutual portfolio manager Adrian Allardice

The fundamentals look good for a soundly based long-term upward movement in share prices, he says Some have started to fall back as part of the correction, but Allardice says prices could remain at current levels if market sentiment improves

"All the signs point to the start of a recovery of the economy by the end of the year though there is uncertainty as to how long the current weak performance will last I think share prices have already anticipated the favourable forecasts for the economy in 1992, namely growth and a decline in interest rates"

However, Allardice says the downside in the market is clearly limited with investors likely to view any easier trend as a buying opportunity

"Industrials continue to offer sound growth prospects In addition prices are underpinned by the scrip shortage which is likely to worsen

"Even in the current market where historic dividend yields are low at just above 3%, several shares are offering above average profit potential"

He expects reasonably good corporate profit growth in 1991 with the primary sectors of the economy starting to pick up later in 1991 or 1992

Allardice, who manages Old Mutual's Industrial fund, says it is normal in the first run up to a bull market for prices to shoot ahead of the fundamentals and a correction or sideways movement thereafter is normal

While some analysts believe the market has become too expensive, he thinks that prices are reasonable and that they will maintain their ratings

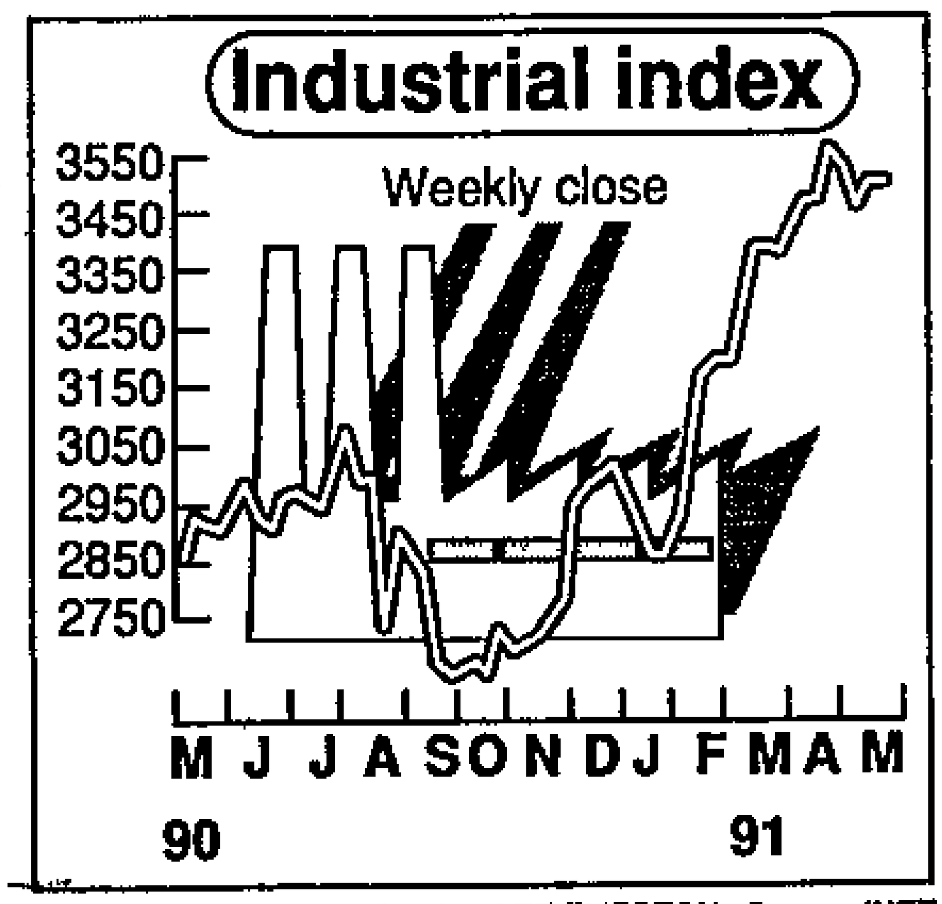
Old Mutual's chief economist Dave Mohr says while the performance of the economy in 1991 will be largely an extension of that of 1990, there will be an improvement in 1992

"The corporate earnings cycle is picking up and interest rates are coming down This is good for the share market

"Uncertainty about the political situation may dampen but not kill off the development entirely"

Mohr says the critical factor for the economy is foreign investor confidence as it is vital that the improvement on the capital account be maintained to keep the balance of payments in a comfortable position This will depend on the level of violence, the progress in negotiations, and the normalisation of international relations

If the capital account takes a knock it is likely the Reserve Bank Governor will increase interest rates, placing great strain on the economy However, Mohr says foreign investors are taking a reasonably optimistic view of the SA economy



Graphic: LEE EMERTON Source INET

Market surges despite violence

232

CT 22/5/91

From MERVYN HARRIS

JOHANNESBURG. — When bad news of continued violence, explosions in Johannesburg and the breakdown in negotiations between the government and the ANC failed to shake Diagonal Street on Monday, people decided that the market could go only one way — up.

And there were good gains across all sectors yesterday as investors scrambled for scarce quality shares in an extremely tight market to lift the JSE overall index 1,5% or 49 points to 3 081.

"Demand was for the highly capitalised, tradeable shares but there was little scrip on offer and investors had to bid up prices to obtain stock," a dealer said.

A slightly firmer gold price encouraged London as well as local buying of gold shares and the index rose 3% to 1 173. Dealers reported strong demand for selected lightweight gold shares and good trade in Krugerrands.

The strength of industrials — the index rose 1,2% to 3 547 to come within range of the end-April peak of 3 559 — was reflected in Barlow Rand shares. The shares rose almost 4% to R41 a day after reporting a 14% decline in interim earnings. Analysts said the company was seen as able to weather a downturn.

● Golds lead rally on JSE — Page 14

Bull run could be prolonged

CT 22/5/91

(232)

By ARI JACOBSON

THE bull market currently underway on the JSE could be prolonged throughout this year and into 1992, said Simpson McKie market stategist Peter Trengove-Jones, at a market view seminar at the Newlands Hotel yesterday

Trengove-Jones pointed out that certain areas of the stock markets were highly valued "and therefore a bit daunting" but, he said, with the shortage of scrip coupled with a surplus of cash from the institutions and riding on good fundamentals with the improved outlook for the business cycle — would surely make an impact on share prices

Looking into the future, Trengove-Jones said shares that would grow with the new SA, and this included the capital goods sector, would provide sound value

Economist Graham Boyd said a partial economic recovery can be expected by the end of 1991, with a 3% growth in gross domestic product (GDP) forecast for 1992

Boyd said the early part of the recession which has endured for 26 months had been brought on by two sectors, agriculture and mining.

Only from the middle of last year did we see a more normal type of recession from tight monetary policy domestically and slackened demand from overseas.

He said the economic oddity was the sharp decline in production, while private consumption and investment expenditure remained firm.

As for 1992, Boyd pointed out that gold and foreign exchange reserves were strong as is the liquidity in the money market.

In addition, he said SA could expect a boost from exports in the coming year.

All these, he said, should help steer the economy out of a recession and into positive growth in 1992.

Industrial shares offer sound growth prospects

CT 24/5/91

(232)

By PIETER COETZEE
Financial Editor

LONG-TERM prospects for industrials are encouraging, even though the market could take a breather in the short term, says Adrian Allardice, portfolio manager of Old Mutual's industrial unit trust

While not ruling out a correction, Allardice says market downside is clearly limited to between 5% and 10% with investors likely to view any easier trend as a buying opportunity

Although the short-term economic growth outlook is far from encouraging, investors' time horizons will be pitched well beyond 1991

He, nevertheless, expects an upturn in the economy at the end of the year or early next year

The market is also taking the present situation of violence in its stride and is looking ahead with reality

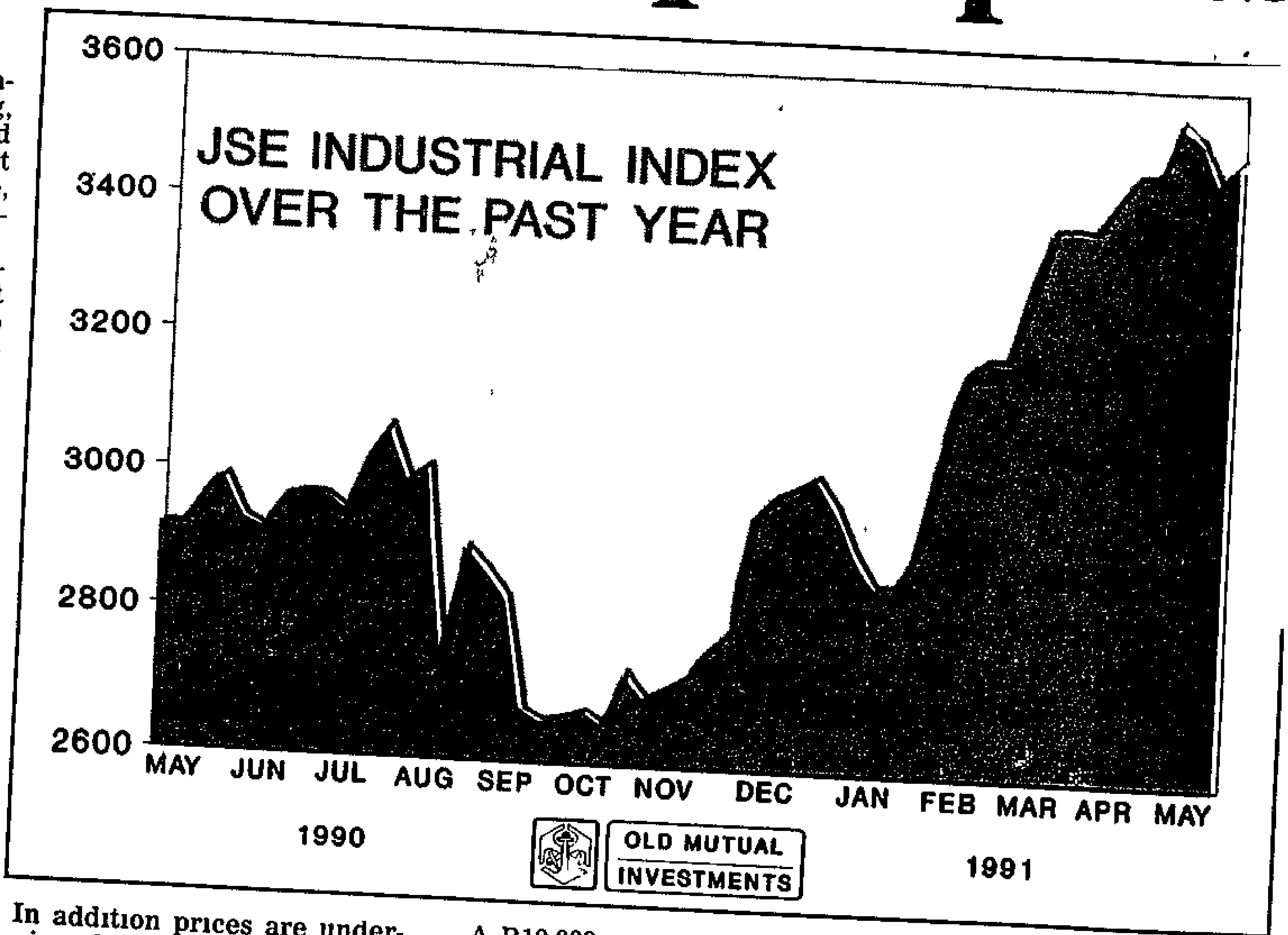
"Most of the bad times are behind us and we expect an upturn in earnings and dividends in about six months' time and in 12 months' time they will certainly be better"

Allardice says positive real interest rates have a negative and positive side for the share market.

On the negative side good returns can be earned on cash

On the positive side — and it outweighs the negative side — good monetary policy will lead to higher real growth rates for the economy as well as companies. Sound monetary policy is good for shares over the medium term

"Industrials continue to offer sound growth prospects



In addition prices are underpinned by the scrip shortage which is likely to worsen

"Even in the current market, where historic dividend yields are low at just above 3%, several shares are offering above average profit potential Superior share selection will be the key to maximising returns"

He says share selection rather than timing remains the foundation of the industrial funds' investment philosophy and since its launch a year ago the fund has shown impressive performance

A R10 000 investment in the fund when it was launched in May last year is now worth R12 869 — a net total return (capital appreciation and dividends after all costs) of 28,69% against the industrial index's rise of 24% over the same period

Allardice says in addition to a wide spread of blue chips, the fund has been most successful with its selection of "near blue chips" as well as second liners

Holdain was bought as a recovery stock at R14 and now stands at R31 Clicks rose 72%, Didata 40%, Foschini 110%, Sunbop and Trencor doubled while Mobile added 87% and Safren 46%

"Research had indicated that the retail sector was likely to perform relatively well while manufacturing would have margins squeezed by the economic downturn

"This led to some 12% of funds being allocated to retailing in the past year However, manufacturing could recover when the economy picks up

"In line with the investment philosophy the fund remained virtually fully invested and unit holders benefited from the low liquidity"

Raging bulls push up industrial index

MERVYN HARRIS

THE bulls continued to rage on Diagonal Street yesterday as investors piled into blue chips to lift the JSE industrial index to another record high

The index advanced 35 points to surpass the April 26 peak of 3 559 and close at a new high of 3 582, but off the session high of 3 591 as leading shares succumbed to profit-taking

232

Sowetan 23/5/91

Dealers said share prices had gone ahead too fast in hectic morning trading and the market had become overheated and top heavy. But with demand ranging across all sectors, the JSE overall index rose 37 points or 1,1% to 3 118 to lift its gains to almost 3% over the past two days

Some dealers said market expectations were too high and urged a little caution but others said any correction in share prices would encourage renewed buying

Demand for shares was mainly from local institutions but a major London institution was also said to be in the market looking for gold shares. The all gold index rose 27 points to 1 200 although the gold price retreated after failing to breach the $358 level

Privatisation taken too far has its own economic pitfalls

B Day 23/5/91.

BUDDY HAWTON

232

PRIVATISATION and deregulation have become popular economic instruments, but it is possible to go too far with them. A totally *laissez faire* economy has its own problems.

There is clear evidence in Japan and the newly industrialised countries, like South Korea and Malaysia, that state strategy and intervention are crucial to strong economic growth.

Author and economic analyst Merle Lipton recently argued that excessive financial deregulation had contributed to the banking and savings and loan crisis in the US. She also cautioned that, in practice, privatisation had sometimes merely transformed a parastatal monopoly into a private sector monopoly.

Not all state functions are improved by privatisation, and any government must retain responsibility for certain community services.

Lipton also pointed out that sometimes regulation is required to maintain the economic environment in which natural markets flourish, and that macro-economic fine tuning in such areas as aggregate employment and balance of payments is beneficial to all players in the economy.

For example, there should always be a state health service, although it can live side-by-side with private medicine. Similarly, we might privatise SAA, but the state has an obligation to provide basic commuter services like buses and trains.

In the case of deregulation, there are some regulations which may appear irksome to business, but which exist to maintain greater social considerations.

Society should always retain a certain minimum regulative power over business, so as to be able to curb poor judgment and greed — for example, restraining indiscriminate land developers from turning pristine sites into highly geared timeshare nightmares, preventing the unscrupulous and the cunning from transferring wealth to themselves from the innocent man in the street via "venture capital opportunities".

It is necessary to look at privatisation and deregulation in their socio-political context.

Why would the ANC apparently ignore evidence that privatisation is a generally effective way of improving national economic performance? Why are some black leaders who are candidates for participation in a future government, still talking nationalisation when it is in retreat around the world?

To me there are three reasons

☐ They cling to an ideology which, although discredited, has been the backbone of their struggle for years and has brought them this far. This, of course, is a bad reason to keep any discipline, but it is understandable.

☐ Although they now see the failure of a command economy, they have so successfully sold it to their supporters in slogan propaganda that they run a serious political risk in trying too quickly to reverse this thinking. The so-called "masses" might be confused if the ANC suddenly told them communism was a good strategy for *acquiring* power but a poor way of implementing it, and

☐ Thirdly, because centralised economic control provides opportunities for a new government to consolidate and perpetuate its power — by more direct control of wealth creation, and by providing jobs directly under the government wing, and ultimately creating an entire middle class of parastatal people which entrenches their position.

In regard to these reasons, there is not much we can do about the sentimental attachment to communism other than continue to illustrate its failure, preferably without the smugness that some have indulged in. It will fade as the real challenges of the future take hold.

With regard to re-educating the ANC support base, this process may have already begun in the February issue of the ANC journal, Mayibuye, where a surprisingly even-handed analysis of the pros and cons of nationalisation was presented in simple, easily understood terms.

It is, however, the third reason for maintaining a command economy that is the greatest challenge.

Especially to a new government, the attractions and security of a command economy are sufficiently strong to warrant sacrificing some economic performance. Simply having a great deal of people acting out of your policy is reassuring to a new leader. Robert Mugabe doubled the 40 000-strong civil service when he took power in Zimbabwe.

Moreover, in adopting this approach, a new SA government would simply be following a very persuasive example set for them by the NP government, which ran SA for more than 35 years along these lines.

A great part of the NP's success was due to the fact that it developed a massive public sector which provided employment for NP voters, generated a desirable and stable middle class community for those voters, and generally amassed for themselves a power and control which enabled them to carry out their political objectives.

It is not surprising that candidates for a future government would consider retaining control over the parastatals for the same reasons. Of course, it did not work in the long run for the NP. And that's the point.

How do we contribute to a better overall understanding of the economic requirements critical to this country's development and success?

Firstly we have to adopt an "in-partnership" attitude to economic strategy, rather than "you versus us". Thus we must concede to freezing all privatisation until political settlement has been reached. To push anything through now would be provocative. Privatisation will succeed only if it is the *agreed policy*, not a unilateral decision by the present government.

But we should continue to promote these economic instruments by saying "Let's not repeat the entire learning curve of the previous government. Use their experience. Peak economic performance is the best way to secure a widely accepted political settlement, because it will create enhanced prosperity across a broad base."

The paramount lesson of the second half of the 20th century has been that no ideology and no system can prevail against the general will of populations, nor against the natural state of systems, social or economic.

SA is embarking on a journey of transformation from a command society to a participation society. The impact of this will be almost inconceivably vast. It will re-fashion the character and structure of our society at every level.

Like all profound social developments, it is neither created nor controlled by the political leaders of the day. It is an evolutionary pulse from deep within the society, and the wise government does not resist it, but tries to ride and refine it, and channel it for maximum benefit.

This liberalisation is occurring across the whole frontier of our society, and economics is just one aspect of this. That is why the ANC and others like them have to understand that the force which has brought them to the negotiating table is the same force that is driving economic renovations like privatisation and deregulation.

Deregulation is clearly the more important of the two in terms of unleashing the economy. Its impact will be felt right down to grassroots level.

Deregulation will release the latent capability in the economy; it will channel resources and talent away from tax-dodging, away from loophole-searching, away from servicing the bureaucracy, and make these resources and talent available for creative application in business and industry.

Finally, the challenge in this country is not the redistribution of wealth, but the creation of wealth, and that is what privatisation and deregulation are about. However, for all that, they are not at the top of SA's priority list. We have some other economic and political restructuring to attend to which require government intervention before we reach the stage where natural market forces can propel us forward.

☐ **Hawton is chief executive of Safren. This is an edited extract from a recent speech to the SA Institute of Chartered Secretaries and Admini[illegible]** nomic activity hasn't yet reached its low point"

Reports Business Day Reporter AP-DJ Sapa-Reuter

last year, reports Sapa-Reuter

Standard Chartered sold its minority stake in Standard Bank SA in 1986

in SA, then I think we could probably do it, but I think at the right time," he said

Minimum fee put brewery off JSE route

B/Day 23/5/91 (232)

ROBERT GENTLE

THE JSE's R30 minimum fee on share transactions was an important reason in not choosing the exchange for the sale of shares in National Sorghum Breweries (NSB), Finansbank executive director Willy Ross said yesterday

The 44-million shares of R1 each that the NSB is offering to its predominantly black employees, distributors and customers, will instead trade in an over-the-counter market free from transaction fees

A second reason, said Ross, was the need for "a certain education process" for what was a large body of first-time investors

Finansbank, merchant bankers to the NSB, had structured the share issue around the need to keep it simple and ensure it succeeded, he said

This explained such concepts as the buyback option, which involves the Industrial Development Corporation (IDC), underwriters of the issue, undertaking to repurchase the shares at their issue price of R1 within a year of the close of the offer

"It gives holders of the shares a level of comfort for one year in the event the shares fall below R1," said Ross He expected the shares to trade above their R1 issue price

Another aspect of the Finansbank approach had been to offer the shares in affordable tranches of 100 for the "hundreds of thousands" of expected shareholders

Buyers and sellers will eventually trade by communicating their orders by telephone to an audited PC-based system which will match supply and demand on a first-come first-served basis Transfer of ownership will be monitored by transfer secretaries Mercantile Registrars

He conceded that the shares were destined first and foremost for the people most closely associated with NSB though there was nothing unusual about this

Certain UK privatisation issues such as British Gas and British Telecom had also given special incentives to account users to take up shares, Ross said It did not mean everyone else was excluded

He did not rule out NSB moving to the JSE once the initial aims of the share issue had been achieved

232

CT 23/5/91

JSE urged to structure new industrial index

By PIETER COETZEE
Financial Editor

THE chairman of the Shareholders' Association of SA, Issy Goldberg, urged the JSE to structure a new industrial index seperately from the 30 or 40 blue chips currently incorporated in the industrial index

In the association's latest monthly newsletter, Goldberg says the industrial market of the JSE — according to the index — is capturing new heights. But this is not reflecting the truth.

The index is, in fact, in essence influenced by market capitalisation and the price of the "heavy wheights".

The average "middle of the road" share and the real laggards contribute virtually nothing to the index.

He says it is interesting to note that 20 or 30 shares, the "blue chips" commonly held by all major investing institutions, have thus a dominant effect on the index.

It is common cause that large institutions, awash with funds from contractural savings, until recently distanced themselves from the stock market, for some time now vie with each other to purchase substantial holdings of these blue chips.

"Of course, the price of these shares inevitably than rises. And therefore the index and the laggards lag.

"This index rise to dizzy heights, represents salt in the wound to thousands of shareholders who have invested since 1986 in hundreds of mediocre shares, promoted and acclaimed by analysts and sponsoring brokers as being pregnant with promise.

"The promise was never fulfilled and, in fact, has been aborted by circumstances. Several of these have succumbed to liquidation. Many are teetering on the edge of the precipice, and the index rises"

Goldberg says an industrial index for these shares would provide the cold douche of reality to the naive hordes and greedy shareholders who have lost millions in the market as a function of their greed, gullibility and the reckless promotion of such shares.

He also says that the creation of cash shells, and the sale of their listings, have become a racket.

"I am suggesting to the JSE and to the authorities that the creation and disposal of such cash shells must be controlled far more incisively than they have been hitherto"

On prospects for the market, Goldberg advises investors to apply their minds to further investment in the JSE, with dividends still being exempt from tax

"I would suggest that to compete in the market for blue chips, some of which may have had a rise over the last few months of up to 35% off their lows, would be risky.

"On the other hand, it might well pay to investigate neglected second-tier counters

"If these parameters are regarded as reasonable, particularly as to size of the debt, such second liners might well prove to be fruitful purchases"

Industrial shares reach record highs

(20) (232)

CT 23/5/91

By PIETER COETZEE
Financial Editor

THE industrial index of the JSE yesterday again reached record levels, surpassing the new high reached on April 26, in spite of SA's current political uncertainties

Stockbrokers said there was limited demand for quality blue chip shares but a shortage of sellers of quality shares pushed the industrial index to a new record level

They, however, warn that although there is long-term value in certain shares a correction seems to be overdue

Old Mutual portfolio manager Adrian Allardice does not rule out the possibilty of a correction but says the downside is limited to 5% to 10%

The industrial index gained 34 points or 1% yesterday from 3 547 to 3 581 (the previous record level on April 26 was 3 559), bringing the total rise in the past two days to 2,2%

Gold shares again moved higher yesterday in spite of the fairly stable gold price of $356,50 and the gold index gained 26 points or 2,2% from 1 173 to 1 199

This brings the total rise in the gold index over the past two days to 5,3%

Perceptions that world bullion prices are unlikely to fall much further kept gold shares on the boil, and the bullish sentiment spilled over to most other sectors

Gold analysts, however, warn that the upside potential of the gold price, based on fundamentals, is limited and they expect the gold price to trade between $340 and $400 for the rest of the year

The strong industrial and gold markets caused the overall index to surge to 3 117 from the previous day's 3 081 closing

Heavyweight gold share Vaal Reefs gained R2 to R205 and Beatrix also R2 to R22, while mining financial Anglos ended R2 firmer at R108,25, reports Reuter

Diamonds had De Beers 85c firmer at R78,60, while industrial leader Richemont gained 50c to R26

Banks take over clearing of all JSE brokers' futures deals

B/Day 24/5/91 (232)

ROBERT GENTLE

ALL JSE stockbrokers now clear their futures trades through the banking sector, Safex said yesterday, a move interpreted in some quarters as a growing sign of co-operation between the banks and the exchange

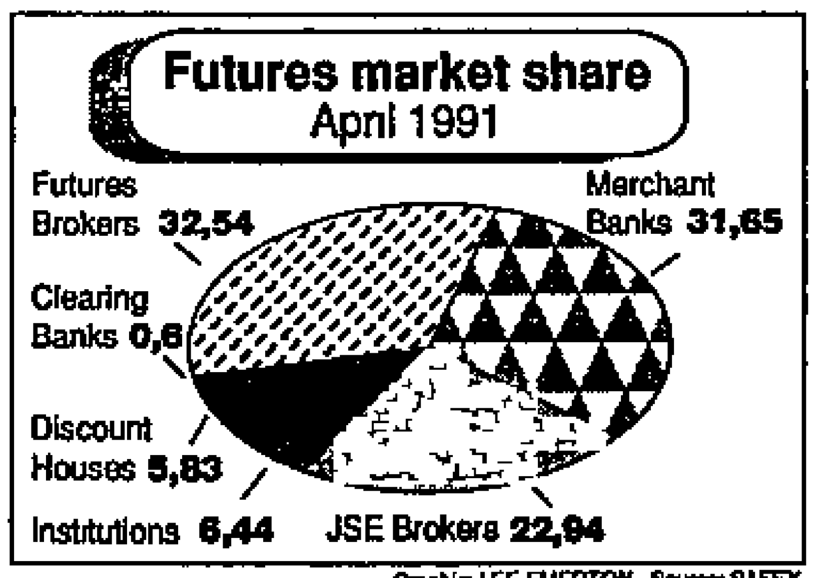
This follows a decision taken last year by the JSE to stop acting as a clearing member of the SA Futures Exchange (Safex) and allow its brokers to clear through any Safex clearing member of their choice

The reason given by the JSE at the time was that it would result in a much safer risk profile, because the exchange would no longer have to put its money on the line to stand good for its brokers' futures deals

A Safex spokesman said yesterday that the transformation was now complete and that all JSE brokers trading in the futures market cleared their trades through banks

Rand Merchant Bank (RMB) ended up with the lion's share of this new market, and now clears the futures trades of about 11 stockbrokers

An RMB spokesman said "Ours was a tried and tested system," alluding to the fact that RMB had been a clearing member in the informal futures market long before Safex was licensed "They were happy to come back to a system they knew"



Graphic: LEE EMERTON Source: SAFEX

While the price of RMB's clearing services was material, the spokesman added, it was not the primary factor

The other major clearing member to benefit from the JSE move was Financial Instruments Clearing Company, a wholly owned subsidiary of First National Bank (FNB) It now clears the futures trades of four JSE stockbroking firms

Two other JSE stockbroking firms use the clearing services of Discount House of SA and Standard Bank

JSE stockbrokers now form a significant part of the overall futures market, accounting for 22,9% of overall activity in April, the most recent month for which statistics are available

Meanwhile, futures volumes continue to show timid signs of strengthening A total of 5 330 contracts worth R139m traded on Wednesday

BARLOW RAND

FM 24/5/91

PLAN TO REDUCE VOLATILITY

232

Barlow Rand has softened the bad news accompanying its 1991 interim results with its announcement of a plan to list Middelburg Steel & Alloys (MS&A) It remains to be seen whether the flotation will add value for Barlow shareholders in the short term. But the intention is to distribute MS&A shares for free, so investors could be better off once the stainless steel and ferro-alloys producer's profit has recovered

The highly cyclical MS&A was the main bugbear for Barlow in the six months to end-March In the full 1989 year MS&A made an after-tax profit of R216m (contributing 22% of group attributable profit), but in 1990 this dropped to R52m, with virtually all coming in the first half In the latest six months, MS&A lost R17m; that was the main reason Barlow's earnings were down by 14% Had MS&A been excluded, Barlow's EPS would have been up 3% — a creditable enough result at present.

When the stainless steel and chrome markets were booming, MS&A was a major driving force for the group. It benefited from hefty capital projects, including the chrome division's R260m CDR (chrome direct reduction) plant, though some of these investments have yet to achieve the hoped-for returns However, chairman Warren Clewlow says the company now has too big an impact on Barlow's profit — in upswings and in downturns.

As a first step towards lightening the group's holding, shares are expected to be distributed in specie to Barlow's shareholders, probably around October this year A flotation of about 20% of the issued shares would be needed to give the share a reasonable marketability. One reason for taking this route rather than listing MS&A through a Barlow rights offer, is that the profit volatility and the current loss have made the company extremely difficult to value. Another consideration is that MS&A's markets remain difficult to forecast; Barlow's management has no wish to be involved in earnings forecasts that could go awry

Once the shares have been given to the Barlow shareholders (who of course already own 100% of MS&A), it will be up to the stock market to place a value on the company Later, when the performance has improved, Barlow could lighten its holding further, probably through a rights offer by MS&A It would, however, continue to manage, and be responsible for, the company

This plan may help to bolster Barlow's share price in the short term, though the extent will depend on whether the market feels the MS&A holding is undervalued by the present share price, and whether a separate listing will result in a markedly better valuation. Based on Barlow's current share price, Steve Rubenstein of Fergusson Bros, Hall Stewart estimates that the stock market is now valuing MS&A at around R570m, or about R3 per Barlow share.

It is probably fair to assume this is a conservative valuation. Profitability can be very good and management estimates replacement value of the assets at R1,5bn Assuming the market capitalises a separately listed MS&A at, say, R750m, then that could add around 100c to the Barlow price ahead of the listing As the *FM* went to press, the price had gained 150c to trade at R41 — so the market appeared to be taking a similar view. More important for investors, though, is the longer-term potential

It seems the listing will take place when the company is at or close to the bottom of its business cycle, and the major capital programmes have been completed Profits will remain linked to demand for stainless steel, a long-term growth market. The stainless steel operation has already seen an "excellent profit turnaround," but the ferrochromium division is in the red because of effects on exports of a worldwide oversupply and a stronger rand. There have also been operating problems with the new furnace, which presumably will be resolved

As far as Barlow's 1991 earnings are concerned, much will depend on the second-half contribution from Rand Mines, which is forecasting lower earnings and dividends (see this page). The group is taking firm action to resolve problems in the mining division, but it is unclear how long it will be before a turnaround is achieved Rand Mines will, if the deal with Impala is concluded, assume about R200m of Barmines' debt.

Aside from the capital requirements, Rand Mines hopes that by forming a joint venture with Impala, it will have a stake in a better quality platinum operation that could benefit from production and other synergies. Rand Mines' other non-core assets will be disposed of, leaving the group essentially a coal house. Restructuring will be expensive Conclusion of the Impala deal will result in a R430m write-down for Rand Mines, with Barlow absorbing R320m of it.

Most of Barlow's other divisions did fairly well in the first half. Offsetting the 27% slide in the contribution to after-tax profit from the mining and mineral beneficiation division was a dip of only 3% in the industrial operations, a 1% improvement in packaging and textiles, a 16% increase in food and pharmaceuticals and a 14% advance from the international interests (helped by the exchange rate)

Management is looking for a broadly similar trend in the second half If MS&A's second-half loss is assumed to be around R20m, that would be a considerable improvement on the steep slide to a profit of only R2m in last year's second half, and could compensate for deterioration on the mining side.

Capital spending is being curbed where possible. Even so, the interest bill is rising sharply, with the interest cover down to 3,4 times, and will probably rise further

Clewlow forecasts that the full-year results will show a decline "similar to that of the first six months." Assuming EPS are down by, say, 16% at 390c, the current R41 share price offers an earnings multiple of 10,5 The annual dividend will almost certainly be maintained at 170c, giving a yield of 4,2% Investors should be encouraged by the steps being taken to deal with problems. The share is now looking fully priced, but could be worth buying at lower levels, such as below R40.

Andrew McNulty

BARLOW SLIDES

Six months to	Mar 31 '90	Sep 30 '90	Mar 31 '91
Turnover (Rbn)	13,83	15,29	15,52
Operating prof (Rbn)	1,23	1,24	1,23
Investment inc (Rm)	156	298	151
Attributable (Rm)	403	453	348
Earnings (c) ...	217,7	244,8	187
Dividends (c)	51	119	51

Rand Mines firm in spite of poor omens

(232)

S Times (Buss Times) 26/5/91

By JULIE WALKER

RAND MINES defied gravity on the back of a buoyant stock market to hold firm at R70 a share after going public with its troubles this week

The Barlow-controlled mining house hinted at a possible halving of the year's dividend At the interim to March, it announced

Satisfied

- It would assume R200-million of subsidiary Barplats debt in addition to its current loans if a deal with Impala Platinum was reached
- Such a move would result in a R430-million write-down of its platinum investments
- The market value of its listed investments was 42% lower than at the same time last year
- Debt-equity ratio stood at 36% and net asset value was down R7 a share to R95, and would fall by another R29 to R66 if the Impala-Barplats deal went ahead

Nevertheless, chairman Danny Watt is satisfied with the results

"The results of the coal and property operations were particularly pleasing," says Mr Watts There will be a sale of assets to try to meet some of the cash costs

Coal chipped in almost three-quarters of Rand Mines' profits of R104,3-million Earnings a share fell 14c to R7 and the dividend was cut by 20c to R1

The R430-million write-down spells a R320-million knock for Rand Mines' major shareholder Barlows

Barlows reported turnover 12% up at R15,5-billion in the half-year to March Attributable earnings fell 14% to R348-million, but the dividend was maintained at 51c

The good work of many of the group's operations was nullified by a R17-million loss at Middelburg Steel & Alloys

The directors do not expect early improvements in domestic or foreign economies and Rand Mines and Middelburg will continue to eat the bacon any industrial companies might bring home

Weak

Rainbow Chicken squawked that weak consumer demand and excessively high production volumes led to depressed selling prices

Reporting for an audited nine months to March 1991, the group also made annualised comparisons Sales grew by only 8,7% in the year to March to R690-million, and profit margin fell by a third to 6,8% Operating profit dropped 27% to R47,1-million

Shareholders approved the acquisition of Bonny Bird and 50% of Epol from Premier, effective from April 1 Rainbow will raise R252-million to pay for them

The board does not expect growth in the current year, but remains positive in the long term

Cold

Fedfood's frozen food brought the group in from the cold in the year to March Sales rose 13% to R1,3-billion and the bottom line 12% to 190c

It sold out of Namibian fishing, biscuits and breakfast cereals and bought into abalone fishing, atchar and mageu

The baking and milling divisions did badly, but snacks remained crisp

The directors expect real growth in a tough year provided market conditions do not deteriorate

Clinic Holdings looks healthy Its turnover index rose by a third in the six months to March and pre-tax profit by 19% to R23,5-million Tax was up only 14%, resulting in a 2,4c a share boost to the bottom line to 12,38c

The directors believe earnings for the year will grow faster than the rate of inflation

Royal crowned a year of changes with a sterling show The food and chemicals group s yearend was moved to August and it reported interims for the 12 months to February

Pro forma figures were given, which take into account the inclusion of acquisitions Sapco and Ferro for 12 months as well as the effect of separately listing Royfood and Roychem

The notional effect was a R205-million rise in turnover to R375-million and a near-trebling in operating income to R50,7-million Earnings a share rose from 18,5c to 34,7c, and on a real performance for the actual 12 months to February, were up 19% to 21,9c

A 7c dividend was declared for the 12 months to February 1991, 1c above the previous year's

Teljoy raised earnings by 18% in the year to March on turnover of R146-million The television rental group's 1990 taxed profit had to be reduced by R1,8-million because of an annulled contract in Zimbabwe If that profit had stood, the growth in taxed profit in 1991 would have been only 6% instead of 18%

Reichmans sold its 20% stake in steel trader Van Reenen & Nicholls at a loss of almost R4-million Errol Grolman became managing director and Reichmans will become a wholly owned subsidiary of Investec and change its yearend to March

In the 15 months to March 1991 the trade finance house lost an attributable R3,9-million after provisions against bad or doubtful debt Excluding abnormal loss, Reichmans earned 29,4c a share.

Small

Of the two dozen companies reporting earnings this week, nine did better than previously and five beat the rate of inflation Small improvements came from Lebowa Bakeries, Amaprop and Dorbyl

The only loss was from Norvic for the six months to December Control has changed, but the new management fears more losses

WEEK IN BRIEF

A SUMMARY of the week's corporate announcements

MONDAY Afpac members approve resolutions to receive 1?9 1224c a share Afpac delists 24/5 Trade in Vansa, Barplats, Barmines suspended Impala tells members about negotiations with Barplats

Securities Regulation Panel advises Saambou that Trafalgar's offer may be regarded as withdrawn

THURSDAY Glen Laing will sell 12-million 10c shares in Cons Mining for 30-million 4c South Murch shares No minorities accept Eddies offer of 20c a share Abhold's members agree to accept 110c a share, it delists 24/5

FRIDAY Cons Mining warns that Benoni Gold needs recapitalisation because of cost overruns Oryx Gold needs another R980-million, which four shareholders of 97% of the stock will lend until a rights issue is warranted

Datakor soa[rs] good i[...]

S Times (Buss

261

Business Times Reporter

DATAKOR shares were offered ever higher this week ahead of expected good results

Sellers demanded 125c — almost double the lowest trading price of 65c, reached last October

The priced rushed up to 140c only four months after the low, and the tightly held scrip has been sought since then

Datakor directors reported a 16% climb in attributable earnings to almost R12-million in the half-year to September 1990

The biggest contributor to the improvement — it was achieved on a slight fall in turnover to R231-million and a 9% lower operating profit — was the 33% reduction in interest paid to R6,3-million

The tax bill dropped by R1,4-million to R6,7-million

Datakor's balance sheet showed an 11% drop in interest-bearing debt to R42,5-million interim to interim It brought gearing below 39%

At the March 1990 yearend borrowings were more than halved to R42-million

Chairman Nic Frangos said at the interim that operating margins had increased The profit rise was offset by investment in new and emerging business units and the costs taken upfront

The group's main contributor is Unidata, which was incrementally increasing its market penetration

Datakor owns 40% of TR

Nationalisation — the right route?

232

C. Times 27/5/91

By ARI JACOBSON

"FIRST for nationalising" must be one accolade FNB will try to avoid as political parties continue to jostle for positions in the still unsteady bargaining phase for a new-SA.

Wealth generated by a country has, for some reason, been linked to the banking system and therefore always included in a staunch nationalisation package.

But banks are merely the middle-men between borrowers and lenders, says FNB's MD Barry Swart

"Keeping money in the vault would ensure we were the first to go under," he quiped.

The legacy of incorporating banks into a centralised gameplan — is a sad tale of failure on a universal scale.

Banks administered like any civil service department squandered potential with blatant corruption and mismanagement.

One example is the R7bn UN building sanctioned in the capital city of Ethiopia — Addis Ababa — at a time (in 1977) when drought had created a famine of devastating proportions, throughout the country

In SA, the large privately-managed banks have shown that few can control cash better as their solid all-round recent financial performances indicate

Profits (mostly from a sensible loan business) are ploughed back to upgrade the hi-tech side of the banking busines

This is essential for staying ahead, says Nedcor CE Chris Liebenberg. "Any dip in standards will chase away much needed future foreign capital," he says.

Banks, Bonds & the Bourse

by ARI JACOBSON

The ANC, at the same time, want to ensure that investment is channelled to the neglected majority

"Call it what you want — this is the aim," says the ANC's Max Sisulu.

But bankers feel the current system is close to creating a neat balance — with all issues (including social upliftment) incorporated in any investment decision.

The ANC, however, are anxious for a more concerted effort!

But they are quick to point out that identifying the site of SA's wealth is a better strategy — the mining financial houses (like Anglos) more likely to be taken hostage

Neither is nationalisation irreversible as Keith Coleman points out in his soon to be published book Beyond The Slogans

Coleman says in Korea nationalising the banking system was part of the economic plan and supportive of development.

"Having established a strong growth trend, the Korean government is contemplating privatising banks, once again," he says

The same in first world countries (like France) where banks under government control — at an important juncture in development — are slowly returned to private ownership

The signal for a reswitch into private hands would be the successful rerouting and rejuvenation of SA's Third World community

Rhetoric that has merit as a compromise to raise the lot of those so long without.

Anyway its the ill-conceived demands of parties (like the PAC) advocating, complete nationalisation that could eventually leave SA penniless

JSE looks at new index of shares

B/Day 28/5/91

MERVYN HARRIS

THE JSE is looking at formulating a new index of shares to provide a more useful tool for institutions and futures trading 232

An alternative to the current index could be along the lines of the FT100 The JSE has called for input from the broking community to examine the feasibility of such an index

Listing and equity markets division research analyst Reiner Buss said the idea for a new index had come from various people and organisations, especially the Actuarial Society

"We propose to form a steering committee to evaluate different models The committee would comprise representatives of the broking community, the Actuarial Society, the Investment Analysts Society, Safex and the JSE"

The first committee meeting was planned to take place early in June

The existing JSE overall index consists of about 140 companies but only a small number of companies make up most of the index In April, 30 companies made up 72% of the index

Buss said the steering committee would decide on what basis, such as market capitalisation, to weight the new index

"It would be up for discussion whether the index would be based on 100 companies, which would not be much different from the present index, or between 30 or 40 companies," he added

JSE GM, listings, Richard Connellan stressed that the proposal was still at an embryonic stage

"We want to ensure that this will be an index most suited to users

"It could still take quite a long time before it comes into being as we want to look at the functioning of various systems being used overseas," he said

Sage Property meets forecast

BDay 29/5/91 (232)

LIZ ROUSE

SAGE Property Holdings (SPH) has met its forecast of increased profitability, reporting net income of R12,98m for the 15 months to March compared with R7,78m in the previous year

This increased profit was achieved despite a recessionary environment and particularly difficult conditions facing the housing sector

Earnings a share, now diluted after the conversion of all the preference shares, reflect an increase of 4 2% on an annualised basis to 23.7c, despite the 52% increase in the issued ordinary share capital

The final dividend amounted to 9c (7c), bringing total distribution for 15 months to 13c (11c)

In the last annual report, the directors stated that if economic conditions did not deteriorate further, and interest rates began declining, the group's homebuilding activities could look forward to improved results

In the event, recessionary conditions intensified and interest rates remained at penal levels throughout the review period

Nonetheless, the homebuilding division achieved much improved results

That being so, and with the group's diverse property activities making further progress, SPH as a whole met its forecast

SHP directors caution that it is expected that profits for the coming year will reflect the burden of a recessionary environment, continuing high interest rates and a possible higher effective tax rate

Metro rights offer to follow Premier deal

B/Day 29/5/91 (232)

MARCIA KLEIN

PREMIER Group's purchase of Metro and Score, concluded yesterday, will result in Metro raising about R142m in a rights offer to cut its borrowings.

Metro will also write off R170m, relating partly to losses from the proposed sale of Frasers, details of the acquisition published today show

In addition, Score's holding companies Hi-Score and Score-Clicks could possibly disappear

In terms of the deal, Premier will acquire 70% of Tradegro's 47% holding in Metro by way of exchange of shares in the ratio of one Premier share for nine Metro shares — in line with the current market prices A similar offer will be made to Metro minority shareholders.

This will leave Premier with a 54% holding in Metro if all Metro shareholders accept the Premier offer and follow their rights Management control of Metro is being assumed by Premier immediately

Premier deputy CE Gordon Utian says the deal is "strategic to the SA distribution

☐ To Page 2

Metro

B/Day 29/5/91 (232)

☐ From Page 1

industry and to Premier" and it will benefit shareholders of Premier, Metro and Score

Metro will raise about R142m in a rights issue aimed at reducing borrowings, and will acquire the entire issued share capital — 15,1-million shares — of Score Foods

Utian says the deals will create a more focused company operating in two areas

One will be a large wholesale distributor of food and allied products, incorporating Metro Cash and Carry, Trador and Trade Centre, and the other the merged retail supermarket operations of Score and Fairways These will operate independently in separately listed companies

Premier will have an approximately 54% holding in Metro and in Score depending on the outcome of the Premier offer and the Metro rights issue

Score group CE Carlos dos Santos has been appointed CE of the cash and carry operations and Score retail operations CE Chris Burgess has been appointed CE of the merged retail operations

Utian says the deal will unlock "a large amount of wealth" Metro's reorganisation and recapitalisation will result in it operating profitably

The elimination of intermediate holding companies in the Score Foods group Hi-Score or Score-Clicks is being considered following the deal This could affect Premier's shareholding in Clicks.

Negotiations for Metro to dispose of its interests in Frasers, Greenstein and Rosen to a consortium of investors have reached an advanced stage

Utian said other minor divisions of Metro would also be disposed of to ensure focus on the core cash and carry business

He said during an investigation of Metro, about R170m was required to be written off relating to losses from the proposed sale of Frasers

Metro human resources director Piet Strydom said over 800 jobs should be saved by disposing of Frasers

VERA VON LIERES reports that an SA Commercial, Catering and Allied Workers' Union (Saccawu) spokesman confirmed yesterday that the union had received notice of the withdrawal of retrenchment notices affecting more than 1 000 workers

He said although the union was "pleased", it believed Tradegro management needed to guarantee workers' jobs in terms of the sale

Employees are allotted shares in grand plan for community to control the industry

Star 29/5/91

252

The 3 500 employees of the NSB (80 percent of whom are black) have been alloted 700 000 shares for free — which works out at 200 shares per employee

They have also been offered the other 12,5 million at 70c per share — a discount of 30 percent to the issue price of 100c Shares not applied for will be held in trust and offered again in July 1993 to NSB employees at the 100c issued price

To enable the Trust to acquire and subscribe for the said shares, the State has made an interest free loan of R13,2 million for three years to the NSB Employee Share Trust

The State will also bear any fringe benefit tax liabilities arising out of the 200 free shares

According to the prospectus the State had on numerous occassions indicated its intention to place NSB in the hands of the community which supports the sorghum beer industry

In terms of the scheme employees have a period of three years to pay for their shares Payment could be made on a monthly basis or a lump sum payment at the end of the the three-year period

Dividends will be paid to employees only in respect to the shares that have been paid for With respect to shares not yet paid for, dividends will be credited to the individual employee's loan account

The trust will dissolve after three years Any shares or cash left after the period will revert to the State, which will also be responsible for any losses or profits

Shareholders challenge merger deal

C/Times 30/5/91.

(232)

Own Correspondent

JOHANNESBURG — Two major Saambou shareholders yesterday launched a Supreme Court challenge to the validity of the merger deal which gave Fedlife a 31,5% stake in the building society

Saambou shareholders Suid-Afrikaanse Prinsipale Beleggings (Pty) and The CC Exchange (Pty) brought an urgent application for an order declaring the agreement between Fedlife and Saambou on January 31 void

Suid-Afrikaanse Prinsipale Beleggings holds 8,5m Saambou shares and The CC Exchange 3,2m

The two companies are also seeking an order declaring invalid approval for the merger deal given by Saambou shareholders at a meeting on May 15

The court was told that Fedlife and Saambou concluded their agreement one day before the new Deposit Taking Institutions Act came into effect on February 1

Part of the merger deal involves the sale of Planet Finance Company by Fedlife to Saambou for R55m in return for converting debentures worth the same amount

Counsel for Suid-Afrikaanse Prinsipale Beleggings and the CC Exchange, Schalk Burger SC, told Justice Ralph Zulman yesterday that the agreement would increase Fedlife's stake in Saambou from 2,6% to 31,5%

Suid-Afrikaanse Prinsipale Beleggings and The CC Exchange contend that 6,7m of the 12m votes in favour of the Fedlife-Saambou agreement on behalf of Eighty One Main Street Nominees were invalid

They also claim that the provisions of the merger deal are invalid and unenforceable in terms of the new Act

It is alleged that Main Street Nominees' representative at the May 15 meeting, Charles Rheeders, did not have the authority to withdraw a proxy to cast the 6,7m votes against the agreement and instead vote in favour of the Fedlife-Saambou deal

Burger submitted that those votes should be added to those against

Burger also argued that in making four simultaneous applications to increase its 2,6% stake in Saambou to 31,5%, Fedlife had contravened the provisions of the new Act.

The Act, he said, stipulated how a shareholder could increase his stake in a building society in stages and the required periods between each new acquisition of shares

A shareholder could obtain up to 10% without permission from the Registrar, said Burger

Permission to increase shareholdings from 10% to 30% needed the Registrar's permission

More than 30% needed Ministerial approval

Fedlife had made four simultaneous applications to increase its share in Saambou from 10% to 17,5%, 17,5% to 25%, 25% to 30% and 30% to 31,5%, he said

The Registrar had informed Fedlife by letter that the Minister had granted permission

Burger argued this was ultra vires because the Registrar and Minister could shorten the period between each acquisition, but had no power to completely waive the required interval

Applications for permission to acquire a larger shareholding could not be done simultaneously as Fedlife had done, said Burger

In terms of the Act's provisions, he argued, shareholdings had to be acquired incrementally

The case continues

Market speculates on Wooltru-Dion deal

(185) (30) (232)

By Maggie Rowley Star 31/5/91

A big jump in the share prices of Wooltru and Rusfurn has fuelled market speculation that Wooltru is poised to take over Dion Stores

The Wooltru share price has jumped more 600c since May 17 to a high of R82 while Rusfurn shares have risen more than 22 percent from 90c to 110c a share after reaching a high of 120c on May 24 However, that is still well below its high of 160c in February

Wooltru chief executive Colin Hall yesterday declined to confirm whether Wooltru had entered into negotiations with Rusfurn

"It is pure speculation and I cannot comment," he said

Speculation has also involved other companies in the Rusfurn stable, which includes Furniture Fair, Harmony, Montanna, Wanda, Frasers Furniture, Arrow and Giddey's

Geoff Austin, chairman and chief executive officer of Rusfurn was not available for comment

Rusfurn reported a five percent increase in earnings to R64,8 million at the December 1990 interim stage, partly due to the "nightmarish time" it had had with the acquisition of Furniture Fair in late 1989

At the release of the interim results, Mr Austin said extensive discussions and investigations were taking place to restructure the group's capital base

A 138 percent increase in interest charges to R31,7 million for the six months, he said, reflected funding needs of the debtors book, which had a gross value of R1,1 billion

Airport privatisation probe

CT 31/5/91

Political Staff (232)

AN in-depth investigation into the commercialisation of SA airports was announced last night by the Minister of Transport, Piet Welgemoed

The move could result in the privatisation of the airports by the end of next year

Management consultants Price Waterhouse, assisted by Lexetran, had been appointed to undertake the investigation into the commercialisation of state airports and air traffic services, Welgemoed said in a statement

The investigating team would be led by international experts, such as John Wright and Jeremy Coleman of Price Waterhouse's London office, and would be assisted by local expertise under the guidance of Vic Prins and Colin Beggs

Ruperts take a billion and Donny's relieved

S/Times (Bus/Times) 2/6/91. 232

By DAVID CARTE

LIBERTY Life chairman Donald Gordon is "relieved" to have secured effective control of Standard Bank Investment Corp (SBIC) this week and Rembrandt and Richemont are more than pleased with the R1-billion they made in selling to Liberty

Mr Gordon confesses that he was concerned about control of SBIC and thus of Liberty itself when Old Mutual managed to block a special resolution in April This week's transactions resolved control and will stabilise the competitive position among SA banks

It will also lift morale at Standard, which has been affected by the uncertain control position But Mr Gordon denies the parting of the ways was a divorce

Dinner

"I remain on good terms with Anton and Johann Rupert After the formation of Amalgamated Banks of SA (Absa), they were sitting on two stools This deal reflects only that there was no point to that Although we are good friends, we all had to act in the best interests of shareholders"

Rembrandt and Richemont director Johann Rupert said from London "I am precluded from saying too much, but the transactions are good for both parties The deal increases Richemont's cash holdings to £450-million and I will be happy with its gearing

"I think world stock markets are discounting an economic recovery that isn't coming, so I'm glad to be in cash

"Donny and I remain good friends Otherwise I would not have invited him to a private dinner party for Mrs Thatcher in Johannesburg last week In the recent past, we both had to act for our shareholders, so some conflict arose, but that is now out of the way"

A source close to Rembrandt says its capital gain on the SBIC deal is R250-million in four years The capital gain on TransAtlantic is about half that amount

The terms of the deal are

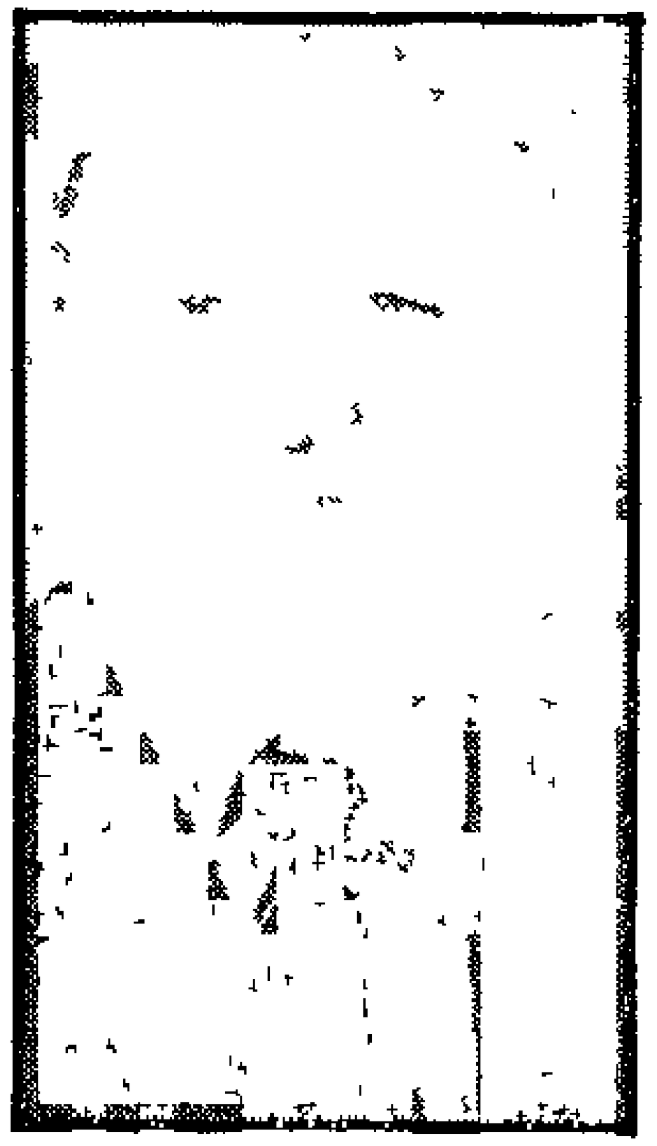
- Liberty agrees to buy from Rembrandt 4,4% of SBIC at R45 a share for a total of R202,5-million It will thus have an unchallengeable 40%
- Liberty's subsidiaries in the UK will buy Richemont's stake in TransAtlantic for £150,6-million (R853,9-million converted in finrand)
- In addition to the 4,5-million shares it is selling to Liberty, Rembrandt is selling 1,8-million to "certain placees" Liberty has to place another 5-million shares with institutions Rembrandt is thus selling its entire 11,2% holding in SBIC

Finrand

TransAtlantic, holding company for 28% of Sun Life Assurance of the UK and 75% of property giant Capital & Counties, was previously 49% held

It will now be 67% owned by Liberty, which will consolidate it in its accounts, pushing assets from last year's R21-billion to R30-billion

Rembrandt and Richemont both receive huge cash injections — Rembrandt at least R508-million from its SBIC holding and Richemont £150,6-million for TransAtlantic Richemont, controller of Rothmans, Cartier Monde, Piaget, Alfred Dunhill, Montblanc and Chloe, was taken out of Rembrandt in 1988



DONALD GORDON Effective control of Standard group

Mr Gordon says Liberty policyholders, as opposed to shareholders, will take most of the shares acquired

The greater part of the TransAtlantic share purchase will be funded by borrowings in wholly-owned TAI Investments and Conduit, a subsidiary of First International Trust But an undisclosed amount will be paid in cash by Liberty through the financial rand The price of £3,50, says Mr Gordon, is close to market price

When SBIC shares soared to R50 because of buying by Old Mutual and Rembrandt, Mr Gordon said the price could not be justified How does he justify paying R45 a share now?

"We are looking at only 4,4-million shares We bought our first tranche of Standard shares at R9, the second lot at R12 and 6-million more at R18,75, so our cost was well below a third of the present value of the shares of R2-billion The price we paid is still below the market's R49"

If Liberty cannot place another 5-million shares with other institutions, its stake could go to 45%

In this event, the Securities Regulation Panel has ruled that it must make an offer to minority holders equivalent to the highest price paid in this transaction (R45)

Mr Gordon is confident Liberty will be able to place the shares So long as the market price exceeds R45, any compulsory offer would automatically be rejected

Mr Gordon says Liberty can increase its stake in SBIC above 45% after a year, but the Deposit-taking Institutions Act prevents Liberty from owning more than 49% of SBIC

Debt

The cash injection will be useful to Richemont, which, after spending £651,7-million on increasing its holding in Rothmans to 63,2% last year, had debt of £1 176-million against equity of £977-million in its last balance sheet

Rembrandt had insignificant net debt last balance sheet, but paid R107-million following its rights in Huntcor this week After paying for that, it will have about R400-million cash

Black staff make a mint in Putco

232

S Times (Bus Times) 2/6/91

By DAVID CARTE

MANY blacks have made small fortunes through owning shares in mass-transport operator Putco

But they fear to be identified lest they suffer a similar fate to one of their number who was hacked to death in the township riots of 1984

Having acquired Putco shares in 1967, he sold some at a profit of thousands of rands With the proceeds, he bought a bottle store in the late 1970s

Then he made a mistake. He was elected to a township council. He was murdered by a mob and his stores were gutted. His widow was left penniless and his children had to leave university.

He cannot be named because his destitute widow fears reprisals.

Apartheid

Today, with its buses and properties about to be sold, Putco's share price is treble its level of a year ago

One shareholder says "We don't want to be branded as profiteers on apartheid"

In 1970 Putco had more black shareholders than any other company on the JSE The company was years ahead of Anglo American and other enlightened companies that have given their employees shares in the past few years

A stark difference from latter-day employee share schemes was that Putco staff members asked for and paid for their shares

Most blacks who had shares after the Carleo family bought control of the company from Leyland in the early 1970s have sold them But even those who held their shares for 10 years to the present are worth thousands

Unbeknown to many analysts, Putco has been one of the best-performing shares on the JSE in spite of a poor published profit record.

Its performance is not widely appreciated because of an atrocious published profit record and two share splits in the past 15 years Shareholders today have 10 shares for every one held in 1970 plus one in property arm Putco Properties

One analyst has calculated that shares worth R400 in 1967 (they were 2c, allowing for share splits) would today have been worth R1-million if dividends had been reinvested

Even without reinvestment of dividends, returns have been spectacular, R1 000 growing to R126 000 from 1970 to 1990 Depending on prices obtained for the buses and properties, there could be even greater profits in the asset disposal

Putco's black staff is still share conscious Putco unions, one under ANC influence and the other influenced by the PAC, last year demanded 10 shares a staff member — to be paid for — plus 10 additional ones donated by the company. In the period the shares have moved from 70c to 270c

The entire staff was given 500 000 shares in 1981 Those shares are now worth R3,37-million

On behalf of commuters, Putco was paid huge amounts in government subsidies — R876-million in the six years to 1990, according to Transport Minister Piet Welgemoed

Family

The biggest beneficiary of Putco's proposed asset strip is chairman Albino Carleo, who has 52% of the company.

His family collected R46-million in a special dividend last year and could get another R50-million to R100-million when the asset strip is completed Estimates of the value of assets vary from R100-million to R300-million

Taco Kuiper, publisher of FACtS Investors Guide, has called on Putco to provide more information so that shareholders can value the company more accurately

Although there has been controversy about shareholders profiting from subsidies, the Government has repeatedly checked the method by which they were calculated and found them to be in order

Mr Welgemoed has no objection to the proposed asset strip

All fall down as the recession bites deep

S/Times (Bus Times) (232) 2/6/91 By JULIE WALKER

A CROP of losses reported this week underlines the depth of the recession.

The losses came from a broad spread Steel-maker Usko lost R11,4-million in the six months to March Two weeks earlier Middelburg Steel & Alloys announced a R17-million loss in the same time

Insurer and engineering group Rentmeester's turnover in the six months to December 1990 fell 22% to R73-million, and the pre-tax loss was R11,2-million compared with a previous profit of R400 000 The interest bill was a little lower at R3,1-million

Rentbel lost 183,2c a share compared with earnings of 44c last time It warned shareholders that negotiations were under way

Office-furniture supplier Grant Andrews' sales rose 1% to R29-million, but a pre-tax loss of R312 000 was incurred at the February interim The directors estimate the market shrank by 35%, but they are optimistic about the second six months

Property company Grovewalk, which repelled a takeover bid earlier this year, lost R2,7-million before tax in the year to February It also provided R1,4-million as an abnormal item against the affordable housing division and another R2-million extraordinary loss based on discontinuations and disposals and costs associated with repelling the takeover bid

Financial and project management services group Disa Development Corporation lost R1,2-million in the six months to February

Handful

"The prevailing bond-boycott mentality has resulted in a reluctance by lending institutions to fund construction , " in Disa's market, says managing director T Stergianos

In addition to five losses, another 13 companies out of 28 reporting fared worse than in their previous comparable periods Six of the rest changed the length of their reporting periods, making comparison irrelevant

Among the handful to do notably better was Metkor Its turnover edged up to R1,4-billion in the six months to March, but higher income and lower interest and tax lifted net attributable earnings by 43% to R15,7-million In spite of the economy's decline, Metkor aims to beat last year's earnings

Presmed's earnings a share rose by 43% to 22,3c on turnover growth of 32% to R51-million in the year to February The group manages seven clinics and three hospitals, with two more to open this year

Its annual compound profit growth in the five years since listing has been 63%

Absa reported earnings for the first time under the new banner Its earnings a share reached 93,4c — 14% higher than the notional sum of its separate entities before the amalgamation

Chairman Herc Hefer says demand for credit is expected to slow further and the number of defaulters remain high "despite possible further declines in interest rates in the latter part of 1991"

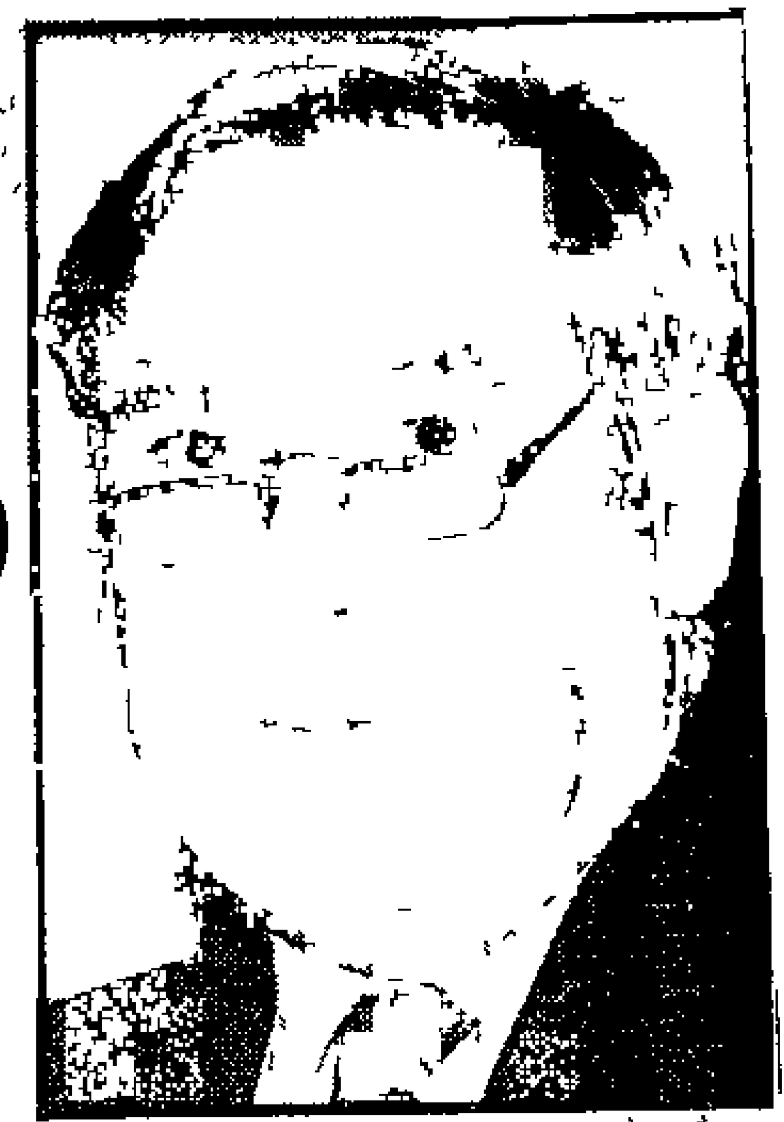
He says forecasting performance is difficult, but he expects an increase in weighted average earnings a share

Financial services and plastics group Rubenstein Holdings' earnings a share reached 15,3c compared with the 4,9c in the previous eight months The group bought back businesses from Compak and sold its holding in Compak Chairman Jeff Rubenstein expects satisfactory results in the current year

Sanctions

Several companies returned results down by more than half They include Hyperette, Leppin, Quorum, Milstan and Aida

Computer group Ohio staged a recovery of sorts Its permanent capital rose tenfold to R651 000 and net current liabilities fell by R50 000 to R932 000 after a return to profitable operating



HERC HEFER Credit demand to slow

Its turnover in the year to February fell 58% to R14,3-million, but operating income topped R1-million against last year's deficit of R4-million

More than half went in interest, but R433 000 was left over — R7-million more than previously Chairman Robert Brothers is confident of satisfactory earnings this year

PAG, which reversed into Mynkar, made 3,2c a share in the 10 months to February The personnel agency expects the easing of sanctions to help it PAG says demand for skilled, experienced professionals remains at a premium

AVI maintains status as a firm market favourite

B Day 3/6/91 232

TRADING at about a 125% premium to estimated net asset value compared to 75% six months ago, Anglovaal's fast-track industrial nucleus, Anglovaal Industries (AVI), has lost none of the lustre which pushed its share price to one of the most favoured on the industrial board

On a comparable rating AVI is a tough act to follow

It is trading on a high of R95 and boasts a near-sector high historical price to earnings ratio (p e) of 12,7 times, and dividend yield (d/y) of 1,4%

Blue chip Amic's share price puts it on a historical p e of 10,5 times and a d/y of 4,0%, while Malbak comes in with a p e of 7,8 times on a d/y of 3,4%

Even the rating of top industrial stock Barlows has waned in relation to AVI's increasing market worth. Barlows shows a p e of 9,3 times and a d/y of 4,2%, while lesser-rated W & A comes in with a p e of 4,5 and a d/y of 9,8%.

There is definitely no dispute that there is a healthy market respect for AVI, but most analysts feel it is probably a little over the top

One analyst said that at its current rating the market had already discounted growth of about 30% a year over the next three years

There is also agreement that a major motivating factor for the dramatic upsurge of the group's share price is the fact that it is extremely tightly held

BRENT VON MELVILLE

In a relatively healthy month volume-wise, AVI last month traded a mere 41 000 shares This compares with a monthly trading average of 67 000 shares a month during last year for the rest of the sector

Fergusson Bros, Hall, Stewart & Co analyst Steve Rubenstein said that AVI was correctly priced on its asset value although it was slightly overrated on its p e

Rubenstein forecast an earnings increase for the year to June 1991 of 6% in earnings to 696,4c (657c) a share

He said the biggest hike in profits was likely to come from the packaging and rubber division represented by Consol, which would kick up profits about 44%

Other healthy performances were likely to come from Grinaker, with a 25% improvement, while I & J would increase its earnings 12% and National Brands by 10%

Conversely the textiles and engineering division was likely to suffer from depressed market conditions to push its contribution down 20%.

A spokesman for AVI said last week that overall, there would be an increase in earnings for the year, but could give no further details

Regardless, the market's enchantment with the industrial counter will go on In the words of one investment analyst "I've managed to accumulate a healthy section of AVI stock in my personal portfolio, and I cannot see myself selling it .. ever"

Broadcasting corporation braced for privatisation

Business Day Reporter

THE Bophuthatswana Broadcasting Corporation is bracing itself for privatisation and deregulation ahead of a possible listing on the Johannesburg Stock Exchange

In an interview in the latest Executive magazine, director-general Jonathan Procter says the corporation, or part of it, will eventually fall into private hands via a JSE listing.

The 100% state-owned station is capitalised at R300m and is partly dependent on a grant-in-aid. However, Procter says he is committed to setting up the station as a commercially successful concern.

Bop TV's advertising revenue — about R4m for the year to end-March 1991 — would swell more than tenfold if it were permitted to broadcast in all major urban areas in SA.

"Based on a million extra viewers, we predict we'd take in R50m a year," says Procter BDay 3/6/91

A decline in its SA audience because of SABC sanctions saw the station earn less than 5% of M-Net's and about 1% of TV1's revenue last year.

Bop TV's signal has been all but completely obstructed in the PWV by technical baffles.

In SA only Soweto, where the Batswana population is dense, was not deprived of the service in terms of an agreement between Bophuthatswana and SA. (232)

"Sowetans used to be able to get our signal with a bunny-ears aerial Now they have to spend R150 on antennae. That just shows how the signal has degraded," says Procter

But he believes the time has come for the corporation to fight back against the SABC, especially since the latter disregards Bophuthatswana's sovereignty by beaming into the homeland.

"The situation is inequitable not least because it goes against the free-enterprise system.

"That it has been allowed to develop to the disadvantage of my balance sheet is what really bugs me," he says.

Sage Holdings decides to maintain its dividend

(232)

B/Day 3/6/91.

LIZ ROUSE

SAGE Holdings achieved net earnings of R29,5m for the 15 months to March compared with R26,5m in the preceding year but has decided to maintain its total dividend on an annualised basis.

Earnings a share for the 15 months amounted to 128,83c against 121,41c in the previous year, representing a decline of 15,1% on an annualised basis Fully diluted earnings a share reflected an annualised decline of 11,6%.

In the preliminary report, the directors say it should be noted that the results for the 15 months include an element of distortion in that earnings of certain subsidiaries do not accrue evenly over the year

Sage Financial Services (SFS), which reported earlier, issued the same warning and its earnings appear to accrue more rapidly in the early part of each calendar year

A dividend of 55c (38c) has been declared, making 75c for the 15 months A total of 60c was distributed in the previous year

Sage's year-end was changed from December to March, aligning reporting with recently formed Amalgamated Banks of SA (Absa) — which contains certain interests of SFS The 1991 results reflect the implementation of the Absa transaction

As previously reported, the development of the group, particularly the build-up of strategic investments, has resulted in the partial funding of investments and holdings in subsidiaries with borrowings during a time of high interest rates, thereby adversely affecting results

Shareholders' earnings have absorbed this charge, allowing the group to maintain its strategic portfolio ahead of what the directors say are "anticipated opportunities" The directors say the logic of this strategy has been clearly demonstrated in the Absa transaction That involved the exchange of 49% of SFS's insurance holdings for an indirect minority stake in Absa.

During the review period, the group "initiated a process of restructuring its funding profile" and hopes to complete the balance sheet restructuring soon

The directors have not elaborated on the ill-starred US investments which have had to be written off It appears, however, that much of the "restructuring of the funding profile" is to do with this

An abridged balance sheet shows that group total assets increased by 20% to R2,4bn at the end of March 1991

The group's financial services division, Sage Financial Services, is reported to have met its forecast of increased profitability, with net earnings of R42,8m and earnings a share rising by 16,7% to 52,5c on an annualised basis

Sage Property Holdings (SPH) — with property, homebuilding and construction interests — also performed in line with forecast, the directors said, and reported net income of about R13m for the 15 months compared with R7,8m in the previous year This, the directors explained, was despite a recessionary environment and particularly difficult conditions in the housing sector Fully diluted earnings a share increased by 4,2% on an annualised basis

Remgro rich in cash after Liberty deal

SHARON WOOD (232)

REMBRANDT Group (Remgro) will probably use the R510m it will receive for its 11,2% share in the Standard Bank Investment Corporation (Stanbic) to get rid of its debts or strengthen its investments, analysts say.

The deal concluded with Liberty Life on Friday ended the fight for control of Stanbic and increased Liberty's control over Stanbic to 40% with the purchase of 4,5-million shares.

Some analysts said Remgro's motivation for the deal was to increase its cash holdings and that it would probably use the money to strengthen its balance sheet from the group's unusual net borrowing position. B/Day 3/6/91

Others speculated that Remgro would use the cash to increase its interests in the Absa banking conglomerate or in other investments. At present Remgro owns about 28% of Absa shares but it may wish to increase this, they said

Liberty Life chairman Donald Gordon said Liberty had entered into the deal because there were too many big shareholders in Stanbic and it was necessary to stabilise the shareholding level.

The deal involves the sale of 4,5-million of Remgro's Stanbic shares to Liberty for R202,5m, based on a share price of R45.

In addition, Liberty Asset Management (Libam) would place 1,8 million of Remgro's Stanbic shares with parties which are not considered by the Securities Regulation Panel (SRP) to be acting in concert with Liberty. The shares must be sold at be no less than R45 a share.

The remaining 5% (5-million shares) of Remgro's Stanbic holding will be placed by Libam with other pension funds and institutional investors.

If Libam fails to place the shares before the end of June next year, Liberty will be obliged to buy them from Remgro. If the

☐ To Page 2

Liberty

B/Day 3/6/91 (232)

☐ From Page 1

number of shares bought by Liberty exceeds the 5% limit set by the SRP, Liberty would have to make an offer to minority shareholders of Stanbic

Gordon said Liberty's position in Stanbic was now so dominant that it would be difficult for another party to overtake Liberty's position He declined to say whether Liberty planned a further increase in its stake in Stanbic

There has been speculation that the fight for Stanbic was ultimately for control of Liberty LibLife Controlling Corporation (Libcor) holds 52,5% of Liberty Holdings, which is held equally by Stanbic and Liberty's Gordon

In another deal, Swiss-based Rembrandt associate Richemont sold its interests in the property group TransAtlantic Holdings to subsidiaries of Liberty Life and First International Trust

The acquisition was funded through existing offshore banking facilities and remittances through the financial rand The two subsidiaries now have a combined shareholding of 67% in the newly formed subsidiary TransAtlantic

Richemont's subsidiary Twickenham Investments also sold its interests in TransAtlantic to Liberty Life

Opening up the JSE to the giants could end in a Little Bang

232

B/Day 3/6/91

HAROLD FRIDJHON

AN INFLUENTIAL lobby appears to be bent on changing the structure and the character of the Johannesburg Stock Exchange (JSE) Possibly motivated by some degree of self-interest, as most revolutionary changes are, the cabal is said to be citing the trading benefits which have accrued through deregulation to share markets abroad

Conveniently ignoring the miserable snap-crackle-pop of London's Big Bang, they focus on the magic said to be wrought by deregulation

Deregulation is not a panacea for all economic ills If overdone it can be as damaging to an economy as overregulation which stifles enterprise and initiative, making puppets out of people. But extreme deregulation is anarchist, a reversal to jungle law, and domination by the strongest

The pendulum swing in the developed northern hemisphere economies towards deregulation, particularly in banking and finance, was a reaction from years of over-regulation and bureaucratic controls And here in SA, where years of controls and an insidious drift towards quasi-socialism have shackled initiative, deregulation is regarded in some circles as a licence to grab under a new set of Sinaitic tablets

The JSE is a hybrid structure, a cluster of contradictions It is a self-regulating club, but it is also a national institution licensed under an Act of Parliament It jealously protects members' interests but by closely monitoring their transactions it also protects the interests of those who do business through the broker-members As a national institution, the JSE is a public market place in which only club members have the privilege to trade but under rules and regulations approved by the state

Membership of the club is confined to natural persons of some financial substance who put their assets on the line as they face unlimited liability to the market and to their clients Members are brokers in the purest sense of the word, they buy and sell for others They may not sell shares from their personal portfolios to clients All transactions, except for gilts and semi-gilts, must go through the market where dealing is an open cry auction

To enable members to buy and sell these capital market assets profitably — the brokerage on fixed-interest stocks was minuscule — the rules were changed some years ago to allow them to act as both agents and principals When electronic facilities were developed, members were also permitted to trade off and via computer screens

This was a fall from grace This is the fuse which could lead to a Big Bang; if dual capacity broking — acting as principal and agent — is acceptable in the gilt market, why not in equities?

Fortunately the JSE did not stray from the straight line of rectitude, the trading in equities continued along the traditional path of single capacity broking, with stockbrokers acting only as agents Whether or not it was a purist clinging to tradition, or whether the decision, if the question ever arose, was economic is now of little importance

One is tempted to assume that a major influence was the difficulties which befell the jobbers in the London market. Dealing as principals was becoming an increasing financial burden to jobbers who were called upon to carry costly inventories of the shares in which they made markets And that opened the doors to the banks and the major financial houses.

Preparatory to the Big Bang they bought their way into major broking firms, resulting in incestuous relationships with issuers, underwriters and portfolio managers all nesting under one roof in the banks and merchant banks

But even in London, which attracted the financial giants of America into its deregulated market alongside the powerful British institutions, the Big Bang failed to explode during the boom Perhaps the major reasons were the ending of the former personal relations between brokers and clients, and the business generated did not produce the expected returns on the capital invested in buying into stockbroking partnerships The structures were financially top heavy

Thus, in London where there are sufficient participants to ensure competitive markets and with trading screens dotted not only around the City but also linked to all major exchanges and bourses around the globe The illusion of 24-hour dealing was shattered No longer the International Stock Exchange, the London Stock Exchange has reverted to its old title as deflated Americans have flown back across the Atlantic, leaving hundreds without jobs and bereft of their expensive cars

If this is the experience in London where sharp lines of demarcation separate the very many powerful financial institutions, it might have been wise to consider hard before importing a dubious system into SA where the top heavy financial scene is dominated by a handful of giants

The insurers and major groups have a controlling influence on the banks and merchant banks and indirect control on many pension funds as well as most unit trusts Life funds, pension funds and unit trusts are the dominant buyers and sellers of shares in the market.

If the floor of the JSE were opened to the giants, would the market be sufficiently free to permit equal participation by the pygmies, the private investors, the small man?

And if trading were to be relegated to men and women sitting behind screens, detached from the noise, the tempo and the emotion of open-cry dealing would the screen dealers be able to "feel" the urgency of a market? Screen-dealing in gilts and semi-gilts lacks the vitality of a market, the feeling of how much of a "line" is on offer or how many bidders are looking for stock

More important, do the institutional investors want a Little Bang in SA? I spoke to Old Mutual's Johannes van der Horst, Sanlam's Ronnie Masson, Liberty's Roy McAlpine, Momentum's Pieter du Toit among the insurers, and Alister Colquhoun, of UAL Merchant Bank, and all agreed that they do not want a revolution in the equity market. They stressed that the JSE must remain independent, with independent brokers

But they would like to see some changes in JSE procedures and, of course, in the scale of charges Most want negotiated commissions for large orders and some suggested that to compensate they would gladly pay fees for research

Colquhoun insisted that the JSE must remain financially viable but he and the other investment managers seek to prune brokers' incomes They advocate the abolition of "bulking", which is placing a single order for a large number of shares which, when bought, are "parcelled" out to the accounts of different funds or portfolios within the group At present brokers charge each account separately at appropriate rates

Also criticised is the practice of issuing separate broker's notes for each parcel of shares bought when executing large orders for tightly held shares, adding to the costs of the total transaction It was suggested that these deals should be aggregated into a single transaction for each stock exchange accounting period

Investment managers objected to paying full brokerage when, using financial rands, they ferret out and buy shares in an overseas market and then have to book the transaction at full brokerage through a JSE broker who had played no part in the deal

These complaints are not criticisms of the structure of the JSE They are aimed at procedures and pricing, problems which can be resolved through negotiation and understanding

But can the broking firms afford to sacrifice income at a time when their operating costs are rising because of the heavy overheads of running the JSE? Smaller broking partnerships are barely making out Their clients have drifted away, disillusioned by losses incurred when questionable companies were listed at inflated issue prices Closer scrutiny of listing statements, many of which were patently transparent, would have lost public support for share dealing The real investors are cosseted in unit trusts, the punters who have always contributed to market liquidity have tired of backing losers

The JSE is not without blemish. But this does not mean that the present structure should be blasted away by a pseudo Big Bang A free-dealing open market stock exchange is a keystone in a market economy; it must not be destroyed fecklessly by predatory giants

But its members should examine their club critically and ask themselves not where have their former clients gone, but why did they leave.

LETTERS

COMPANIES

Storeco MDs gain full control in R18m takeover deal

B/Day 4/4/91

MARCIA KLEIN

STORECO joint MDs Stewart Cohen and Laurie Chiappini have taken over the Durban-based clothing retailing group in a transaction worth R18m.

Cohen and Chiappini announced yesterday that they had increased their stake in Storeco, holding company of Specialty Stores, from 20,5% to 50%. This was achieved via the acquisition of 1,5-million Storeco shares at 1 200c each (equivalent to 600c per Specialty share) from the Board of Executors (BOE)

Cohen and Chiappini intend to retain the listings of Storeco and Specialty — the operating company which controls retail chains Milady's, The Hub, Mr Price and Footgear.

Because of the change of control, Cohen and Chiappini have made an offer to Storeco and Specialty shareholders to acquire their shares at 1 200c and 600c respectively

BOE made it known that it wanted to concentrate its investments in the financial services area following the introduction of the Deposit Taking Institutions Act and the establishment of BOE Merchant Bank.

Chiappini said. "We are delighted to have achieved this deal which removes the uncertainty of control and simultaneously gives us the support of an experienced and committed management team."

BOE MD Bill McAdam said the transaction ended "a highly successful partnership" between BOE and the two joint MDs, and he was confident Storeco would continue to show excellent growth

Cohen and Chiappini had taken over the John Orr company in 1986 with BOE, and over the past five years Specialty achieved a 41% compound growth in attributable income

Renewed interest in Transnet's Elfi III

(232) ROBERT GENTLE

FOREIGN investors have shown renewed interest in Transnet's Elfi III debt issue, says Investec Merchant Bank

Investec was the merchant banker for the Elfi III issue, an Equity Linked Fixed Interest instrument which has raised R620m since it was launched last month

Investec risk manager Mike Henegan said 30 prospectuses had been sent to potential clients in Europe and Australia.

He attributed the renewed foreign interest to the marketing effort, a reduction in the township violence and the good liquidity of the issue.

About R100m of the new Elfi III issue had already traded in the secondary market, he said, thanks to Transnet's commitment to guarantee trade in the stock.

"Investors want to know that they will find a willing buyer if they decide to sell the stock" Henegan said there were indications certain investors who initially were uncertain about participating would soon put in an appearance. Prices for Elfi III will be quoted in Business Day every day from today

● See Page 11

Strategic gains in sell-out by Remgro

(232)

B/Day 5/6/91

BRENT VON MELVILLE

THE deal which ended the fight for control of Standard Bank Investment Corporation (Stanbic) achieved a number of strategic objectives for Liberty and Remgro.

The obvious benefits are that it shored up outright control of Stanbic by Liberty and strengthened Remgro's balance sheet to the point where it can ease its debt load and strengthen its other investments

Over the past few months the market felt it was witnessing not only a fight for Stanbic, but a battle for control of Liberty

That battle was given up by Remgro when it sold its full complement in Stanbic (11,3-million shares) to Liberty

Analysts say that Remgro has now decided to give its full attention to banking group Absa, and consolidate holdings in other concerns such as HLH (led by Rainbow Chicken) and the mining sector. Remgro still has a small holding in Liberty through its stake in GFSA

The Remgro sell-out might also have been prompted by the possible attentions of the Competitions Board and the Registrar of Banks into any further additions in Stanbic stock by Old Mutual (which holds 22%) or Remgro

A director at the Competition Board confirmed that the board had been aware of the situation with Stanbic but could not say whether it had investigated the matter

Remgro, for its part, lived up to its tradition of not disclosing anything

Spokesman Hans Knoetze refused comment except to say the group felt it had signed a good deal and that it was not yet certain what it would do with the profits

Analysts have suggested that the related deal, which saw Rembrandt associate Richemont sell 43-million shares of UK-based property and insurance holding group TransAtlantic to a Liberty UK subsidiary, could generate cash for overseas acquisitions by Richemont.

It has also manoeuvred Liberty into a position where it can increase its position offshore

"Liberty will now have a direct stake in Transatlantic of about 14% (while overseas arm First International Trust (FIT) has upped its stake to 53%), enabling it to have a rights issue and allowing Liberty an outflow of capital with the blessing of the Reserve Bank," said one analyst

The fact that the Stanbic share price was sent spiralling to a peak of R51 in March, a rise of 70% since February, was attributed by the market to intensive buying by Old Mutual and Remgro.

That was then seen as defensive posturing to protect their respective stakes against Liberty, one of Old Mutual's long-time market adversaries

Takeover

Old Mutual's next action was to block a resolution to increase Stanbic's share capital by 20% at its AGM in mid-April, thus thwarting a potential "share swap" between Stanbic and Liberty which would have diluted the influence of both Old Mutual and Remgro

Analysts feel Remgro's aim was solely to push up the share price and that it never had any intention of a takeover of Stanbic Liberty bought its latest parcel of stock from Remgro for R45, stock which was at R30 a mere three months ago

Another wrinkle in the equation is that by selling its Stanbic stock to Liberty, Remgro has left Old Mutual out in the cold While Old Mutual MD Mike Levett refused comment on the issue, analysts were adamant that Old Mutual could not possibly be happy with the deal

Bid to block Saambou deal fails

SUSAN RUSSELL

TWO Saambou shareholders, NSA Investments and CC Exchange, have lost a court battle challenging the validity of the agreement giving Fedlife the option of obtaining a controlling 31,5 % stake in the company Bday 5/6/91

Mr Justice Zulman dismissed their application with costs in the Rand Supreme Court yesterday.

The applicants had asked for a court order declaring the agreement void and unenforceable because it contravened provisions of the Deposit-Taking Institutions Act which came into effect on February 1.

The applicants also applied for an order declaring that 6,7-million of the shares voted by Saambou shareholders on May 15 in favour of three resolutions giving effect to the agreement were invalidly cast

In terms of the agreement Fedlife sold Planet Finance Ltd to Saambou for R55m

Instead of a cash payment Saambou issued debentures to Fedlife which the company may convert into shares. Fedlife has until March 30 1994 to exercise its right to convert the debentures. (232)

Schalk Burger SC, for the applicants, argued last week that Fedlife's four simultaneous applications to the Registrar of Deposit Taking Institutions — for permission to increase its 2,6% stake in Saambou to more than 30% — contravened the provisions of the new Act. It was also argued that the time periods specified in the Act before increasing a shareholding in a deposit-taking institution could be shortened on application, but not waived

Burger submitted the Finance Minister had exceeded his powers by waiving the

☐ To Page 2

Saambou Bday 5/6/91.

(232)

☐ From Page 1

time period in this instance

Mr Justice Zulman accepted Fedlife's contention that it had not obtained permission to acquire a bigger stake in Saambou, but the "right to acquire the right to acquire" an increased shareholding if it elected to convert the debentures

"The Act, as it could have done, does not render it illegal per se to enter into an agreement for the acquisition of shares," the judge said

If Fedlife did not elect to convert the debentures then the question of obtaining or acquiring any Saambou shares would not arise

"Fedlife has in fact not 'acquired' any shares," the judge said "It has in truth acquired debentures which, if it elected to convert them, would lead to the acquisiton of shares"

Until this took place, he said, there was no question of any acquisition

On the face of it, it was also lawful to enter into an agreement and obtain permission for the acquisition afterwards, but before the shares were acquired

This was exactly what had taken place, Mr Justice Zulman said.

He also found that 6,7-million Saambou shares held by Main Street Nominees on behalf of a principal were validly voted in favour of the Fedlife agreement on May 15

A proxy voting them against the agreement was withdrawn at the meeting and they were voted in favour instead

The applicants claimed that a Main Street Nominees representative at the meeting did not have the necessary authority to withdraw the earlier proxy and vote in favour instead

Mr Justice Zulman said he saw no difference in principle between what had occurred and a situation where a shareholder did not attend a meeting himself but, prior to the voting, sent a messenger or notification that he wished to change his proxy and vote differently

● See Page 4

Star 6/6/91

Liquidations, insolvencies still on rise

232

By Sven Lunsche

Liquidations and insolvencies of businesses continue to rise as the recession bites, figures released by the Central Statistical Service (CSS) show.

The CSS reported yesterday that in April 150 liquidations took place, 30,4 percent up on the previous month.

However, for the first four months of this year, liquidations at 549 fell by about nine percent from 604 in the same period last year.

Credit Guarantee economist Luke Doig says that a clearer trend emerges when analysing longer-term trends.

Thus, over the last three months from February to April, liquidations of companies were 13,5 percent up on the number of liquidations from November 1990 to January this year.

The construction sector has been hardest hit, Mr Doig says.

Liquidation in this sector in the first four months of the year at 61 were 24,5 percent up on last year's figure.

In the retail and wholesale trade, 207 businesses closed down, compared with 191 in 1991.

The financial industry experienced a decline from 236 in the first four months of 1990 to 160 liquidations this year.

The CSS preliminary figures on insolvencies, show that at 282 in March they were 19 percent up on February's restated 237.

For the first three months this year 766 insolvencies were reported — about nine percent higher that 1990's final-quarter figure of 707.

Focus on industrial and financial sectors

BDay 6/6/91. (232)

LIZ ROUSE

INVESTMENT strategies should continue to be concentrated in the industrial and financial sectors of the JSE, but only on sector weakness

This cautionary advice comes from Manny Pohl of Davis Borkum Hare, whose analysts have compiled a review of all market sectors

Gold shares have started to recover from enormous selling pressure and an oversold position Selected buying of gold shares, such as Vaal Reefs, Kloof, Elandsrand, Dries and Joel, is suggested

Sectors recommended on expectations of outperforming the overall index in the near term are banks, coal, diamonds, food, retailers and wholesalers

Analyst David Baillie says artificial interest rates during relatively high levels of liquidity and static demand for credit will provide the banking sector with an above average interest margin on funds advanced

Because of positive fundamentals, such as large-scale spending programmes at collieries, investors can buy coal shares, Amcoal being the most tradeable stock

The diamond market place is returning to normal and the outlook is more optimistic because of the expectation for improved economic growth

Lindsay Lurie recommends buying into food companies such as Tiger Oats, with a broader range of products, and carrying higher profit margins than Premier or C G Smith Foods

In the retail and wholesale sector, retailers of semi-durables with credit-based sales are expected to continue to outperform cash-based food retailers.

JSE ups charges for gilts transactions

ROBERT GENTLE 232

THE JSE has increased the charges brokers pay to the Gilt Clearing House for gilts transactions, making it even more expensive to deal in gilts on the JSE than in banks BDay 6/6/91.

Johnny Solms, of stockbroking firm Mechiel du Toit Solms & Co, said yesterday his firm had closed down its gilts department because it was not worth keeping it open given the expense and risk involved

"Margins are too thin," he said, adding that the decision had been in the offing for at least six months and was not related to the recent round of price increases

In a notice to members, the JSE said the increases — about 20% on average — would apply retroactively from March 1

JSE deputy CE Mike Thompson, explaining why the charges had been made retroactive, said the JSE had only recently finalised its annual budgets for the financial year, which started on March 1.

The late completion was a consequence of the JSE committee's concern about the exchange's operating costs in the light of reduced volumes An in-depth examination had now been completed

He said that while JSE gilts brokers incurred service costs that their competitors in the banking sector did not, they gained from efficient clearing and settlement of their trades, plus the guarantee of performance by counterparties.

"This disparity in operating costs will be equalised when all traders are required to operate as members of the Bond Market Association, which will become the country's bond exchange from the first quarter of next year," Thompson said

Last month, the JSE increased the members' charges for equity trades

New turn in share investigation

Absa, Allied open books to police probe

(232)

BDay 7/6/91.

Business Day Reporter

THE state's investigation into the allocation of 500 000 Allied Group shares to Allied Group chairman Norman Alborough took a fresh turn yesterday as Absa and Allied offered to open their books to the Attorney-General.

Absa CE Piet Badenhorst, Allied Group MD Bob Aldworth and an attorney representing Absa and Allied met the Attorney-General yesterday to assure him Absa and Allied would co-operate fully with any Commercial Branch investigation into the Alborough affair In a statement last night, the companies said their CEs had invited police to make an immediate and full investigation of relevant company records.

They added that this initiative had come from Absa and the Allied Group themselves and that neither company had been approached by the Attorney-General

Badenhorst and Aldworth, whom he appointed on Monday as a temporary replacement for former Allied Group MD Kevin de Villiers, said the initiative had been taken to rectify what they described as "distorted public perceptions" following Business Day's report yesterday

In another development, attorneys Bowman, Gilfillan acting for Absa and Allied, yesterday invited Business Day to disclose its sources of information within the Absa group The law firm said its clients denied that information "furnished" to Business Day had come from Absa

□ De Villiers said yesterday he was likely to take a decision on his business future next week. He had received several proposals in the past few days, and in the past three months, and was evaluating them

□ In yesterday's report on Kevin de Villiers' resignation from Allied, we inadvertently referred to Piet Badenhorst as Absa's chairman Badenhorst is Absa's chief executive Herc Hefer is its chairman

STOREGO/BOE

FM 7/6/91 (232)

PARTING COMPANY

The eleventh-hour withdrawal of Pepkor from a takeover of Storeco in January last year contributed to the R18,5m purchase of outright control of Storeco by joint MDs Laurie Chiappini and Stewart Cohen

The Pepkor talks generated insecurity for

FM 7/6/91 **FOX**

(232)

management and staff, and the MDs wanted to avoid repetition of such an event The buyout of the interest held by their "partners" ensures there will be no passing of control to new shareholders, and the joint MDs will themselves retain control

Until now, control has vested with the Board of Executors (BOE) In 1986 both the BOE and Chiappini and Cohen bought John Orr's (as Storeco was then called) as a long-term investment The BOE's investment was then about R2,5m Since then it has increased its investment by following its entitlement in a rights issue two years ago. The market value of BOE's investment in the group has since grown to the point where it is too large in BOE's balance sheet (of R80m shareholders' funds, the Storeco investment represents some R29m)

For BOE, it made sense to sell especially as, in BOE MD Bill McAdam's view, it is a good time to be liquid The sale will enable BOE to direct its resources to the financial services sector, from which most of its income is derived

BOE will realise R18,5m from the sale of all its Storeco shares and R10,5m from the acceptance of the offer that Chiappini and Cohen are to make to minorities of both Storeco and Specialty

Both parties are satisfied with the transaction BOE has realised a capital gain of about R20m in the five years it has held the investment. For Chiappini and Cohen, the effective price of R6 a Specialty share and R12 a Storeco share is attractive These prices are respectively R1 and R2 less than what Pepkor was asked to pay more than a year ago

Though trading remains tough, Chiappini is optimistic the group will achieve real growth in EPS this year In the light of past performance — over the past five years Specialty has achieved a 41% compound growth in attributable income — this may be a conservative forecast It's hoped the fact that control of the group is in firm hands will help lift morale and increase productivity

Gerald Hirshon

LIBERTY/SBIC/REMBRANDT/RICHEMONT FM 7/6/91 (232)

A PRICE FOR RETREAT

At the time of the shareholders' meetings to approve the creation of Amalgamated Banks of SA (Absa) last March, Rembrandt started buying shares in Standard Bank Investment Corp (SBIC) In so doing, it triggered a series of other deals that were to result in a further shift in control structures in the financial services sector

This week's announcement that Rembrandt is selling its 10,7% stake in SBIC is a step in that process At the same time, analysts are viewing that disposal, as well as the sale by Richemont to FIT (holding company for Liberty's overseas interests) of Richemont's remaining interest of about 21% in TransAtlantic, as confirmation of the divorce between Liberty chairman Donald Gordon and the Rupert family — at least as far as business is concerned Liberty executive director Farrell Sher, however, says the relationship between them remains "totally in good shape"

It remains to be seen whether the settlement will extend any further Both Rembrandt and Liberty are still involved in the control structure of Gold Fields of SA (GFSA), for example However, Sher says there is no reason why Liberty should withdraw from the GFSA arrangement He contends that once the transactions as outlined in last week's announcement have been completed, that will be the end of the matter

That may well be correct Essentially, the issue blew up because Gordon let it be known that he felt that Rembrandt should relinquish its interest in SBIC following the formation of Absa, in which Rembrandt is a major shareholder (*FM* April 26) Once Rembrandt started buying SBIC shares (though in small quantities), Liberty feared that somebody might be bidding for SBIC, which holds the key to the control of Liberty

When Old Mutual blocked a special resolution proposed at the SBIC board meeting to increase SBIC's authorised shares, that obviously added to the concerns Gordon claimed that Mutual had been an active buyer of SBIC shares Both these developments raised the possibility that Mutual and Rembrandt might act together and ultimately gain control of Liberty Certainly, some analysts believed this was a real possibility It is also possible that Mutual was simply acting to defend its own position

A month ago, Gordon was saying he felt R45 was a steep price to pay for SBIC shares It seems that in the end his determination to ensure control of the SBIC/Liberty axis could not be threatened by unwelcome predators outweighed concerns about the price

Firstly, Liberty has agreed to pay R45 a share for 4,5m shares of Rembrandt's holdings in SBIC, costing R202,5m cash It has also agreed to place on behalf of Rembrandt a further 1,8m shares at R45 each with certain placees that are not considered by the Securities Regulation Panel to be concert parties

Liberty's Gordon *securing control*

The balance of Rembrandt's holding, just less than 5,1m shares or 5%, are to be placed by Liberty Asset Management at a formula price of at least R45, with other pension funds and institutional investors before June 30 1992 If these are not placed by then, Liberty may be obliged by Rembrandt to take the shares at a price of between R45 and R50

If any of the shares placed do go to concert parties (as deemed by the panel), or if Liberty exceeds its relevant limit, then an offer will have to be made to minorities at the highest price paid by Liberty Sher says he believes the placing will be achieved successfully "We will make absolutely sure they are placed in arms-length transactions to independent parties and do not go to any concert parties," he says

By acquiring an additional 4,4% of SBIC, Liberty has almost certainly sewn up control Its stake has been lifted to about 40%, which will be a tough target for any predator In that respect the agreement certainly works in Liberty's favour But the terms might have been more favourable had the deal been done earlier

Aside from the SBIC transaction, Richemont has taken the opportunity to negotiate the full disposal of its investment in TransAtlantic A year ago Richemont held 24,9% of TransAtlantic, which has 79,8% of the UK property developer Capital & Counties Plc and 27,7% of the life assurer Sun Life Corp Plc Late last year this holding fell to about 21%, when Richemont declined to take up its entitlement in a rights issue

Now Liberty, through FIT — and other holding companies — has acquired Richemont's 43m shares in TransAtlantic, for £150,6m, based on a price of £3,50 a share It is difficult to evaluate that price, as the shares are listed only in Luxembourg The UK property market, the biggest influence on TransAtlantic's performance, may now be at the bottom But the property market has taken a hammering — Gordon would probably have preferred to have done this deal at a more favourable time

Richemont has enjoyed a large cash injection in exchange for a low-yielding asset at a time when international economies are soggy It can use this to bolster an already-strong balance sheet, and invest in its main growth businesses in the luxury goods sector.

Overall, Rembrandt has satisfied Gordon by retreating from the SBIC axis, which was probably the prudent thing to do, considering the extent of its holdings in the financial services sector But the terms were tough, and raise the question of whether Rembrandt and Richemont executive director Johann Rupert has successfully greenmailed Gordon *Andrew McNulty*

Rembrandt trio raises R630m in rights issue

(232)

B/Day 7/6/91

MARCIA KLEIN

RIGHTS offers by Rainbow Chicken, Hunt Leuchars & Hepburn (H L&H) and Huntcor have been well received by shareholders of the three Rembrandt-related companies, with over R630m raised

All three companies' shares peaked at their yearly highs at the close of trade yesterday following the closure of the offers

Rainbow's share rose by 20c or 5,9% to close at a new high of 355c The share has risen by 73% since its yearly low of 205c in August 1990 H L&H closed yesterday at a new high of 1 385c, rising by 10c or 7% from yesterday's closing, and Huntcor also closed at its yearly high of 2 525c, rising by 25c or 1% from the previous day

The rights offers, which closed on May 30, were for major chicken producer Rainbow to fund its R224m acquisition of broiler operation Bonny Bird Farms from the Premier Group, Bokomo and Sacca, as well as its R20m acquisition of 50% of Premier's Epol Animal Feeds division, and for H L&H and Huntcor to underwrite the issues and follow their rights

The Rainbow offer, underwritten by H L&H, was the most successful, being 102,3% subscribed Applications were received for 95,7-million of the 93-million shares offered at 270c a share

Applicants for 2,6-million additional shares will be allocated sufficient shares to round their holdings to the nearest 100 Each applicant for additional rights shares will receive about 14,09% of the additonal rights shares applied for

H L&H's R223m offer — to follow its rights and to underwrite the Rainbow offer — was 99,7% subscribed, with 19,3m of the 19,4m new ordinary shares (offered at 1 150c a share) applied for Applications for 407 010 additional rights shares were received and would be allotted on the basis of 14,8% of the number of shares applied for The H L&H offer was underwritten by its holding company Huntcor, which would in turn raise R161m to follow its rights and underwrite the H L&H offer

Shareholders of Huntcor applied for 6,96-million or 99% of the 7-million new ordinary shares offered at 2 300c a share Applications for 139 926 additional rights were received and would be allocated on the basis of 51,7% of the number of shares applied for The Huntcor offer was underwritten by the Rembrandt Group

Insolvencies up as recession bites

SVEN LUNSCHE (232)

Argus 8/6/91

Weekend Argus Correspondent

LIQUIDATIONS and insolvencies of businesses continue to rise as the recession bites, figures released by Central Statistical Services (CSS) show

The CSS reported this week that in April, 150 liquidations took place, 30,4 percent up on the previous month

However, for the first four months of this year, liquidations at 549 fell by about nine percent from 604 in the same period last year

Credit Guarantee economist Mr Luke Doig says that a clearer trend emerges when analysing longer-term trends

Thus, over the last three months from February to April, liquidations of companies were 13,5 percent up on the number of liquidations from November 1990 to January this year

The construction sector has been hardest hit, Mr Doig says

Liquidation in this sector in the first four months of the year at 61 were 24,5 percent up on last year's figure

In the retail and wholesale trade, 207 businesses closed down, compared with 191 in 1991

The financial industry experienced a decline from 236 in the first four months of 1990 to 160 liquidations this year

The CSS preliminary figures on insolvencies, show that at 282 in March they were 19percent up on February's restated 237

For the first three months this year 766 insolvencies were reported - about nine percent higher that 1990's final-quarter figure of 707

High growth 'could push industrial index to 9 000'

Bday 11/6/91.

ROBERT GENTLE

THE industrial index could reach 9 000 in five years and certain companies could see their share price increase tenfold over the same period, according to Board of Executors (BoE) senior GM John Winship.

Addressing influential business figures last week, at a seminar entitled Financial Markets in the new SA, Winship said BoE was increasingly optimistic about market opportunities once sanctions go.

He foresaw a high growth cycle which would filter through to commodity prices and the share market. World markets were now entering a bull phase and the Dow had recently broken through its all time high.

"World growth in the '90s will be higher than in the '80s. Some of our shares could benefit immensely," Winship said, citing De Beers and Richemont as examples.

(222)

Admittedly, certain markets had not yet reflected this, but the trend was there "We are increasinly confident of our views," said Winship

He said it was worth investing in SA over the long term, and that certain foreign investors had already realised this. Maybe South Africans were too close to the situation to see the potential, he said. "Maybe we can't see the wood for the trees"

Stockbrokers angry over Act's seven-day limitation

232

Bday 11/6/91

MERVYN HARRIS

MANY stockbrokers are unhappy with an amendment to the Stock Exchanges Control Act limiting the period of settlement on share transactions to seven business days.

They say the change, which came into force at the end of May, could have disastrous consequences for trade, especially for the small broker who deals with the man in the street.

JSE president Tony Norton said: "The previous provision was not very clear. Some brokers waited seven days for settlement, and some for longer periods.

"There was confusion and all we were trying to do with the amendment is make clear the period of settlement unless a dispensation is given.

"In 1969, there was a huge credit extension which overheated the market People have to pay within a reasonable period if there is to be an orderly market."

Dealers said, however, that the new provision would kill private client business

"Private clients will now go and deal through banks as payment there is mostly on delivery of scrip," said one.

"About 80% of all small brokers will be put out of business, leaving only institutional trade

"The JSE recently had a campaign to bring the small man back into the market, but this will destroy that."

Other dealers said the provision would result in lower volumes as a lot of the volume was through jobbing.

Another trader added that, under the previous provision, the settlement date was extended to 14 days if there was a problem with the scrip or in terms of collecting cash from a client

He said that if the new provision was kept strictly to seven days, it could result in the elimination of speculators from the market.

Another broker said he did not see how settlement could practically take place in seven days, particularly if a deal was done on a Friday "The posting of a broker's note could take a few days, and by the time a cheque is posted and received, the whole process will take longer than seven days."

Safex goes for options on futures

ROBERT GENTLE

THE SA Futures Exchange (Safex) announced yesterday it would be launching options on futures within nine months, a move which would put it in competition with the JSE's soon-to-be-launched Traded Options Market (TOM).

Safex will be offering options on index futures while TOM will offer options on the underlying indices and individual equities. B/Day 11/6/91

"There could well be a degree of overlap," said Safex CE Stuart Rees in an interview, explaining that there was no fundamental difference between an option on an index and one on an index future.

"The greater number of choices the market is presented with, the better for the market," he said. However, Safex was not going down the options road with the express purpose of taking on the JSE.

It was part of an overall strategy decided last year, and which, in the longer term, would see the introduction of options on all Safex-listed futures contracts from bond futures to BA futures.

Rees said he was aware that the existence of the two almost identical products competing under different regulatory regimes — the Stock Exchanges Control Act and the Financial Markets Control Act — could well raise the possibility of some sort of harmonisation later on.

In the UK, for example, the London Traded Options Market (LTOM) and the London International Financial Futures Exchange (Liffe) had decided to merge their operations, partly in response to similar problems. (232)

There was no reaction from the JSE

Rees said: "Based on our experience with the introduction of the futures system where the software cost about R250 000, we do not expect options to be unduly costly. There will be no computer hardware costs."

Safex would explore all alternatives to ensure the finished product would be cost-effective, Rees said. This included looking at existing off-the-shelf systems.

On the finance side, the possibility of a consortium of software developers paying the development costs to avoid Safex members footing the bill was also being looked into

Safex's and the JSE's moves are steps to formalise the burgeoning informal market in options, both on futures and on individual JSE shares.

A dealer said speculators would be drawn more to the market for options on futures, while institutional investors might prefer the TOM. With the TOM, speculators would not be able to buy the underlying instrument as they would with a futures contract.

Foreign buying 'a mixed blessing'

B/Day 14/6/91 (68) (232) (04)

ANDREW GILL

INFLUENTIAL foreign buying in the capital market in recent months has kept it stable in the face of relatively bearish local investors.

Analysts estimate a large portion of SA's two biggest borrowers' stock is now in the hands of foreign investors Although they believe the strong overseas presence is encouraging, it could also be dangerous

The concern is that a further narrowing in the discount between the financial and commercial rands could result in a major sell-off. Also a worsening political situation could see foreigners "dump" their SA stock.

It would probably result in a significant uptick in rates as the local market was not in a position to absorb the stock at current prices, especially in the prevailing nervous climate.

If the situation turned nasty, "the mother and father of all bear markets", was likely, a dealer said.

The potential "dumping" of stock currently held by overseas investors has been estimated to be as high as R16bn, but analysts believe a large portion of this is in safe hands.

Eskom has estimated about 44% (almost R10bn) of its stock is held overseas, but no exact figure is available because of the large amount of investment through nominees.

Market estimates for the amount of government stock held by foreigners vary between 5% and 10% (R4bn and R8bn).

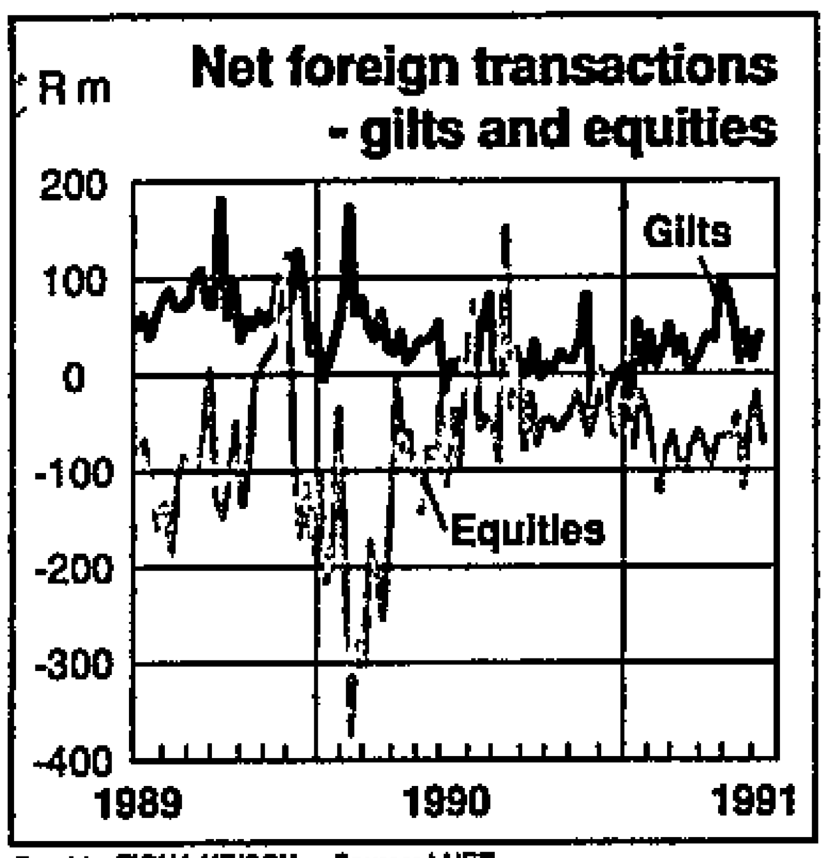
Concern is growing that the narrowing discount between the financial and commercial rand, which stands at about 14%, will prompt investors to take profits

Evidence of this emerged last week when the discount fell to between 12% and 13%

Also, the yield on the benchmark Eskom 168 through the finrand has dropped substantially since the middle of last year, because of the strengthening finrand.

☐ In the past two years only seven weekly net outflows have been recorded in the gilts market, as reported in weekly JSE statistics.

This compares favourably with the relatively steady outflows recorded on the equity market, with no net weekly inflows since August 1990



Graphic FIONA KRISCH Source: I-NET

Finrand's drop props up golds

232

CT 12/6/91.

Own Correspondent

A SHARP drop in the finrand towards the close of trading helped prop up gold shares on the JSE yesterday after they had come off highs in line with an easier gold price

Gold closed $2 down at $371 in London

The finrand slump to R3,37 from R3,30 to the dollar came as a seller entered the market at the last moment. Dealers said the downturn was aggravated by the fact that SA banks had to square positions at the end of the day

"The sale might have had something to do with the R150m payment in financial rands by Datakor for the purchase of US computer group Timeplex But as it came at the last minute, not many rands went out," a trader said

The awakening of gold from months of slumber saw renewed customer interest and only limited producer selling on bullion markets

Profit-taking

Dealers said when early efforts to pull gold down failed, the metal rose to a high of $373,10 before profit-taking set in

The JSE all gold index closed unchanged at 1 416 after rising to a high of 1 442 in the morning and dipping to a low of 1 412 in the afternoon

Industrials were steady with the index off two points at 3 682 but firmness in mining house shares lifted the overall index 12 points to 3 261

Many local analysts were optimistic that if gold could hold at current levels, the price could be on the way to $380.

Heavyweight gold share Vaal Reefs closed R1,50 easier at R233 after rising to R239 Freegold ended unchanged at R28 after touching R28,75 but Southvaal closed R3 firmer at R100.

Mining financial leader Anglos gained R2,50 at R116 and diamond share De Beers R1 at R77,75

Among industrial leaders, Barlows ended 25c firmer at R40,50 but Richemont eased 40c to R26,60

Remgro results beat expectations

B Day 13/6/91

(232)

BRENT VON MELVILLE

REMBRANDT Group's (Remgro's) end-March results are a testimonial to the group's adage that profits speak far louder than words.

The conglomerate, with interests in tobacco and liquor, as well as substantial investments in the industrial, mining and financial sectors, pushed up earnings 15% to 165,8c (144c previously) a share off net income from normal business operations of R865,3m (R751,9c)

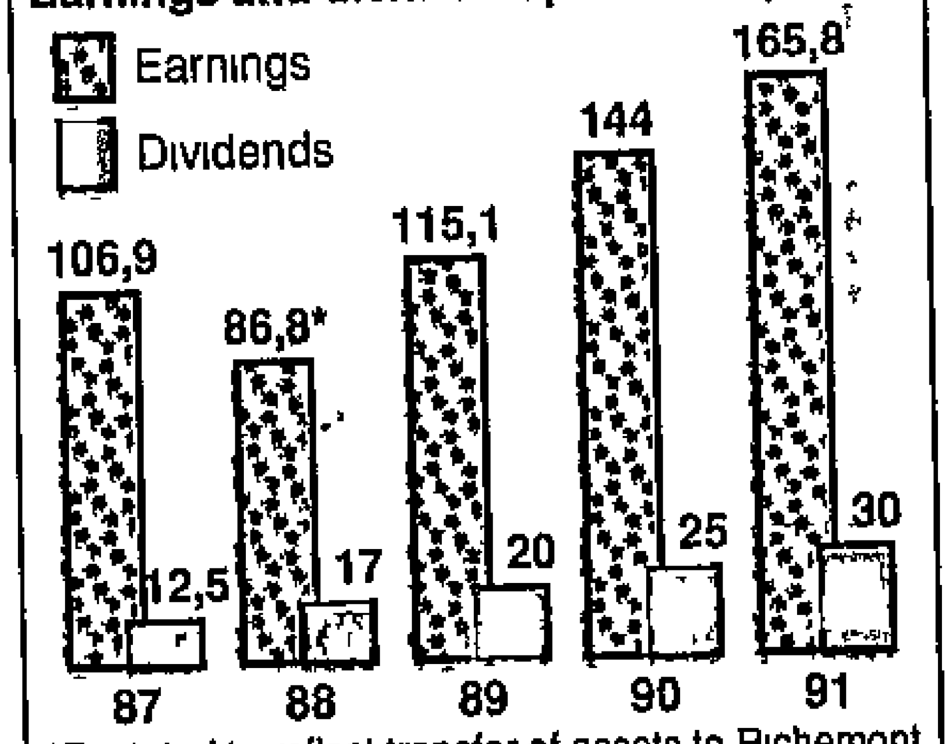
The total dividend outlay increased 20% to 30c (25c), reducing cover from earnings to 5,5 (5,8) times and increasing cash cover to 3,6 (3,5) times. Excluding equity accounted income from associated companies of R322 3m (R317,6m), earnings improved 24% to 107,4c (86,6c)

Remgro's capital employed at book value increased 16% to R5,65bn (R4,87bn) Its net income before taxation (including dividend income of R225,3m) closed in on the R1bn mark — up 25% at R960,3m (R770,4m). Taxation remained at an effective 36%, cutting off R344,7m (R281,4m)

However, group spokesmen were unavailable to explain an extraordinary loss of R23,9m, compared with a R48,9m gain last year

Remgro

Earnings and dividends per share (cents)



*Restated to reflect transfer of assets to Richemont

Graphic FIONA KRISCH Source: REMGRO

The results are slightly ahead of market expectations

Market analysts said yesterday that the performance was strong in the recessed market, and indicated that Remgro had the right mix to ride out the recession

It was difficult to make market forecasts for Remgro because of its traditional reticence in disclosing more than it absolutely had to

☐ To Page 2

Remgro

B Day 13/6/91.

(232)

☐ From Page 1

Market observers had earlier speculated that Remgro might start suffering from the fact that it no longer had its foreign cow to milk since injecting its overseas interests into Richemont

Ahead of the results Remgro yesterday moved up 10c to its high of R19,50, putting it on a P E rating of 11,8 times and a dividend yield of 1,5% The share price equalled the level reached in April on speculation of an impending deal involving Remgro's holding in Standard Bank Investment Corporation (SBIC)

That deal bore fruit after the end of the financial year under review, with the sale of Remgro's 6,3% interest in SBIC to Liberty and other parties at R45 a share

Also reporting is Rembrandt Controlling Investments (Remb Beh), which holds just more than half of Remgro's ordinary shares It posted net income of R442m (R384,1m), translating to earnings of 122,8c (106,7c) a share The total dividend was raised 20% to 22,21c (18,51c)

Technical Investment Corporation (Tegkor), which holds about 41% of Remb Beh's issued share capital, declared a dividend of 19,5c (16,2c) off earnings of 107,7c (93,7c) a share

Technical and Industrial Investments, with holdings of about 60% in Tegkor and 10% in Remb Beh, came through with a dividend of 20,7c (17,2c) on earnings of 114,2c (99,3c) a share

JSE looks forward to lightening debt burden

B/Day 13/6/91 (232)

ROBERT GENTLE

AFTER a sustained period of capital expenditure on infrastructure, technology and new product development, the JSE at last appears set to cut back on its resultant debt burden and to start generating cash once again

JSE deputy CE Mike Thompson bases this upbeat view on the conservative budget for the coming year, though he stresses that it is ultimately a vibrant share market that will improve the JSE's financial situation

The exchange gets its income from rentals, service charges to members, fees, subscriptions, money made on new listings and information services — all of which are ultimately driven by volume

The JSE's debt burden, which is at least partly to blame for recent dissatisfaction among some members on how the exchange is run, now stands at R55,5m — larger than the R54,7m gross revenue generated during the past financial year It has grown against a background of falling business and rising investment expenditure

Virtually all borrowings have gone to provide the JSE with items like computer hardware and systems software as well as new market developments like the traded options market (TOM) and broker dealer accounting Financing the debt will be hotly debated as the JSE's new committee comes up for election.

Unfortunately, this necessary capital investment coincided with the worst trading recession the exchange has had to weather. Says Thompson "The difficult situation SA is now in has naturally hurt our volumes It is not peculiar to the JSE, but has hit all companies"

He points out that the exchange's plan for the past financial year was based on an assumed 4 000 equity deals a day This, says Thomspon, was conservative in view of the fact that the JSE had been regularly averaging 5 000 deals a day at the time of planning However, the unexpected trading recession meant the exchange averages only 2 250 deals a day

The JSE has financed itself with borrowings on a 13-month loan facility bearing interest at two percentage points below prime. Because it is a non-profit body of unlimited liability partnerships, the JSE has no shareholders to tap for funds On that basis it is probably not altogether correct to compare the JSE's financial ratios with those of other financial institutions

Take interest cover, an indication of whether a business is generating enough operational revenue to cover its interest bill.

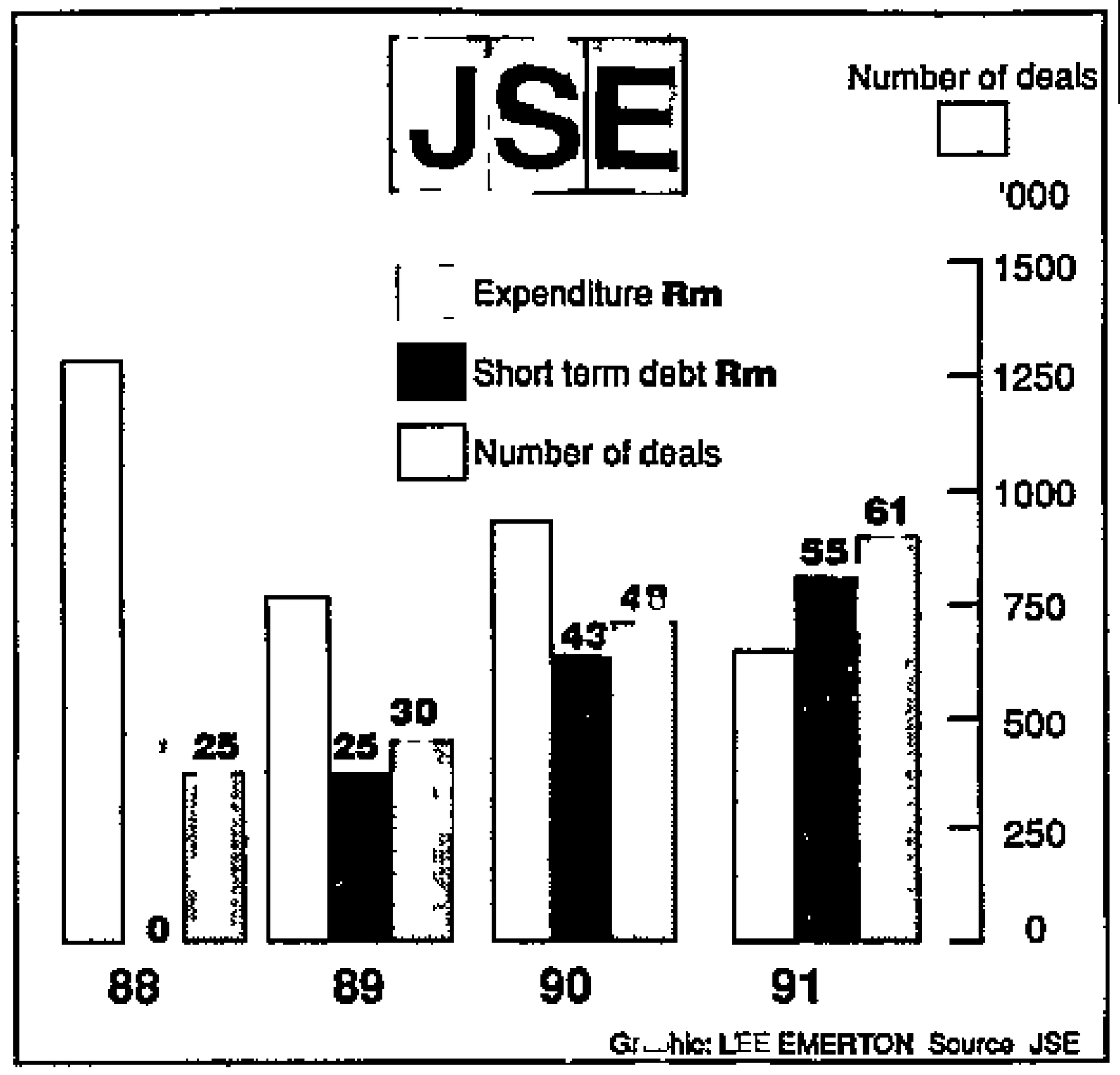
The JSE had net pre-interest operating revenue of R1,97m and an interest bill of R8,6m at the end of the last financial year — interest cover was 0,23 times or, put another way, the year's interest bill was over four times the pre-interest revenue.

That, of course, was only for one particularly sluggish year Another key parameter reflecting the high level of borrowings is the gearing ratio — the ratio of total interest-bearing liabilities to total shareholders funds (reserves and surplus in the case of the JSE) At the last financial year's end it stood at a solid 1,08

Thompson adds "Were we to run into an operating surplus, as happens from time to time, we distribute it to our members by reducing charges Similarly, should we run into a deficit, we would draw on our members by increasing charges or dip into reserves."

In any event, when the full market value of the exchange's land and buildings are taken into account — about R160m — financial ratios improve "considerably" Moreover, the non-recurring nature of many of the items in the income statement, such as write-offs on TOM, have made net operating revenue smaller than it might otherwise have been

Thompson cites further financing options, such as revaluing property and buildings and borrowing long-term money against them. But he points out that the present 13-month facility is the cheapest and most flexible "I am satisfied that our financing arrangements are totally under control," he says.



LETTERS

Business Report

Saflife 'star performer' in HCI group

C/T 14/6/91. 58 232

Own Correspondent

JOHANNESBURG — Hosken Consolidated Investments (HCI) results for the year to end-March — incorporating mixed results from IGI Insurance Group (IGI), Safrican Life Investment Holdings (Saflife) and recently acquired Crendel Investment Corporation — showed a 9,8% increase in attributable profit to R19,8m (R18m), and almost static earnings of 166,9c (166,2c) a share

Short-term insurance company IGI reported a 13,6% drop in attributable earnings to R23m (R26,6m), and a 10,5% decrease in diluted earnings to 179c (200c) a share, in what chairman Michael Lewis described as "some of the toughest trading conditions we have seen in the insurance market in 30 years"

The group was able to achieve a marginal improvement in its net income before tax to R23m (R22,4m)

The group increased its final dividend by 24% to 31c (25c) a share, bringing the full year dividend up by 14,3% to 48c (42c) a share

Gross premium income rose by 23% to R557,6m (R455,9m) and net premium income rose by 23% to R446,5m (R362,6m)

HCI's life assurance arm Saflife reported a 41% growth in attributable earnings to R13,7m (R9,7m) and a similar increase in earnings to 46,4c (32,8c) a share — the seventh year in succession that it has increased its earnings by more than 40%

Its gross recurring premium income grew by 74% to R167,9m (R96,5m) and its net recurring premium income rose by 75% to R159,0m (R91m)

Investment income rose by 63% to make a R70m contribution, reflecting "the investment expertise of the group's Safegro investment arm, which also manages the highly successful Safegro Unit Trust"

The full year dividend was up by 38% to 27,5c (20c) a share, although the final dividend was maintained at 15c a share, to "eliminate the disparity between the interim and final dividends"

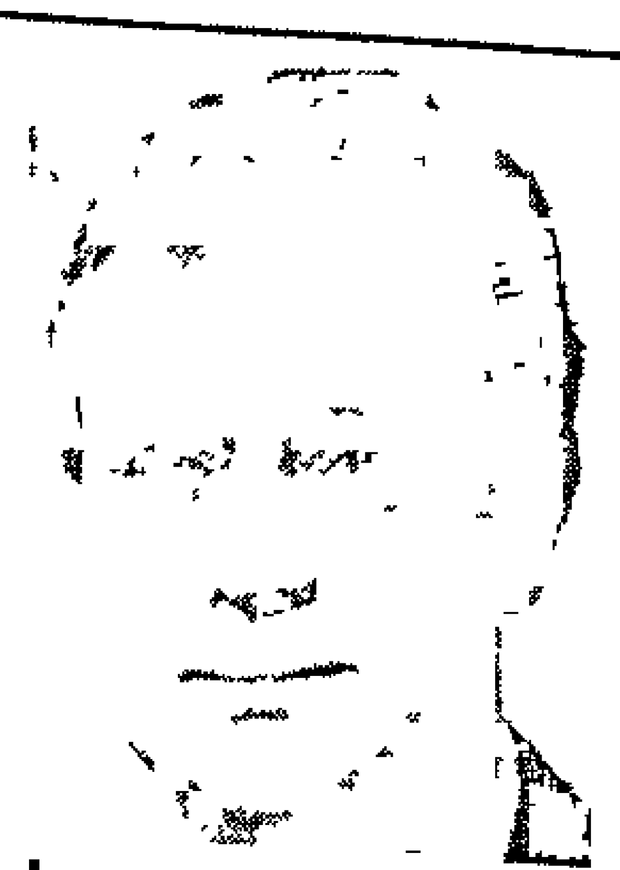
Holding company HCI increased its final dividend by 42,8% to 30c (21c) a share, bringing the total dividend for the year up by 25% to 45c (36c) a share

Results from Crendel were brought in for the first time, reflecting its trading over the three-and-a-half months since the acquisition

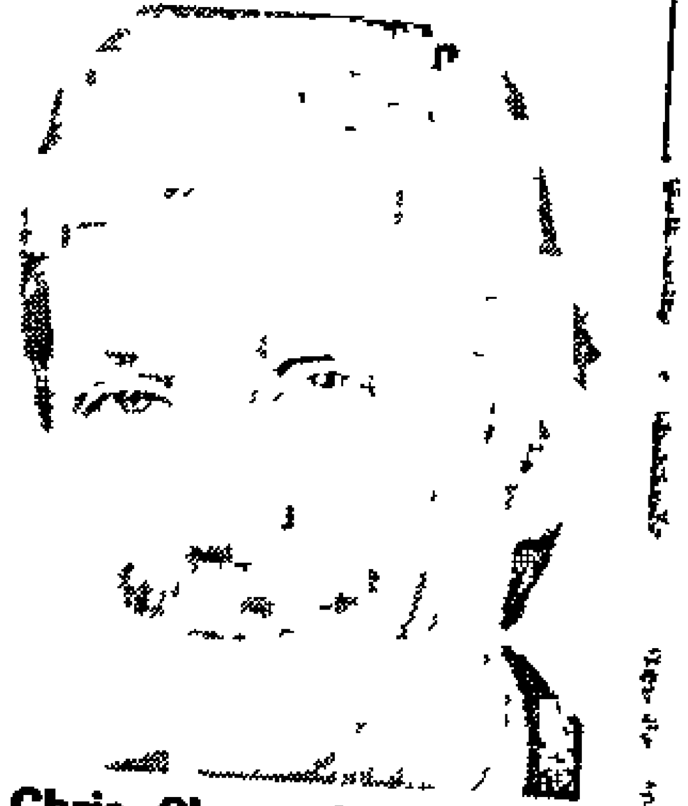
Lewis said Saflife was "the star performer", while IGI performed "remarkably well in a highly competitive market"

The insurance broking and reinsurance broking companies increased profits both in SA and abroad

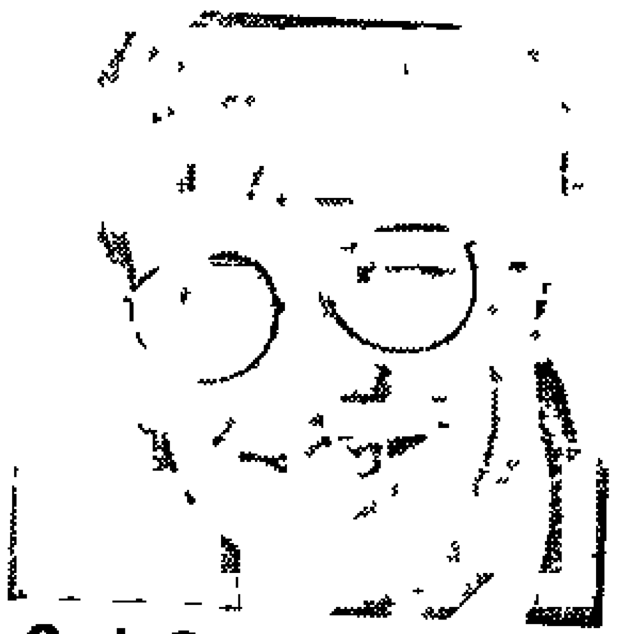
A 28,6% increase in income from associated companies and the foreign subsidiary to R5,1m (R4m) was "an important contribution that was received largely from our broking activities," said Lewis



Lawrence Swanson has been appointed financial director of Country Fair Foods.



Chris Clucas has been appointed resources director of Country Fair Food



Carl Grim has been elected chairman of the SA branch of the International Institute of Quarrying.

FM 14/6/91 (232)

FM 14/6/91

READERS' PORTFOLIOS (232)

WINNING CHOICES

In the *FM*'s 1989 readers' portfolio competition, it was gold and exploration stocks that produced the winning entries But with gold shares going into a steep decline from the middle of the year, results of the 1990 competition were radically different

Many entrants again chose gold stocks and saw the value of their portfolios shrink But portfolios of 10 stocks, consisting largely of industrial and financial shares, still produced real growth for the winner and runner-up of our 1990 readers' competition

By year-end there was little to separate the top two portfolios A case of champagne goes to the winner, Joy Cullabine, of Greenside, Johannesburg, whose portfolio produced an overall capital appreciation of 22,2% The portfolio was compiled by her husband, Mike, a CA who works at the Mines Pensions Fund and follows the stock market as a hobby

A year's subscription to the *FM* goes to the runner-up, Johan van Zijl, of Kloof, Natal, whose portfolio gained 21,5% Van Zijl, who is executive director of the Education Foundation, also did his own research, and describes himself as a "minute" investor

If these results don't sound too impressive considering the recent strength of industrial and financial shares, it is worth recalling the paltry performances of the portfolios submitted by six stockbrokers (and the *FM*) who entered the 1990 competition The winner among them showed a gain of 7,4%, and there was an average decline in value of 20%

The winning reader's portfolio was notable for a generally consistent performance, with only two shares declining It comprised Unitrans (whose price gained 17,1%), UBS (up 28%), Metpol (up 30,4%), Hudaco (up 14,3%), GDM Finance (up 57%), Delta Electrical (up 27,1%), Distillers (up 27,4%), Cadswep (up 54,4%), Gencor (down 7,1%), and Da Gama (down 27,1%)

Joy and Mike Cullabine *beating the brokers*

Results of the runner-up's portfolio were less consistent, but its overall result was improved by one of last year's outstanding shares This was the furniture retailer, Ellerine, whose price rocketed by 172,7% — enough to make up for several weaker selections Others in the portfolio were Minorco (down 19,1%), Q Data (up 7,5%), AECI (up 21,2%), Southern Life (up 29,8%), Libvest (up 20,6%), Fedsure (down 5%), Richemont (up 17,4%), Irvin & Johnson (up 4,2%), and Amshoe (up 7,7%)

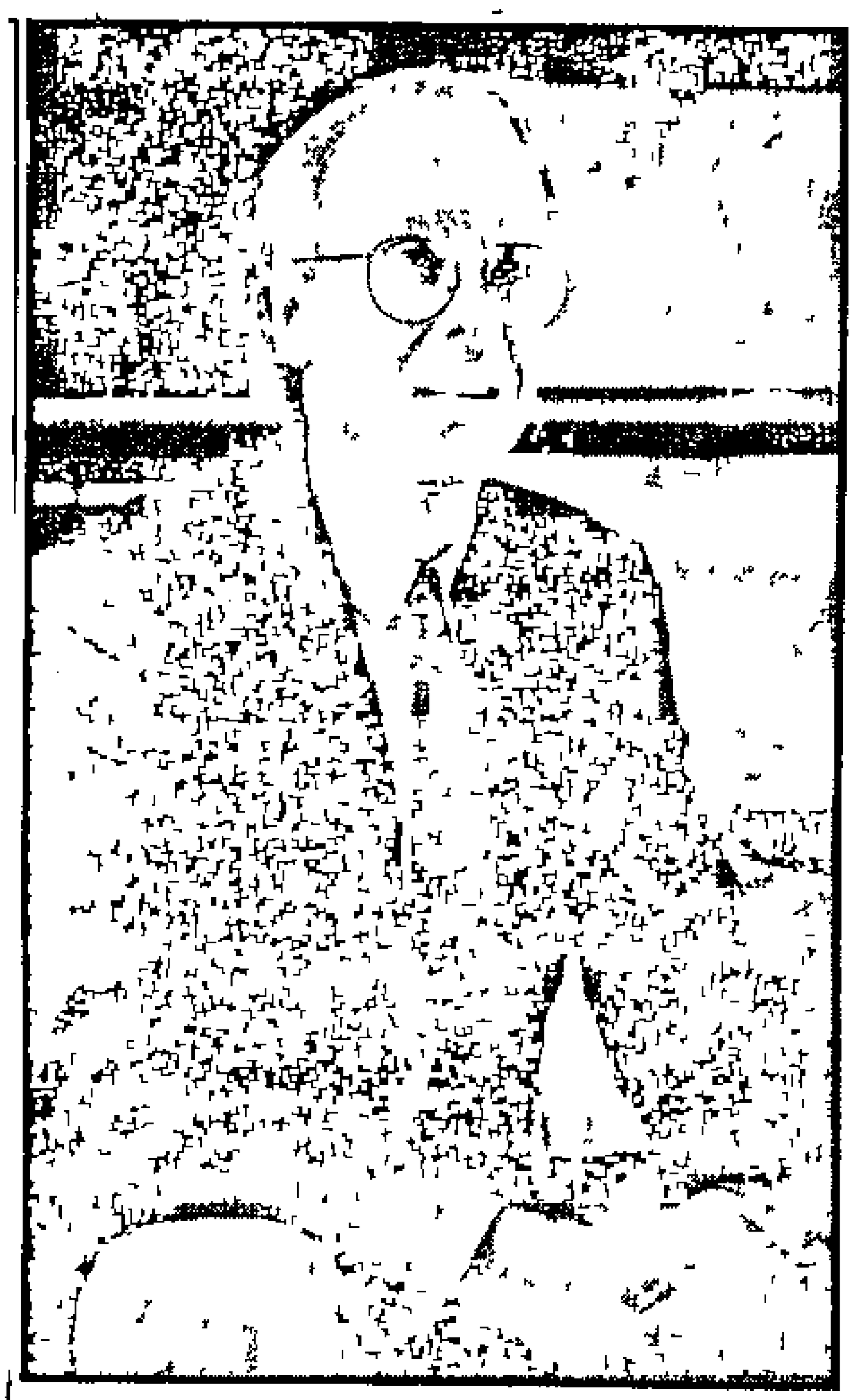
Results of the readers' competition are based on the total capital growth of the portfolio over the calendar year, with no changes This differs from the brokers' competition, which is contested by six firms who may change their portfolios at midyear Halfway positions in the brokers' competition for 1991 — when the entries were dominated by industrial shares — will be published next month ■

Prefcor retailing chain to seek R270m from listing

Beares hitches a ride back to JSE

(232)

S Times 16/6/91 (Bus Times)



TERRY ROSENBERG Hoping to return to the boards by August

HIGH-FLYING retail chain Prefcor is coming to the JSE in the largest new listing this year

By IAN SMITH

The group seeks about R270-million in a move designed to remove control from the foreign consortium which supported a buyout nearly three years ago and to give line management a stake in the company

Foreign control will be reduced from 58,8% to less than 25% Investors who have been starved of high-quality scrip and whose expectations have been primed by the continuing strong performance of retail sales, are expected to snap up Prefcor shares

Prefcor, which is applying for a listing in the retail and wholesale sector of the JSE, is likely to be capitalised at R550 million

The price of the shares and the number to be issued will probably be decided at a meeting on Wednesday

Executive chairman Terry Rosenberg says "We are working flat out on the plans. We would like to be listed by August."

He says about half of the R270 million will stay in the company

Prefcor will bring three diverse but focused retail operations to the listed group — 10 Game Discount World shops, 192 furniture stores trading through five well known chains Beares, Savells, Furniture Game, Price and Link, and 62 Bee Gee clothing outlets dealing with the black market

Other companies acquired in Prefcor's fast acquisition run since 1988, including the 50% held Garlicks will not be included at this stage, says Mr Rosenberg

"We have included only companies in which we hold 100% of the equity, says Mr Rosenberg

But the companies that are included offer more than enough promise to tempt institutions and private investors

Spread

"All company divisions have been turned around and the prospects for organic growth are outstanding says Mr Rosenberg

Pre tax profit has soared from R17 million in the year to June 1989 to an estimated R72 million for the year ending this month

In the same time turnover has climbed from R575 million to a projected R1 billion The operating margin has increased from 7,3% to 11 5%

"Book collections, an area on which management has a clear and regular focus, run consistently at between 102% to 104% of budget" says Mr Rosenberg

Prefcor was established in 1988 when Mr Rosenberg and associates, with the support of a foreign consortium, bought control of the Beares furniture group in a leveraged buyout

After the deal the group no longer met the JSE s requirements on shareholder spread and Beares was delisted

Although we were no longer in the public eye we beavered away with our group, putting many things to rights" says Mr Rosenberg

Credit

"All debt from the leveraged buyout was repaid by June 1990 Our strict attention to asset management and proper controls in the businesses has seen the group grow phenomenally

"We are now ready to make our return to the JSE All our businesses serve the broader market, the one that is expanding fast and yet at a sustainable rate

'In particular, we operate in market segments where the growth in electrification and house building can only afford us greater opportunities"

One of the group s greatest strengths is that 'we have our finances sorted out'

Its partnership last year with First National Bank to form a separate company, Firstpref to handle the furniture credit book has worked well

Putting Prefcor s book in the separate company enables Prefcor to increase its credit furniture sales without having the normal debt-equity constraints on its balance sheet '

Prefcor executives believe that the fact that Game has only three stores in the Transvaal where nearly 70% of the market is provides great organic growth potential

Game, headed by former Checkers managing director Clive Weil has aggressive expansion plans in the Transvaal

Sales in May were 57% ahead of budget

The furniture division, controlled by former Dion chief executive Hymie Sibul, also plans to open 56 stores throughout the country in the next two years

The clothing chain will be expanded to about 90 outlets

Prefcor s listing is the largest since the R388 million Mainstreet Property Fund last November

Bidvest buys Sable subsidiary

BDay 17/6/91

SEAN VAN ZYL

(232)

FINANCIAL property-listed Sable Holdings has struck a R60,8m deal to sell its 60% stake in subsidiary Steiner Services to cash-flush industrial holding company Bidvest.

A statement released by Bidvest at the weekend said the company had also purchased the remaining 40% share capital of Steiner held by a management consortium

The total value of the combined deal was in the order of R86m, said Bidvest's chairman Brian Joffe

He noted that the transaction was based on Steiner producing a taxed profit of R11,017m for the financial year to end June this year — equating to a price earnings multiple of 7,8. Should Steiner produce a shortfall on the target, Joffe added that the purchase price would be reduced by R7,80 for every R1 below this target.

Joffe explained that the deal would be paid partly in cash, and the remainder through the issue of Bidvest debentures and ordinary shares at R27 each.

Steiner's businesses include the supply of continuous towel cabinets, garment manufacturing, industrial laundering, hotel supplies, garment and towel rentals and other related products. The Steiner title will be retained.

The Sable deal, subject to its shareholders' approval, has been struck at R60,8m with Bidvest acquiring Steiner's entire assets, businesses and liabilities. A Sable statement said the R60,8m, to be received as a cash consideration, would be equivalent to 812c per ordinary Sable share.

Joffe noted that the deal would have boosted Bidvest's earnings by 4% to 271,5c

□ To Page 2

Bidvest

BDay 17/6/91

(232)

□ From Page 1

from 259,5c a share for the last interim period to December

Bidvest's net asset value would, however, have fallen by about 4% to 974c from 1016c a share for the same period

But Joffe noted that the deal would have a significant bearing on Bidvest's future earnings "Steiner's hotel division is a direct competitor of a business in the Bidvest group and certain rationalisation benefits will flow from having both businesses in the same group"

The Sable statement noted that, had the transaction been effective from June 30 1990, Sable's net asset value would have jumped more than 124% to 1290,6c from 574,2c a share while earnings would have climbed 15,5% to 120,9c from 104,7c a share.

Compared with the R32,6m Sable paid when it acquired 60% of Steiner in July 1988, the value of the Bidvest deal has brought more than an 87% return on the group's investment.

Probe into industry control

Political Staff

THE ANC has investigated the nationalisation of the pharmaceuticals industry and is considering the iron and steel and building materials industries for possible state control

ANC economics spokesman Mr Khetso Gordon brought the controversial issue back into debate at an ANC media briefing for parliamentary journalists at the weekend when he announced that the organisation had identified the pharmaceutical and iron and steel industries for possible state control

The ANC, he said, had already conducted a feasibility study into creating a state-controlled pharmaceutical utility

It is believed that the ANC is also considering nationalising other industries which provide, or are involved in the provision of, basic services such as health, housing and electricity

The route the ANC is most likely to favour for the pharmaceutical industry is the formation of a new body within the state Health Department to sell basic generic drugs required for primary health care — 160 of which have been identified by the World Health Organisation

Traders angry as trickle feed fails

232

ROBERT GENTLE

THERE was anger in the futures market yesterday, when the JSE's electronic trickle feed, which transmits share price data to futures traders' screens, went down for more than an hour from about 9.30am

This meant that non-JSE futures traders, preparing for a hectic day of trade ahead of the quarterly share index futures close-out, had to operate blind because they could not tell what the latest JSE prices were

B/Day 18/6/91

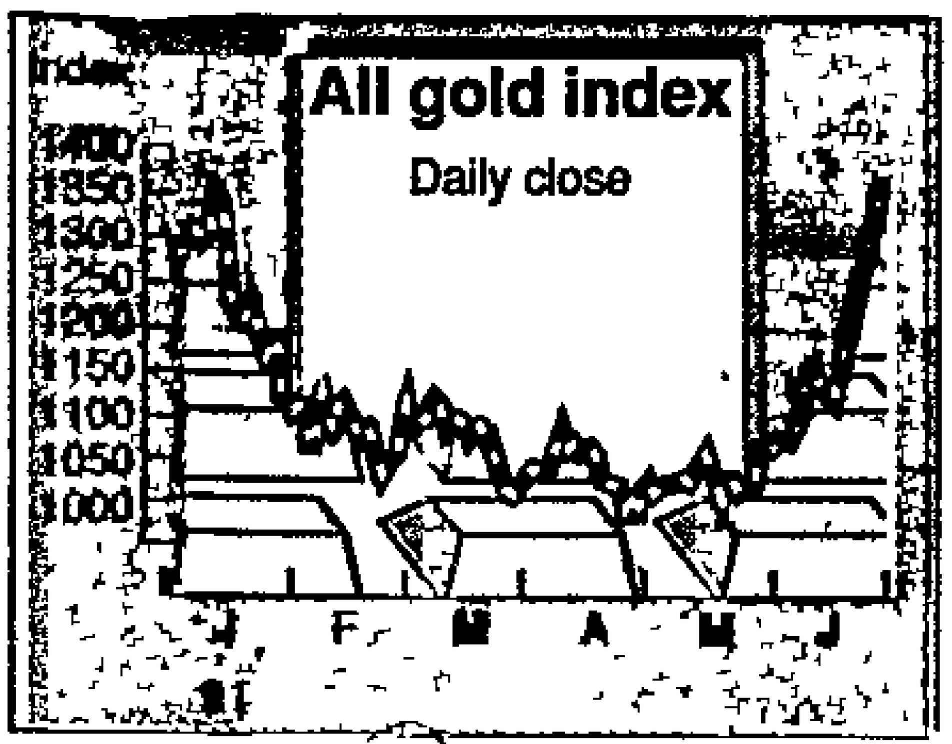
It was the third successive close-out — some claim the fourth — during which the trickle feed was down, prompting some traders to make allegations that the service failure was deliberate.

A JSE spokesman said there had been a "glitch", but it had soon been sorted out. That it had occurred again on close-out was a coincidence.

The traders claimed it gave the JSE's own futures traders an unfair advantage in the crucial trading on close-out because they had direct access to share prices through their positions on the trading floor. Non-JSE futures traders had to rely on share price information being transmitted by the trickle feed.

Yesterday's problems were made worse by a glitch on the trading screens themselves, which prevented traders from accessing certain price data at about 4pm.

Safex CE Stuart Rees said the problems hampered volumes on what otherwise should have been a highly active day



Graphic: LEE EMERTON Source: INET

(232)

Bullion surge gives shares a lift

B/Day 19/6/91

MERVYN HARRIS and ANDREW GILL

A SURGING gold price in dollar and rand terms, amid buoyant sentiment on the political front, swept share prices sharply higher in hectic trading on Diagonal Street yesterday

Ignoring the strength of a rampant US dollar, the gold price leapt $3 from $368 to $371 within a few minutes in early afternoon trading The rise came on a rally in silver in early New York dealings and large buying from a Middle East player.

The rand plunged to its second record low in as many weeks as it threatened to break through R2,90 to the dollar

Demand for gold shares was fuelled by renewed dollar strength which pushed the rand gold price to R1 070/oz as the rand improved to R2,8892 to the dollar after touching the record low of R2,8968.

The rand gold price is only R25 below its peak of R1 095 reached in November 1989, according to First National's data base, when the rand was then at R2,6137 to the dollar and gold above $400

Forex analysts said the dollar rally was likely to continue with recent figures reflecting a US economic recovery.

The rand could fall to R2,93 to the dollar in the short term, an analyst said. At the current dollar gold price of about $370, a rand gold price of R1 085/oz would be realised.

The losses against the dollar have been countered by a strong performance against the cross rates with a 3% gain against sterling in just over a week compared with a 1,5% fall against the dollar over the same period.

☐ To Page 2

Shares

B/Day 19/6/91 (232)

☐ From Page 1

A boon for dollar exporters would result if the low levels were maintained, an analyst said, on top of which inflationary fears resulting from the rand's fall would subside because the rand's performance against a basket of currencies had been "remarkably stable".

The JSE all gold index climbed 4% or 53 points to 1 372, while the industrial index maintained its run-up to fresh peaks with a gain of 18 points to 3 786 to lift the overall index 30 points to 3 312.

Analysts said institutional cash flows and positive announcements on the political front, including the possible lifting of sanctions, were creating a firm environment for the industrial market which was discounting fundamentals 18 months down the line.

"There is strong demand for quality stock but an absolute lack of sellers as nobody is prepared to release them," a dealer said. An example of the shortage of scrip on offer was the fact that Barlows first traded yesterday only late in the afternoon when the price firmed 25c to R41,75.

Privatisation on trial as sorghum brewery goes public

BDay 19/6/91. ~~282~~ 232

MARCIA KLEIN

DEBATE on the merits of privatisation in SA will be further fuelled by the success or failure of the public offer of shares in National Sorghum Breweries (NSB) — an offer some industry observers regard with scepticism

The privatisation of Iscor and its subsequent listing in November 1989 brought no great joy to the steelmaker's shareholders Iscor's share jumped to an opening price of 225c following its public offer at 200c a share, and has been languishing ever since, closing yesterday at 205c Interim dividends at end-December declined by 16%

Now 44-million shares in state-owned NSB are being offered at 100c each, principally to employees, distributors and consumers The offer closes today

Beverage industry analysts warn that if the same profit performance afflicts NSB, investors are unlikely to be happy if they cannot trade their shares The NSB share offer has not been received well by industry analysts, in part because they are cautious about future growth prospects for sorghum beverages

NSB has said that one of its aims was to educate black people — its main customers — on the merits of owning shares, even if NSB will initially not be listed on the JSE Analysts argue that this will be effective only if sales and profits grow strongly And they justify pessimistic forecasts on the sorghum beer industry's 15-year record of flat sales. They see little prospect of change, particularly as a rapidly urbanising black population is showing a preference for clear bears such as lager

Barring a prolonged depression, sorghum was "an old Third World product doomed to die", an analyst said

Wits Business School professor of business strategy Grant Robinson said NSB was taking a mature industry and placing it in the hands of unsophisticated black shareholders, and "the mere act of privatisation will not turn a mature business around"

He said NSB had not explained to its potential shareholders that the industry had long been mature and would need a reversal of consumer tastes to turn around Shareholders could find themselves trapped in a business with no growth potential.

However NSB's company secretary and group strategy manager, Israel Skosana, disagrees with the analysts· "Our target market is one which is growing and is still going to grow in the future"

Skosana said sorghum had not been promoted in the past, and had generally become associated with consumers in the lower economic brackets. NSB's major marketing drive of the past few months was starting to clear up some of the "misinformation" and was "putting pride back into the people". NSB was tapping into the traditional aspect of sorghum. It was also looking at other sorghum-based products, especially dry-based sorghum, and there was much potential for the company to increase its sales base

Skosana said the sorghum market would grow together with the growth in clear beer

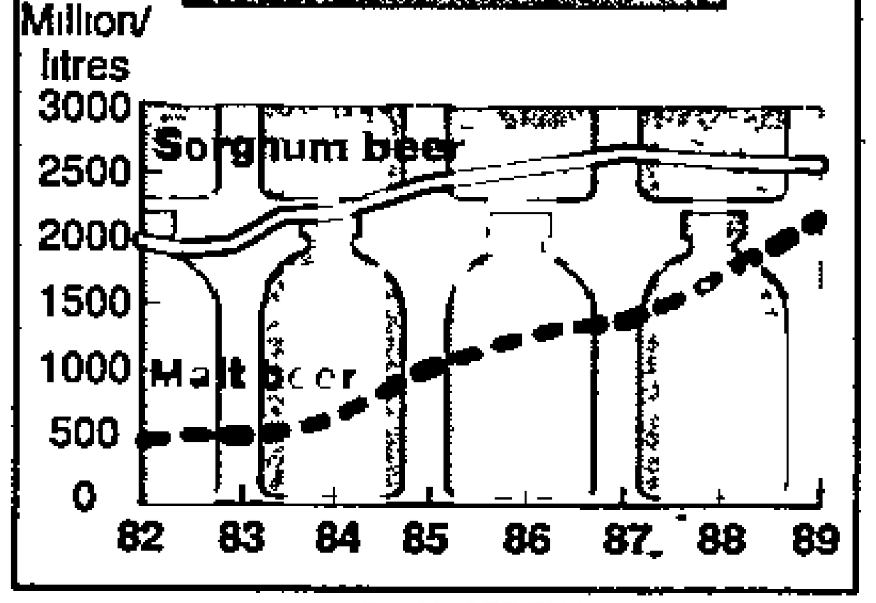
Davis Borkum Hare analyst Gil Catton said that last year lager beers showed annual volume increases of 10%, while the wet sorghum beer volume increase was only 2,6% — lower than the growth of between 5% and 7,3% of earlier years

Other analysts expressed concern that rising black incomes and rising discretionary spending by black consumers had resulted in greater sales of clear beer and a declining preference for downmarket sorghum beer. Sorghum was definitely losing market share to lager, evident from the sustained volume growth (12% in financial 1991) notched up by SA Breweries (SAB)

And, they said, the costs of clear beer were becoming competitive compared to sorghum, and as prices moved closer, there could be a greater shift from sorghum to clear beer.

While there were a few possibilities for sorghum in terms of new products and strategic growth plans, an observer said a shift from beer to food products could be risky, and NSB was not an experienced player in the food industry Another analyst said this would require hard work and sharp management, which NSB had yet to display.

Consumption of beer



Graphic: LEE EMERTON Source KWV

NSB's earnings had been in decline for the past three years, and the analyst suggested that sorghum beer volumes could fall by as much as 50% over the next five years

In the year to June 1990, NSB's net income fell by 12,6% to R11,1m on a 16,5% turnover rise to R310m. In the recent prospectus the directors forecast a 15,3% rise in net income to R12,8m on a 14,8% increase in turnover to R356m in the year to end-June 1991.

With narrow margins (operating margins declined from 6,5% to 4,7% in the year to June), decreasing earnings and loss of market share to SAB, an analyst said that if NSB were to list, SAB would offer better growth prospects to investors

Skosana said criticism of the share issue was unfounded, and one of its most important aspects was its educational value to the black community. He claimed NSB was educating people that "participation in shares is not taboo", and that his company's initial issue would be an education on the benefits of being a shareholder.

NSB has said it plans to list on the JSE sometime in the future, but sees no immediate need to do so. Until then, it will facilitate trade by providing a "matchmarket" service, set up with the assistance of stockbrokers

Skosana said a data base would match sellers and buyers, as well as provide average opening and closing prices NSB branches and brewers would also be able to relay requests to buy or sell to NSB head office The JSE has declined to comment on the way in which the shares will trade

No charges would be levied for this service Skosana said it was not unusual for there to be no agent, and in terms of the articles of association, this would be NSB-controlled

He said while it was difficult to say what the response to the offer had been, it looked encouraging Some company pension funds had indicated that they would take up shares Preference would be given to pension funds of black employees or unions, but the offer did not exclude white pension funds

One analyst wondered how many shares the IDC would have to take up during the first year of trade in NSB shares. The IDC has guaranteed to underpin the issue price for 12 months The analyst said there was a possibility the IDC would have to buy back a controlling interest in the company. Skosana said it was unlikely the IDC would gain control, due to the enthusiastic response to the offer and to various future company strategies "We will see high trading in NSB shares," he said.

Another analyst noted NSB was issuing shares in what was a protected monopoly NSB is the only sorghum brewer that can operate within SA's borders SAB has a sorghum operation which markets to the homelands and other African countries, and there is also a sorghum producer based in KwaZulu

Robinson pointed out that NSB's protected monopoly could fall away in 1995, leaving the market open to competitors, including SAB

Skosana accepts that over time NSB would probably lose its right to be the only marketer of sorghum in SA But, he said, other producers' products were selling within SA's borders, and so there was already an element of competition.

The NSB share issue will put to test not only the merits of privatisation but also NSB's ability to deliver the goods to first-time shareholders

LETTERS

Educational publisher sold

B/Day 19/6/91.

JONATHON REES

EDUCATIONAL publisher HAUM has been sold by the Nederduits Hervormde Kerk to a private consortium which plans to restructure it to encourage black economic empowerment.

The consortium, Educor, includes Idasa executive director Van Zyl Slabbert and political commentator Harald Pakendorf

Sources said yesterday the sale was believed to be worth tens of millions of rands, but this could not be confirmed (232)

Pakendorf would not disclose the source of the consortium's funding but said it would become apparent once the company was handed over at the end of the month

He said Educor planned to recruit as many black individual shareholders as possible, through organisations if necessary, in the belief that black empowerment was vital to a future SA

HAUM — the Hollandsch Afrikaansche Uitgewers Maatskappij — consists of academic, technical and medical bookshops, printers and publishers It produces school textbooks for the pre-primary, primary, secondary and tertiary education sectors, according to HAUM MD J C Oelofse

Pakendorf said HAUM would be better placed in a changing market by reflecting black interests across the political spectrum He said a company tied to one of SA's most conservative churches could not continue to publish schoolbooks in the new SA The church forbids black membership

Oelofse said he felt the church thought HAUM had become "a giant"

Blacks would be recruited to the company's board of directors, but Educor planned to retain the present management, Pakendorf said

Educor's initial bid for HAUM was rejected in favour of one by board member Johan Breytenbach Sources said Breytenbach had been unable to sustain the deal

ANC spokesman Carl Niehaus denied ANC involvement in the deal after months of speculation about organisation's role

Fraser's closure likely, says Utian

232

B Day 19/6/91

Business Day Reporter

THE Premier Group last night announced that plans to sell Fraser's wholesaling operations to a management consortium had fallen through and that the wholesaler would probably have to close

Premier acquired a large holding in Fraser's parent Metro at the end of June Premier deputy CE Gordon Utian said last night the decision to close Frasers had been taken by the previous management of Metro prior to Premier's involvement

The financial institution which would have financed the acquisition decided against proceeding with the transaction after a due diligence exercise

Utian said "strenuous efforts" were made to avoid the closure

"We tried to accommodate the prospective buyers as much as possible in the hope of protecting about 800 jobs " He said the decision was "disappointing"

During the due diligence investigation of Metro conducted by Premier prior to acquiring 70% of Tradegro's interests in Metro, Premier had identified that about R170m was required to be written off, R80m of which arose from the proposed sale of Frasers to the management consortium

Utian stated that while the cost of closure would be about the same as that accounted for as a result of the aborted disposal, it was not anticipated that Metro would incur any further losses

Company directors 'paid R3 500 a week'

(232) Star 19/6/91.

By Michael Chester

The average pay packets of the directors of South Africa's largest industrial companies have grown to more than R3 500 a week, according to a new survey of salary and wage trends.

The Labour Research Service, based in Cape Town, yesterday released survey results showing the 1 079 directors who controlled the top 100 industrial companies quoted on the Johannesburg Stock Exchange last year shared pay packets worth no less than R199 million

The survey estimated that the directors awarded themselves average increases of 18,8 percent in 1990, equal to R560 a week

Unions

These raises carried the average size of their pay packets to R3 540 a week

A spokesman said a full report on the findings had been sent to Cosatu and all the major individual trade unions, which had financed the research

The information was likely to be used by the unions as background material in their annual wage negotiations

The survey underlined that the pay packets of directors were running 20 times higher than average weekly wages of labourers, which rose to R179 following 1990 increases of slightly more than 20 percent.

The R199 million paid out to directors of the top 100 industrial companies last year could have supported 14 547 families with a "living wage" of R1 140 a month.

Results had been gathered by an analysis of directors' pay as disclosed by corporate annual reports and also by calculations based on the size of total boardroom remuneration divided by the number of directors

The exercise yielded the average size of pay packets

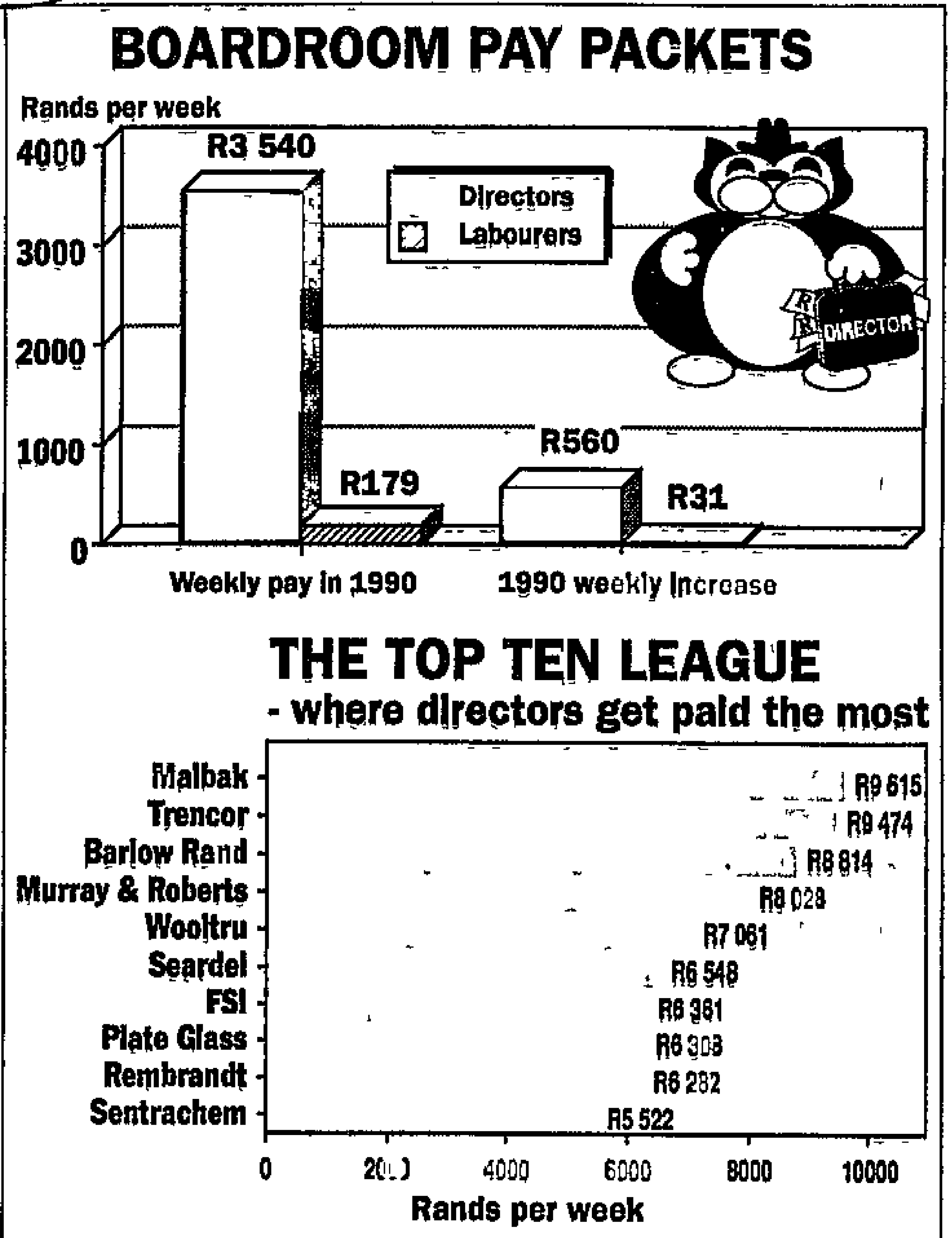
No allowance was made for any additional income earned by many directors who collect dividends from share incentive schemes.

Directors of the big mining houses picked up even fatter pay packets, according to the survey

Details of this will be released soon.

Among the largest industrial companies, boardroom pay packets were biggest at Malbak, where the average pay of directors was R9 615 a week

The next highest weekly average was at Trencor, where the weekly average was R9 474



Source Labour Research Service 05/1991 Graphic by Liz Warder

Investors ignore gold's retreat

Scramble for shares sends index soaring

B Day 20/6/91. (232)

MERVYN HARRIS

IGNORING a lower gold price and a widely regarded overbought industrial market, foreign and local investors yesterday piled into shares across the board on Diagonal Street.

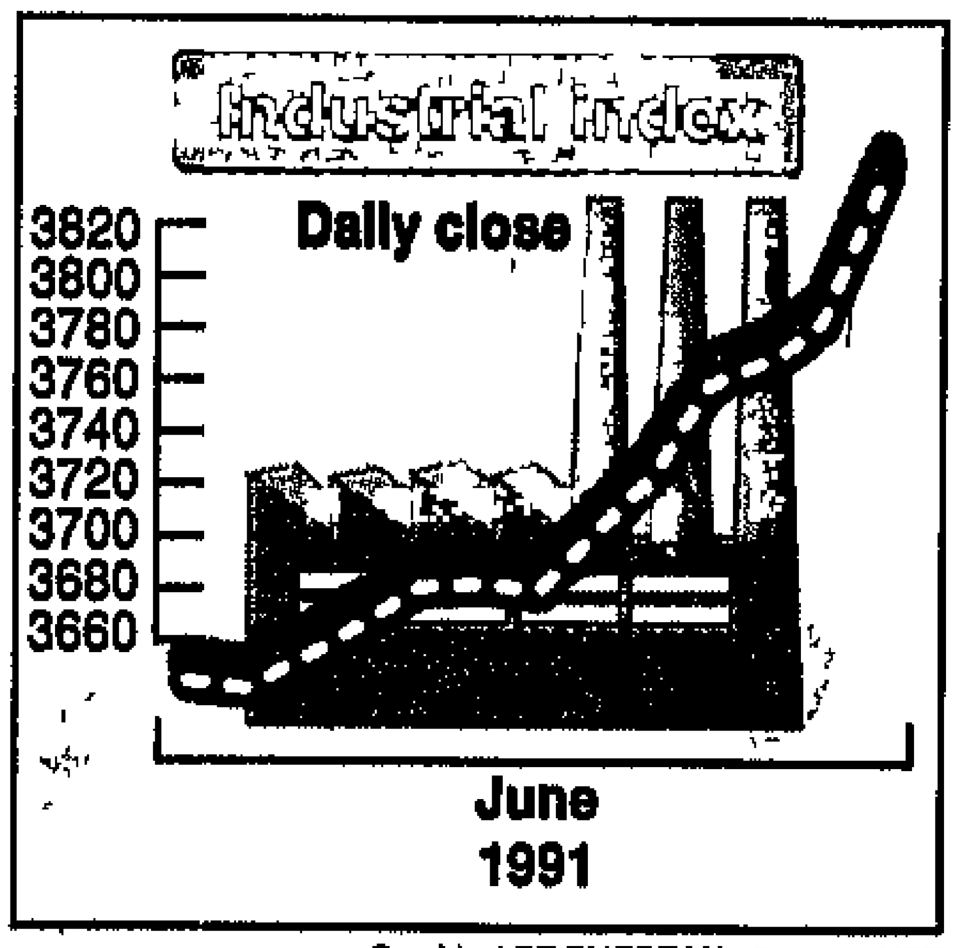
Renewed demand for quality shares lifted the JSE overall index 29 points to 3 341 to take it within range of its March 1990 peak of just under 3 400 points when the gold price was then holding above $400 and President F W de Klerk had shortly before announced the unbanning of the ANC.

Yesterday's rise came as the industrial index surged 55 points or 1,4% to scale a fresh peak of 3 841 to lift its gains to almost 10% over the past month and to more than 30% since its 2 638 low last October.

The continued strength of industrials was ascribed to the market believing fundamentals were present for an economic recovery in 1992, aided by an expected cut in interest rates and a lifting of sanctions.

Analysts said institutional cash was being channelled into blue chip equities as investment in gilts, or industrial and commercial property, was not as attractive.

"There was just no scrip on offer and investors had to bid up prices to obtain shares," a trader noted. Leading shares are now on an average historical dividend yield of less than 3% with an increasing number on yields of below 2%.



Graphic LEE EMERTON Source INET

The all gold index recouped most of its early losses to end only three points lower at 1 369, despite a weaker gold price, as buyers from Brussels, Paris and London entered the market for gold and mining financial shares.

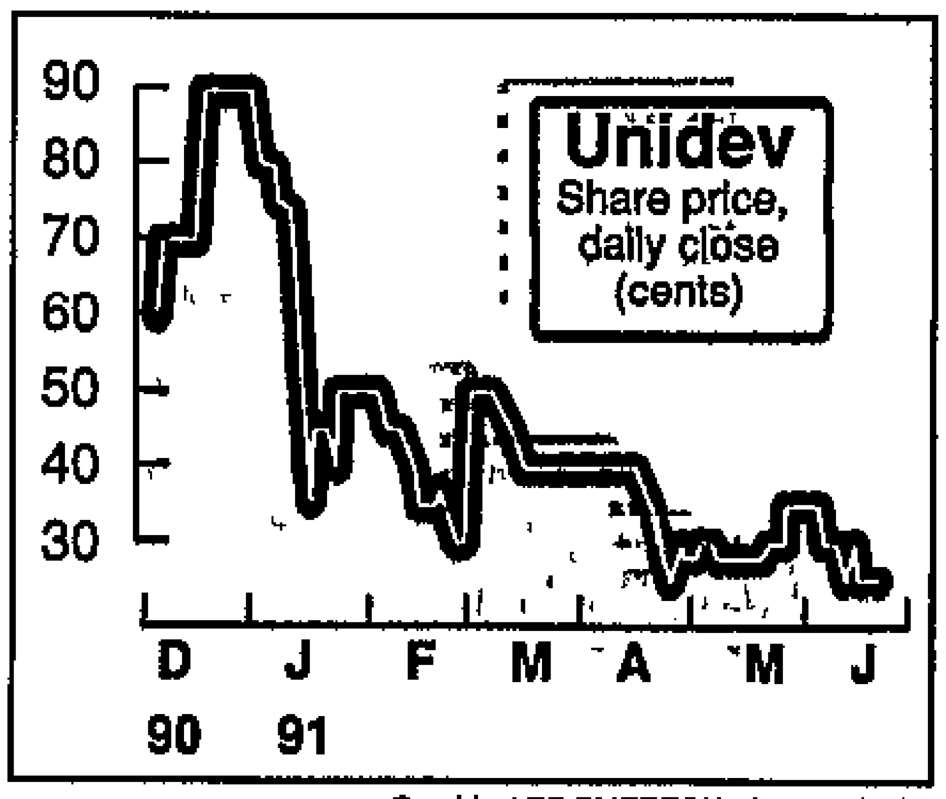
"The market does not want to believe the retreat in the gold price," a dealer said as it eased nearly $3 to close in London at $367,25 in quiet trading.

The market's strength was reflected in demand for leaders De Beers, which rose 125c to R78,75, while Anglos gained 50c to R119,50 with a combined total of shares worth almost R20m changing hands.

Unidev turns in a loss of R86,8m

B/Day 20/6/91 (232)

MARCIA KLEIN



Graphic LEE EMERTON Source INET

INVESTMENT holding company Unidev, which was recently taken over by Jon Brett and Alan Chonowitz (formerly of FSI) and Senbank, yesterday announced an R86,8m loss in the year to end-December 1990.

The loss was attributed largely to losses on former subsidiary Corporate Technology (Cortech), which did not form part of the takeover deal

Unidev and its holding company Unidev Consolidated Holdings (Unicon) also announced proposed rights offers to raise R23m and R13m for Unidev and Unicon respectively, and the proposed delisting of 80%-held subsidiary Prestige from the furniture sector of the JSE to become wholly owned.

As part of its major restructure and recapitalisation programme, the group has disposed of a large portion of its investment in property arm Equikor for R6,5m, and has continued to dispose of non-core assets.

The new Unidev is jointly managed by Brett and Chonowitz, who took management control following the acquisition of ultimate holding company Top-Hi Investments by the two MDs and Senbank.

Its key holdings following the restructure and rights issues would be 100% of houseware company Prestige, 50% of private hospital group Medicor, 33% of convenience supermarket retail chain Hyperette and 22% of furniture group Rusfurn.

Chonowitz and Brett said in an interview yesterday their short-term plans were to

☐ To Page 2

Unidev

B/Day 20/6/91 (232)

☐ From Page 1

make these businesses tidier and more efficient and to dispose of peripheral companies

In terms of the rights offers, underwritten by Top-Hi, Unidev shareholders would be offered 300 new Unidev shares for every 100 shares currently owned at 25c a share, and Unicon shareholders would be offered 300 new Unicon shares for every 100 shares at 21c a share.

Prestige shareholders would receive 100 Unidev shares for every 100 Prestige shares held

Unidev's results for the year to end-December reflect an attributable loss of R86,8m, compared with a profit of R11,6m in the previous year, arising mainly from losses incurred by Cortech It had contributed more than 40% to the losses

Unidev reported an operating loss of R80,2m (previously, profit of R18,9m), and did not declare a dividend (a dividend of 14c a share was declared in financial 1989)

Unicon, whose results depend entirely on those of Unidev, declared a loss of 240,7c (earnings of 23,1c) a share, and no dividend was declared (33c in 1989)

Prestige reported an attributable loss of R1,5m (profit of R1,8m).

Costs, image affect JSE committee choices

B/Day 20/6/91. (232)

ROBERT GENTLE

SOARING costs, concern over the exchange's image and the Old Mutual affair contributed to a shake-out in yesterday's annual elections for the JSE committee

Five new members came on board to replace three who were ousted and two who did not stand for re-election

The new members include the head of a leading Cape-based stockbroking firm and three representatives from small stockbroking firms, the hardest hit by the exchange's dwindling fortunes

Prominent among the candidates voted off was Malcolm Stewart of stockbroking firm Kaplan & Stewart He was the head of the exchange's general purposes subcommittee, the body which helps police trading on the JSE's floor and which generally oversees broking activities

A number of brokers said that Stewart, more than any other JSE member, had been responsible for exposing irregular trading affecting the Old Mutual They said he had determinedly pursued investigations of suspected irregularities from the JSE's side — investigations whose results had been combined with the Old Mutual's own to bring to light what is thought to be one of SA's largest share-trading scandals They added that without Stewart it might be difficult for the JSE to pick up the threads of the Old Mutual investigation

A newcomer to the committee was Geoff Rothschild of Frankel Max Pollak Vinderine (FMPV), one of the firms to have suspended employees linked to the Old Mutual affair Rothschild was apparently elected by the slimmest of margins, but beat his own firm's David Shapiro, who was standing for re-election

Another committee member ousted was

☐ To Page 2

JSE

B/Day 20/6/91 (232)

☐ From Page 1

Martin Irish, an outspoken critic of the exchange's costs

Costs and the JSE's public image are said to have played a part in the election of new committee members from Simpson McKie, Lowenthal & Co and Turner Paterson Faure

Committee members were reluctant to discuss likely committee strategy in any but the most general terms yesterday evening A common thread was the need to contain costs and to deal with the structural and regulatory changes which the JSE is likely to face in the coming years Satisfaction was expressed at the committee's representative nature

The new committee members are Dixie Strong (Simpson McKie), Norman Lowenthal (Lowenthal & Co), John Turner (Turner Paterson Faure), George Huysamer (George Huysamer & Partners) and Geoff Rothschild (FMPV) Re-elected members are Humphrey Borkum (Davis Borkum Hare & Co), Paul Ferguson (Fergusson Bros Hall Stewart & Co), Richard Lurie (Lurie, Johnston & Co), Peter Redman (Mathison & Hollidge), Rob Roy (Ivor Jones Roy & Co), Mike Sims (Anderson Wilson & Partners) and Francois Tolken (Martin & Co).

A JSE spokesman said the chairman and vice-chairman would be elected at the first committee meeting tomorrow Humphrey Borkum, former vice-chairman, is widely expected to become the new chairman

FM 21/6/91 (232) FOX

tion services, further acquisitions appear likely As well as providing M-Net with an entry into the credit information business, the acquisition of ITC (formerly the local subsidiary of Dun & Bradstreet) is intended to improve operational efficiencies. But such improvements will take some time to reach the bottom line

Postponement of the introduction of the news service is a blow to subscribers but probably comforting to shareholders, as the operation could have become a drain on resources CE Koos Bekker says the news facilities, which will cost R20m, will meanwhile be used for production of TV programmes

Pacak says the group's accumulated tax loss should ensure that it starts paying tax only in financial 1993 The conservative dividend cover of 4,3 is intended to ease the pain of these payments

Pacak says it's difficult to forecast earnings growth for this year, as gauging demand for decoders has proved almost impossible Introduction of the M-Net broadcasts to rural areas and neighbouring states via satellite is expected to gives sales a fillip, and the group should meet its internal projection of earnings improvements of 25%.

At 430c — up from the issue price of 100c — the share looks expensive and may be due for a correction But on the results so far its p.e of 14,4 is hardly excessive and the share may be worth buying on price weakness.

Simon Cashmore

LENCO (232)

HIDDEN VALUES

FM 21/6/91

No company writes off R19,5m without good reason Chairman Douglas de Jager won't detail just why this write-off took place when he sold the flexible plastics division of Compak back to Rubenstein Holdings (Ruhold), after only consummating a relationship with Ruhold late in 1989. But there is more to it than appears at first sight

The write-off, plus increased dividends of R5,2m (R3,6m), ran retained income into a net negative R5m in the February year-end results However, the figures do not show the benefit of the actions

De Jager reasons that, since the write-off also provided for the acquisition by Lenco of Ruhold's 28% of Compak, this transaction will, by the end of financial 1992, considerably enhance Compak's earnings and net asset value and hence Lenco's as well One cannot and will not be able to argue with that because, when February comes around, Compak will have been delisted

The strains of the overstretched national economy are evident While turnover of R441m rose by 55% the increase in operating income was just half as much. Margin clearly took a beating in the second half, falling from 15,5% in the first six months to 11,6%.

But it was mainly in the first half that violence, especially in Natal, and work stoppages took their toll on trading figures and productivity. Since then, but for margin, matters improved attributable earnings showed a 61% improvement on the first half

The mid-1990 rights issue raised R31m Considering that this pushed up issued equity by about 20%, the group has done well to restrict the fall in EPS to 2%

This bodes well for the current year since, De Jager points out, "Compak's contribution to attributable earnings was R7,1m," it should reach R16,1m this year. He is optimistic about the other divisions, as well.

De Jager says Monatic had a very good year and the outlook is good Orders exceed capacity. Strategy to cut debt and improve exports should also help Interests in Amshoe and Budget Footwear are also showing the benefits of a somewhat more stable environment, a trend De Jager hopes will continue

It's best to await the annual report, due in about a fortnight, before commenting on the value that the share offers at the current 245c and dividend yield of 4,1% But De Jager's optimism is catchy Lenco could be set for gratifying performance this year

Gerald Hirshon

CHARTER CONS

HOLDING UP WELL

Nobody was expecting a good year from Charter Consolidated (CC), given its exposure to the UK construction industry and British Coal New building dropped 17% in calendar 1990 and by 26% in the first quarter of 1991 And British Coal, facing drastic shrinkage as privatised electricity generators gain freedom to buy cheaper on the open market, slashed its investment by 22% — a savage blow for its biggest supplier, Anderson, which is one of the four pillars of CC

Hence CE Jeffrey Herbert has reason to feel satisfied when unveiling a 2,2% increase pretax to £77,5m for the year to March, after "the toughest trading conditions I can remember " EPS are up by a similar margin to 44,6p and the dividend goes 8% higher to 21p.

The balance sheet is rock solid. Disposals raised £56m, boosting net cash by 48% to £133m — 26% of market capitalisation of £502m, with the share at 474p.

The star operating division was Pandrol (rail track equipment) Sales rose 43% to £83,7m, but with margins up to 12,9% (from 10,4%) profits jacked up 77% to £10,8m. Exports now account for 88% of the business

Cape (building products and services) managed a healthy £182,3m sales (up 21%) but shaved margins left profits only 12,6% up at £17m No early recovery is expected in UK construction but Cape has moved into the Far East and Europe, these now contribute 30% of business, which could rise to 40%

CAST (quarrying and coal mining in the US) had a flat year with a surplus of £2,7m (up 17%) on turnover 50% higher at £60,5m

Anderson (coal mining plant) is still not

Tradehold releases unbundling details

B/Day 21/6/91. (232)

MARCIA KLEIN

SHAREHOLDERS of Tradegro and Tradehold will be offered shares in Metro, Cashbuild and Premier, as well as cash, in terms of the unbundling of the two pyramid companies in the Sankorp stable

Releasing details of their reorganisation, retail giant Tradehold and its pyramid Tradegro announced they would distribute the shares held in Metro, Cashbuild and Premier to their shareholders, and partially redeem and convert their convertible debentures and preference shares into ordinary shares.

This would result in Tradegro holding Checkers, Coreprop and the department stores (Stuttafords/Greatermans) as its only wholly owned subsidiaries, as well as about R75m cash.

Tradehold's major asset would be its 54,6% holding of Tradegro, and it would also retain shares in each of the distributed companies to fund the repayment of short-term liabilities. The unbundling would be completed by the end of July.

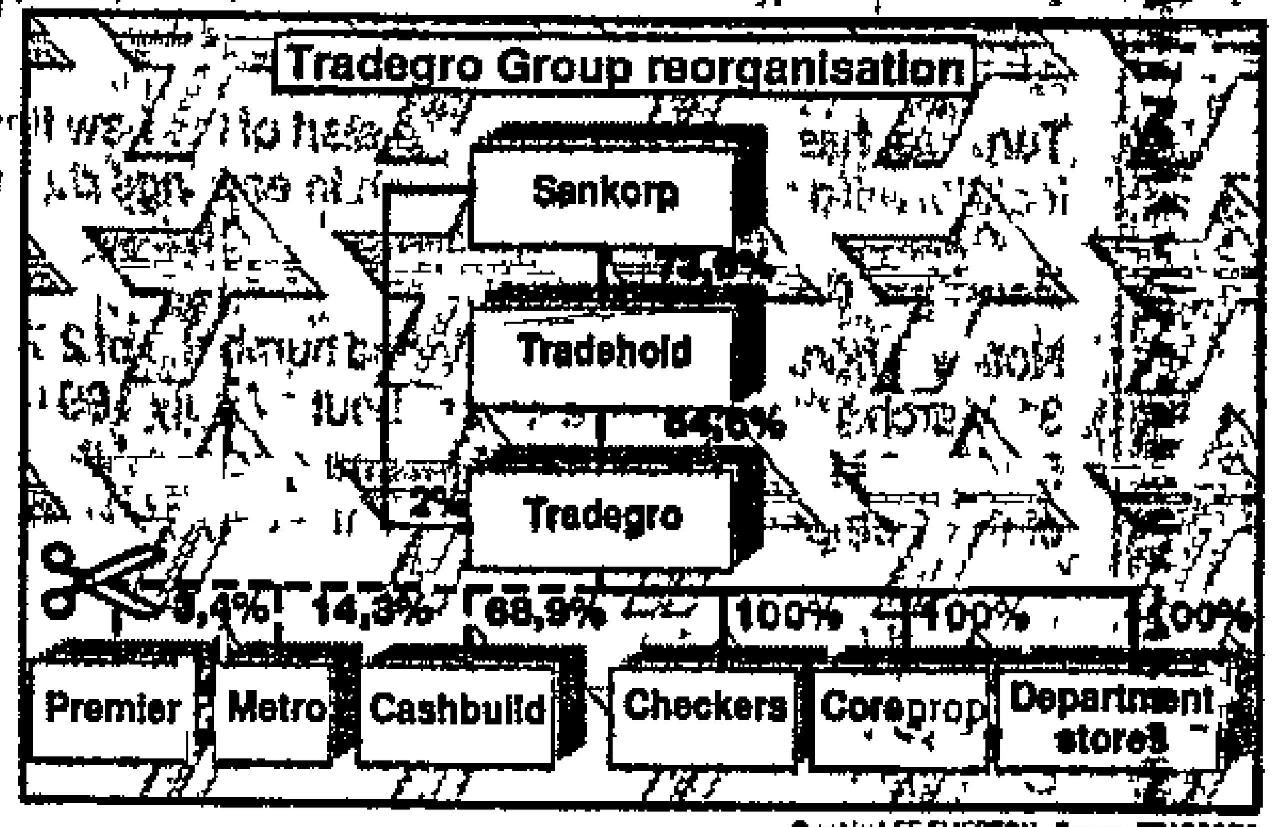
Directors said this would simplify and streamline the corporate structure, increase shareholders' wealth and provide them direct participation in each of the distributed companies

Tradegro ordinary shareholders would be entitled to 5,2 Metro shares, eight Cashbuild shares, 1,3 Premier shares and a cash payment of R5,40 for every 100 shares held.

Tradegro convertible instrument holders would have their paper converted into Tradegro ordinary shares on a one-for-one basis and a cash payment of 8c for every convertible instrument, as well as interest and dividends.

Tradehold ordinary shareholders would receive three Metro shares, four Cashbuild shares and one Premier share for every

☐ To Page 2



Graphic: LEE EMERTON Source: TRADEGRO

Tradehold

B/Day 21/6/91. (232)

☐ From Page 1

100 shares held Convertible instrument holders' convertible shares and debentures would be converted into Tradehold ordinary shares on a one-for-one basis, and they would receive cash of 8c for every convertible debenture of 135c and 5c for every convertible debenture of 103c.

Shares in Cashbuild "have gone all the way to the shareholders", Sankorp GM investments Etienne le Roux said yesterday

Earlier announcements said that on completion of the unbundling, Sankorp would hold 42% of Cashbuild, 48% of Checkers/Coreprop, 36% of Metro and 47% of Stuttafords/Greatermans, and that after unbundling, Sankorp's interests in Checkers/Coreprop, Metro, and Stuttafords/Greatermans would be sold.

Since those announcements, Tradegro has agreed to sell 70% of its interest in Metro to Premier and Smart Centre and Frasers mine stores were sold to Pepkor for R31m and R13m respectively

The group structure before the proposals — assuming conclusion of the Metro deals — sees Sankorp holding 73,6% of Tradehold, which holds 54,6% of Tradegro

Tradegro's investments prior to reorganisation are 3,4% of Premier, 14,3% of Metro, 68,9% of Cashbuild, and 100% of Checkers, Coreprop and the department stores

Le Roux said it was still Sankorp's intention to sell holding company Tradehold, which would result in a change in control of Checkers and Coreprop He added that he was not talking to anyone at the moment on the sale of Checkers

JSE ELECTIONS: OPPORTUNITY FOR CHANGE

FM 21/6/91 (232)

Much criticism has been directed at the hired officials of the JSE, often not without reason. But this week's election of a new JSE committee overshadows any controversy about the performance of the exchange's management — though the issues are not unrelated.

There are signs that the balance of power is shifting and the Old Guard may at least be challenged. If so, there could be enough new names on the committee to help bring about some changes in the way the JSE runs its affairs Stockbrokers should hope that is what happens It has been common in the past to dismiss the election of the committee as a non-event Last year, few, if any, new candidates came forward, there were virtually no changes and it was business as usual

To outsiders, it has been easy to gain the impression that rising levels of criticism about the administration of the exchange were matched by equally high levels of apathy Broking firms have, of course, had other problems to cope with, and senior members of the calibre required cannot easily spare the time to involve themselves in committee meetings.

But, after the events of the past year, including the sharp deterioration in the JSE's financial position, the level of discontent has risen high enough to generate greater interest For this year's election, nine new candidates were proposed, including some who are well qualified and proven business managers

The list includes. Clarice Braun of V H Simmons & Co, Hilliary Crosby of H G Crosby & Co; George Huysamer of George Huysamer & Partners, Roy Lewer of Lewer & Co; Geoff Rothschild of Frankel Max Pollak Vinderine Inc; Dixie Strong of Simpson McKie Inc, and Lafras van Rensburg of P L J van Rensburg & Partners.

With the new names added to those of the 12 broking members of the existing committee, about 21 candidates were available for election Not only was a wider choice available to those casting votes this year, but a number of members canvassed by the *FM* felt there could be enough changes in the voting pattern to bring perhaps four or five new faces on to the committee.

Each full member of the JSE — about 315 of them — is entitled to vote, but each is expected to vote for 12 people. Should the candidates standing not be sufficiently impressive, as some members believe is often the case, this requirement can discourage positive votes from being cast at all

Nevertheless, this year there has been active lobbying by a group of Young Turks Some have indicated that even though they may not be convinced that new candidates would be an improvement, they would vote to try to hasten the departure of some of the incumbents

This election had better bring into office a committee that is equipped to handle the problems facing the JSE Its debt needs to be restructured, and a realistic and more creative approach must be taken to such issues as computer services, brokerages and corporate membership

Change is not necessarily beneficial, there is a risk of undoing good that has been done. But it is no use simply clinging blindly to the status quo and blaming the failures wholly on the officials, who in any event report to the committee — that is where the buck stops If the JSE does not get a committee that has the ability and the will to do what is required, that will be seen as an indictment not only of the exchange and its members, but also of the vaunted self-regulatory system

APARTHEID BAROMETER

DIRECTORS' SALARIES (232)

COMPANY directors who control the Top 100 industrial companies on the Johannesburg Stock Exchange earned a total of R199-million in 1990 — enough to support 14 547 families, each with a "living wage" of R1 140 a month.

This is the finding of the Cape-based Labour Research Service's (LRS) annual directors' pay survey, involving 1 079 directors.

The directors' weekly pay — which worked out to an average of R3 540 — was 20 times more than a labourer's average weekly wage of R179 in 1990. WMail 21/6 - 27/6/91.

According to the LRS, mining houses pay more than industrial companies. "The 12 directors of Johannesburg Consolidated Investments (JCI) gave themselves R6,9-million in 1990. Each director got R11 058 a week, on average. This is 70 times larger than the weekly wage of R157 paid to a Grade Four underground mineworker at a JCI gold mine."

HARMS COMMISSION

BARRING outstanding and legal expenses, the Harms Commission had cost R191 693,31, Minister of Justice Kobie Coetsee told parliament recently WMail 21/6-27/6/91

POLICE TRAINING

BASIC police training is to be integrated from next January, deputy Law and Order Minister Johan Scheppers announced this week He said police colleges would be open to all races, but "forced integration" would be avoided and freedom of choice, religion, culture and dietary habits would be respected. WMail 21/6-27/6/91.

Norton acts to protect integrity of the market

(232)

By David Canning Star 21/6/91

DURBAN — Amidst charges that the Johannesburg Stock Exchange is too regulated, too inefficient and too open to dishonest activities, the JSE's executive president Tony Norton has promised action

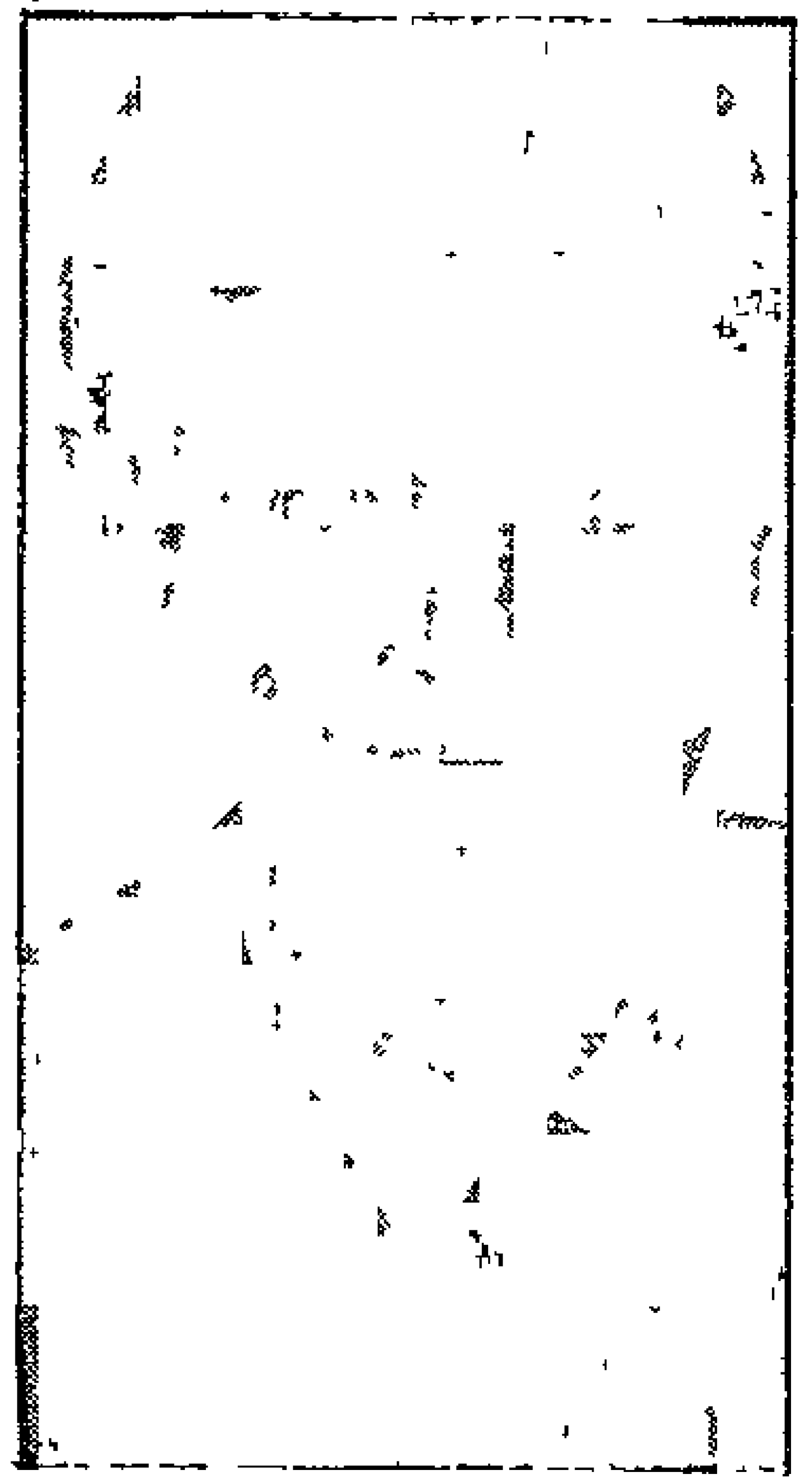
The Exchange is to "vigorously resist" any local move towards a Big Bang, and is taking a number of other steps to encourage what he describes as a "fair and honest market"

This includes developing an ombudsman system for the Companies Act

This action indicates that the JSE president is keen to take a much more aggressive stance to protect the integrity and reputation of the Exchange

He told the Sunday Tribune/Ernst and Young 1991 Natal Business Personalities banquet there was an urgent need to correct declining standards of business morality — manifested in a surge in white-collar crime and fraud

The JSE had not just talked about the problem, which could lead to the demise of the free market system itself



Tony Norton "Investor protection is paramount to us"

It had a plan which included

- Vigorously resisting any so-called Big Bang (deregulation of the financial markets)

"That would do away with our independent agency market and thereby increase to unacceptable levels conflicts of fiduciary duty," he said

"Investor protection is paramount to us and is best served by the current structure of our market"

- Seeking better disclosure by listed companies in prospectuses and in annual accounts.

The JSE hoped to make further real progress soon by seeking supplementary statements on the effects of inflation as the rule rather than the exception — and by generally looking for more meaningful reporting

- Actively addressing the reality of the limited rights of minority shareholders

"We are developing the concept of an ombudsman in the Companies Act, while pressing for a better definition of directors' duties

"By and large directors are unknowledgeable and somewhat cavalier about the nature and extent of their fiduciary duties to shareholders"

- Supporting the powerful new insider trading regime where it had harnessed competent investigatory agents and severe penalties

- Actively supporting the introduction of the Securities Regulation Panel to control shareholder conduct in take-overs

- Beefing up its own surveillance systems at huge expense in rewritten computer programmes

- Pursuing diligently disciplinary actions against offenders

"As a self-regulatory body we spend a large and increasing amount of time on disciplinary investigations and hearings

"We know the price of a better market is endless vigilance and determined action"

Mr Norton said that as someone totally independent of any broking house or any investment activity, he was charged with pursuing offenders without fear or favour

"It is true the JSE has many faults and much to do before we can feel satisfied, but we are highly active in our search for better morality in our markets

"This will be a precondition of the survival of those markets into the future

"The same challenge faces all of us in business — clean-up our act or risk losing it

"If we cannot trust ourselves, how can we expect our critics to accept us, the beneficiaries of apartheid in their eyes, as a viable and acceptable order in the post-apartheid society?" he said

JCI directors the biggest earners

Randlords grab R500 000 a year

Star 2/6/91 (232)

By Michael Chester

Boardroom pay packets of the countries two largest mining empires have climbed on the average to more than R500 000 a year, according to trade union researchers.

The Cape Town-based Labour Research Service, which is funded by Cosatu and major individual unions, claimed that the 12 directors at Johannesburg Consolidated Investments drew the highest average pay cheques — the equivalent of R11 058 a week

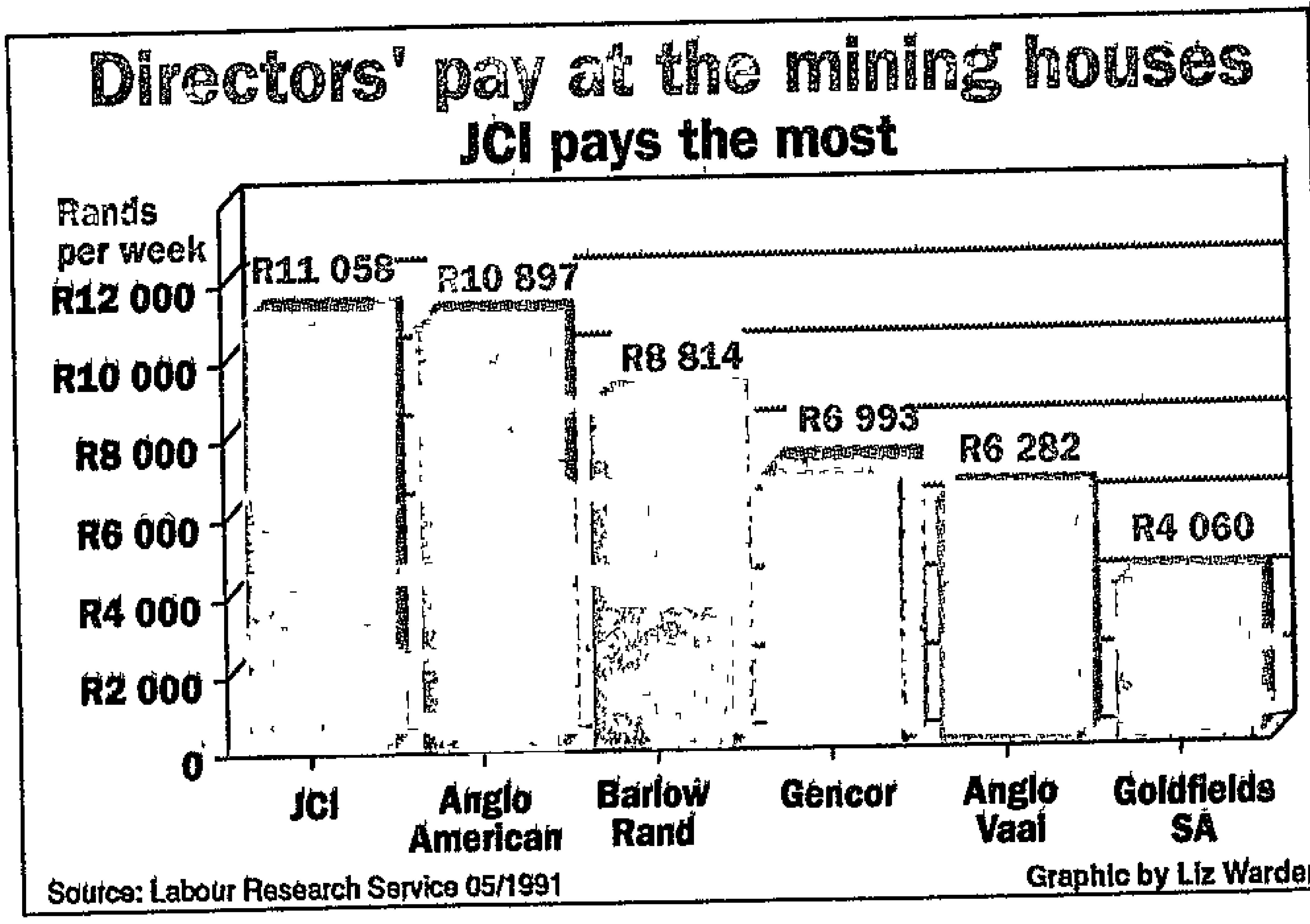
Between them they earned R6,9 million last year, or 35 percent more than in 1989, according to survey results The calculation put average pay levels at R575 000 a year

The next biggest earners were directors of Anglo American Corporation, who paid themselves an average of R10 897 a week

LRS researcher Dasi Moodley explained that boardroom pay packets had been analysed on a weekly basis to allow easier comparison with the earnings of blue-collared employees

At JCI, for example, the average pay of R11 058 a week drawn by directors was shown to be 70 times more than the weekly wage of R157 paid to a Grade 4 underground worker at a JCI-controlled gold mine

Mr Moodley stressed that the analysis was based on the average level of director payments, leaving aside the probability that executive directors drew much more and non-executive drew less



The research unit, which feeds all its findings to the trade unions for use as ammunition at wage negotiations, made its first disclosures this week

It revealed that directors of the Top 100 industrial companies listed on the Johannesburg Stock Exchange were now drawing an average of R3 560 a week

'Living wage'

The survey, released by LRS earlier this week, and reported in The Star, showed that the 1 079 directors who controlled the top 100 industrial companies quoted on the Johannesburg Stock Exchange last year shared pay packets worth no less than R199 million — which could have supported 14 457 families with a "living wage" of R1 140 a month

The industrial survey also underlined that the pay packets of directors were running 20 times higher than average weekly wages paid to labourers, which rose to R179 following 1990 increases of slightly more than 20 percent

Mr Moodley added fuel to the debate yesterday by pointing out that most directors of large companies also substantially boosted their income by dividend payments paid out of share incentive schemes

Research found that directors at F[illegible] Class on average add [illegible]761 to their pay of R[illegible]08 every week by dividends from their shareholdings in the company

The average weekly pay of R9 615 collected by directors at Malbak was boosted by dividend income running at an average of R2 967 a week.

In the top hierarchies of several companies, fortunes were made out of dividends alone

LRS said that as an example, Aaron Searll, managing director of Seardel, the largest clothing manufacturer in South Africa, last year earned an extra R49 653 a week in dividends paid out on his personal 21 percent shareholding in the company

Neil Jowell, chairman of Trencor, the transport giant, and other members of the Jowell family collected combined dividends at the rate of R93 230 a week from shares that represented a 24 percent control of the company

Both JCI and Anglo American last night refused to comment on the research findings

Shun the JSE – it's risky

(232)

C/Pres 23/6/91

■ MONEY TALK

EVEN the better quality shares on the Johannesburg Stock Exchange can be regarded as over-valued in terms of most traditional yardsticks.

Yet this week strong local and overseas buying pushed share prices to record levels.

There are two major reasons. Firstly, the repeal of the Population Registration Act and other apartheid legislation is perceived in South Africa and overseas as opening the way for a sustained upturn in the South African economy during 1992.

Secondly, a scramble is taking place among Japanese and German businessmen to regain market share lost as a result of sanctions.

US business leaders have fuelled the trend with statements that the maintaining of sanctions by the US Congress is undermining the competitive position of their companies in South Africa as Japanese and German businessmen are now free to re-enter the local market

It appears the market is reacting with euphoria similar to that which greeted President FW de Klerk's February 2 speech after which he released ANC deputy president Nelson Mandela

If this is so, one should be cautious, because the market upsurge at the time was followed by a painful setback. The reality is that the South African economy is in a difficult position with profitability down and internal business confidence at a low ebb.

Our market is overheated and we should take with a pinch of salt even the argument that big financial institutions have no option but to invest, because a large part of the public's savings are being channelled into their coffers.

We should bear in mind the JSE crash of October 1987 Stock market prices at the time fell dramatically and institutions did little to support prices Unit trust portfolio managers took fright and moved to the sidelines in anticipation of a public backlash against stock market investment

The moral is: stay away from the market. It is expensive and risks are high. Wait for the inevitable setback to buy at better value.

Froth flies in sorghum beer row

Cit news 23/6/91

232

By SEKOLA SELLO

BIG business is blocking the entry of black entrepreneurs into the mainstream of the economy, charges the executive chairman of National Sorghum Beer, Mohale Mahanyele.

The NSB boss said this at a hastily-convened press conference where he criticised a report in a daily business newspaper which gave an unfavourable account of the sorghum industry

Blacks were offered 44 million shares in the State-owned NSB at 100 cents each. The offer closed on Wednesday

Mahanyele said that in terms of assets, NSB is the largest black-owned company in South Africa.

The newspaper report said the industry had no prospects for growth, that a mature industry was being placed in the hands of unsophisticated black shareholders and that sorghum was an old Third World product doomed to die.

In a strong criticism of the report, Mahanyele said that apart from being factually wrong in many respects, it was also insulting to blacks and its main aim was to deny blacks entry into the mainstream of the economy

Mahanyele said it was not true that there was caution about the future growth prospects for sorghum beer or that the NSB's share offer has not been well received.

More shares had been bought than expected and they were expecting an "even greater flood".

"This week several companies were inquiring about our share offer It was only on Wednesday, following the newspaper report, that some of the companies which had expressed interest in buying shares for their employees became reluctant," said Mahanyele

He admitted that in recent years the industry had neither grown or declined However, he attributed this to the previous owners not marketing the product.

"We are marketing the product aggressively today and as a result are even beginning to penetrate markets in Namibia and Mozambique, which were previously closed to us"

Denying that the industry was now being given to unsophisticated black shareholders, Mahanyele said some of them had held senior positions in white companies

"It is strange that when (Sam) Mosikili or Mahanyele holds a senior position in a white company, his sophistication is not brought into question However, when he holds a senior position in a black-controlled company, he is now said to be unsophisticated"

Witnesses said a birthday party was in progress

... his young

Politics triggers panic share boom

S/Times 23/6/91 (232) (Buss Times)

By DAVID CARTE

INSTITUTIONS, positive about political and economic developments, bought shares "in panic" this week, pushing prices on the JSE to record levels.

The JSE Actuaries financial and industrial index spurted 175 points from Monday to Thursday before profit taking halted its advance on Friday Its rise since January has been 25% and in the past year 33% The all gold index has gained 30% in the past three months

There is some concern that the rise has been overdone and a correction could be imminent

But several investment managers told Business Times that buyers were looking past present problems to several years of good growth in a new South Africa taking its place in the international economy

Top quality "blue chip" shares have been the major focus of buying SA Breweries, for instance, leapt from R50 to R57 this week — a 58% rise since January

In the same period, Liberty has leapt 64% — from R22 to R36

The JSE refuted reports that foreign investors were also behind the buying The secretariat reports that foreigners were net sellers all this week. In the past four weeks, their net sales of South African shares have totalled R308-million

Brokers and the men who control SA's investment billions said the major factors behind the market's surge are

- The wilting international sanctions campaign
- Finance minister Barend du Plessis's statement that an upturn is likely to start at the end of the year
- Billions of rands in cash and short-term deposits in institutional coffers Under-invested institutions are underperforming, hence a clamour to get into shares before it is too late The impending move by State pension funds into shares has heightened concern about the chronic shortage of good shares
- While Reserve Bank governor Chris Stals said on Thursday that it is still too early to cut interest rates, disagreement over policy between director general finance Gerhard Croeser and Reserve Bank deputy governor Jaap Meijer strengthened the impression that pressure is intensifying on the Reserve Bank to relent on rates
- Some investors are taking refuge in the stock market, believing that SA cannot win its fight against inflation
- Lower interest rates, the beginnings of economic recovery and strong stock markets overseas

With share prices up and company profits down, the average price earnings multiple on the JSE has nearly reached the levels of October 1987 (see graph)

For the first time in years, South African shares are just as expensive in terms of PE as those in London The average PE on financial and industrial shares is now 13,1, compared with 13,4 on the Financial Times 500-share index. The average PE on Wall Street is 19

Richard Stuart, director of stock broker Martin & Co — who predicted the present bull market in November at the Financial Mail investment conference — said prospects for the new SA were excellent

"As I said in November, the violence and the heated political rhetoric are largely short-term static Once SA is reintegrated into the world economy, the potential is outstanding — and foreigners recognise it That's why literally dozens of trade and investment missions are visiting this country

Huge

"Until now, huge amounts of capital have flowed outwards Imagine what a net inflow of a couple of billion a year could do to support and stimulate growth"

Rob Lee, investment chief at Board of Executors, said he was optimistic about growth, particularly since the world economy was reviving He said most South Africans under-estimated the positive effect of the lifting of sanctions

But he cautioned that the market is already discounting fancy earnings growth and a correction is overdue.

Johannes van der Horst, head of investments at Old Mutual, said the market's rise reflected panic buying by under-invested institutions He said Old Mutual had been fully invested since late last year

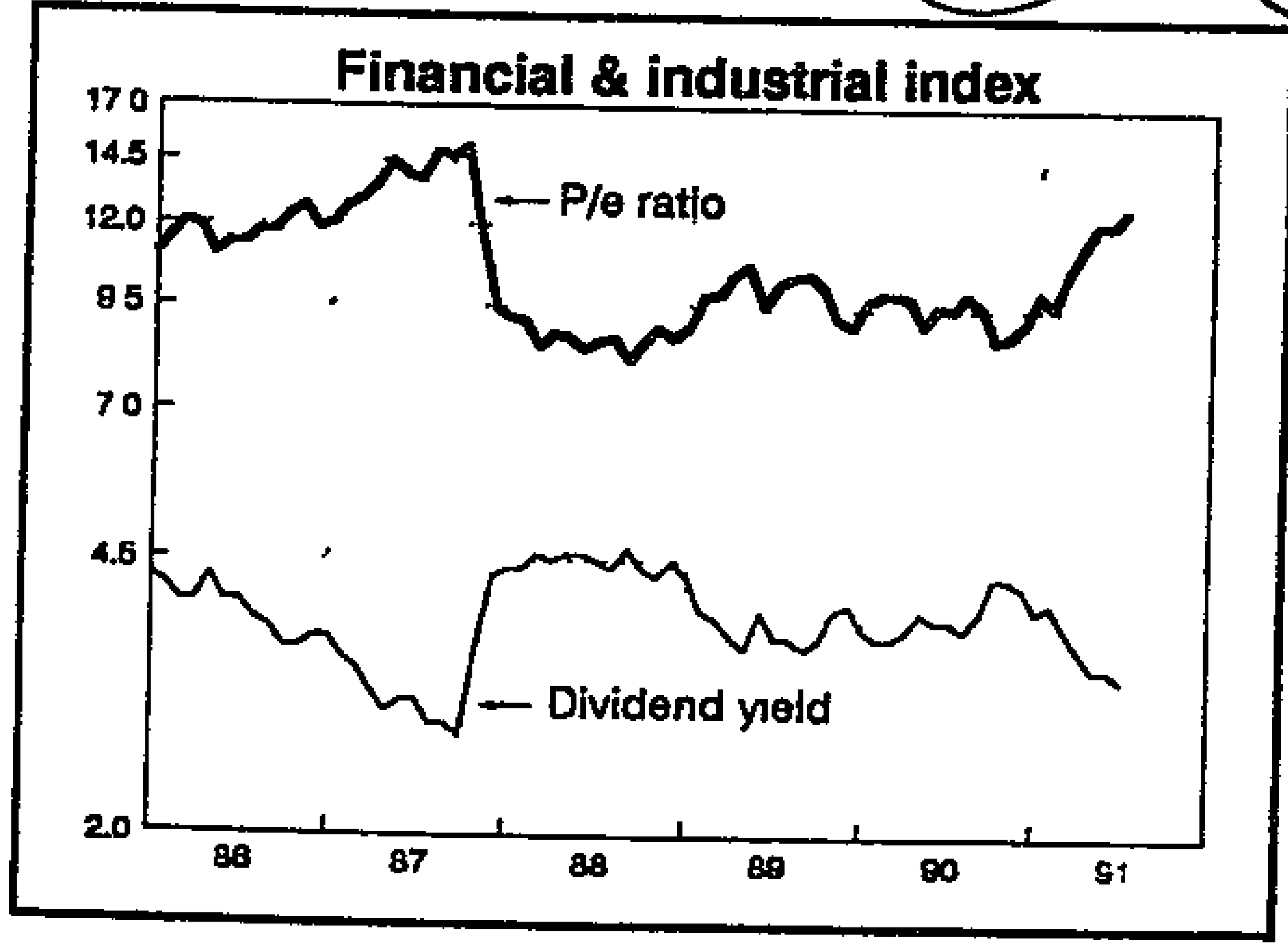
Marinus Daling, chief executive of Sankorp, attributed the market's rise to excitement about political developments He said the ANC was beginning to sound more reasonable and the tempo of violence seemed to be abating He said SA is under-borrowed and in a more normal environment can grow fast.

Tony Gibson, who runs Syfrets' top-performing unit trust, said it was quite normal for the market to rise at the bottom of the economic cycle

He said one sign of an expensive market was that people start justifying it by saying things have changed He felt it was expensive but it could go much higher, in which case it would be subject to big falls

Cautious

Alistair Colquhoun, investment director at UAL merchant bank, said. "UAL is not active in this market I am not happy with the gap between dividend yields of less than 3% and the 17,1% we can get on a 12-month deposit. Maybe the outlook is better, but it's very fully discounted I am very cautious"



Jury still out on effectiveness of SRC

By Ann Crotty
Investment Editor

Star 24/6/91.

232

There is little doubt that the jury is still out on the effectiveness or otherwise of the Securities Regulation Code/Panel that was implemented on February 1

Investors must still be wondering whether, if put to the test, the JSE will emerge better than it did back in 1982 when non-voting minority shareholders of Greatermans were deprived of the R15 a share that Kirsh Industries had offered to the voting shareholders.

That Kirsh deal had enormous consequences It was crucial to the creation of the Kirsh Group — Greatermans brought to the Kirsh camp the giant retailing Checkers chain, considered to be a highly successful operation

Subsequent difficulties with Checkers were instrumental in the demise of the Kirsh Group and the creation of Tradegro, which was a rescue attempt by Sanlam.

But for legal details, last week's unbundling of Tradegro would have resulted in the disappearance of Tradegro

However, it seems that after years of trauma and losses, Tradegro will continue to exist.

It will be significantly smaller, now having in its stable a successful Greatermans/Stuttafords department store operation and the still problematic Checkers group

Perhaps of even greater consequence was the fact that the Kirsh/Greatermans deal considerably fuelled demands that SA create a panel similar to London's Panel on Takeover & Mergers or the US Securities & Exchange Commission.

In 1982, the JSE came under criticism because it approved the Kirsh bid for Greatermans, despite the fact that non-voting minorities were being left out

Subsequently, the Supreme Court overturned the JSE Committee's decision, ruling that the JSE had ignored its own regulations relating to the rights of minorities in cases of a change of corporate control An appeal against the judgment was noted but never pursued.

A leading corporate attorney says the Kirsh/Greatermans case was a major weight tipping the scales in favour of the creation of a UK-type panel.

"Even before judgment had been given in the Dawnlaan (Kirsh/Greatermans) case, the state, in the form of the Statutory Standing Advisory Committee on the Companies Act, under the chairmanship of Mr Justice Cecil Margo, had been agitating for the creation of such a body

"It came as no surprise, therefore, when on August 4 1983, Mr Justice Margo and Professor Stefan Naude produced a report to the Standing Advisory Committee recommending the creation of the Securities Regulation Panel."

It took almost eight years for those recommendations to bear fruit and see the light of day as the Securities Regulation Code and Panel

Last February's inauguration of the Code and Panel was overshadowed by two controversial deals straddling the old and the new regulation systems

In both instances — the battle to bring Allied into the Absa block, and the bid to secure control of Saambou — the Panel was criticised for not applying the new code.

The criticism was unfair to the extent that legally speaking both the Absa and the Saambou "battles" were instigated under the old system.

In Saambou's case it does seem that the legal documentation underlying Fedsure's bid to get an effective controlling stake in Saambou was rushed through on the last day of January This meant the bid fell under the old, less stringent rules

Policing the Fedsure/Saambou transaction posed myriads of problems Central to the Saambou control situation were 39 million convertible debentures issued to Fedsure by Saambou in payment for the acquisition of Planet Finance

On conversion, the CDs would have given Fedsure a 30 percent, and controlling, stake in Saambou.

The panel seemed uncertain about how to treat the debentures because they were convertible at the discretion of Fedsure.

If they had been automatically convertible, the panel would have regarded Fedsure as immediately having a 30 percent stake in Saambou

On the other hand, because it was uncertain about when it would convert the debentures, Fedsure had to be careful about acquiring Saambou shares in the market lest it trigger an offer to minorities under the rules of the new SRC

Some weakness seen in current market strength

Star 24/6/91

232

By Ann Crotty

The latest surge in the JSE has led to considerable unease among some investors and analysts.

On the basis of fundamentals, the current ratings of the top blue-chips seem to defy any attempt at rationalisation

In the absence of fundamental support, it is difficult to see how these ratings can be sustained

Last week's market euphoria was reminiscent of the mood that took hold of investors early last year at the time of President FW de Klerk's opening speech to Parliament.

At that time there was much talk of masses of capital coming into a more internationally acceptable SA. There was talk of socio-political developments fuelling strong economic growth

And if neither of those were convincing, there was talk of the enormous institutional cash flows needing to find an investment home.

Last year the overall market index reached a high of 3377 on February 7 — just days before Nelson Mandela was released from prison

At that time the gold price was comfortably over $400 and there were signs of international investors dabbling in industrial and mining equities.

Their interest in industrials sparked speculation that the P/E ratings of SA equities could quickly move up to match the levels seen in London and New York

Within days of Mr Mandela's release the euphoria began to dissipate and to be replaced by considerable unease.

Local and international investors were obviously disturbed by Mr Mandela's talk of nationalisation of major commercial assets

International investors began to see SA as a high-risk area more suitable to jobbing than investment.

This view was heightened by the increased level of violence.

A large and varied number of trade delegations have visited SA, but few have been sufficiently encouraged to talk in terms of hard-currency investment.

With the exception of a handful of local stocks that have long been favourites with overseas players, the presence of these players on the JSE over the past 15 months has tended to be as jobbers

During the second half of calendar '90 the JSE overall index was on a downward trend, which was not reversed until last February

Last week it passed the February '90 high of 3377 with a closing level of 3390 on Thursday.

This higher level was achieved despite the generally weaker earnings results that have been reported in the intervening 15 months and expectations of continued earnings weakness

Some analysts believe that after the close of the June month-end this Friday, the market may see some correction.

Others argue that inflation, cash-rich institutions and the very limited number of blue-chips will always ensure that these limited counters are unrealistically priced

Simpson McKie opposes options plan

B Day 24/6/91.

ROBERT GENTLE

STOCKBROKING firm Simpson McKie, a long-time member of the SA Futures Exchange (Safex), has strongly opposed plans by Safex to launch options on equity futures, saying the JSE's Traded Options Market (TOM) will be able to the job

Elaine Slot, head of Simpson McKie's derivatives division, said in an interview that now was not the time for Safex to embark on such a new and potentially risky venture

Safex had only recently overcome problems like low volumes, the default of futures broker Davis Ralph Sadleir, the liquidation of Cape Investment Bank and the debacle of the futures trading floor, Slot said

"It should start consolidating, build on its strengths and concentrate on its existing products Options are an unnecessary duplication which could prove costly"

Slot said Safex may be underestimating the complexity and cost of fully guaranteed and margined options

Safex should learn from past experience and not try to reinvent the wheel by trying to develop options when it was clear TOM was already in a position to do the job, Slot said

"This is precisely what happened when certain members of the futures market wanted a floor when it was already clear that screen trading was working to everyone's satisfaction

"Let us not make the same mistake again — it will cost the entire financial market time, money and liquidity it can ill afford"

The issue should be sorted out now before any real money was spent, Slot said "Let it rather be a battle of words than rands"

In reaction, Safex CE Stuart Rees pointed out that the options project was not merely for equity futures — which would compete with TOM — but for all of Safex's futures contracts

"It's not a case of wanting to take on the JSE People have the mistaken impression we are only an equity index futures exchange We are not"

Rees conceded that equity index futures accounted for the bulk of Safex turnover

232

However, the exchange had to look to the day it did more business in other futures contracts like interest rate and bonds, Rees said

"When that time comes, Safex will need to be able to offer options on such futures"

Moreover, there was already a thriving over-the-counter market for options on equity futures, Rees said, estimating it at as much as 50% of Safex turnover "It's not as if we would be starting from scratch The market is there"

Rees said he agreed with Slot's observations on the need not to impose costly, unnecessary products on the futures market

"If we find the cost of having options on futures outweighs the benefits to our members, we obviously will not go ahead with it"

Union calls for nationalisation

JOHANNESBURG — The 100 000-member SA Commercial, Catering and Allied Workers Union (Saccawu) advocated mass nationalisation without compensation at its third national congress held at the weekend. 232 CT 25/6/91

Saccawu said in a statement yesterday the "working class" should control the economy through the eradication of "apartheid capitalism", cheap labour and bad education — Sapa

International base keeps GDM Finance on track

BDay 25/6/91

232

SEAN VAN ZYL

INTERNATIONAL trade finance specialist GDM Finance had boosted its attributable earnings 15% to R8,63m for the year ended April, despite the "traumatic" economic environment which prevailed, MD John Cowper said yesterday.

As a result, earnings climbed to 33,7c (1990 29,3c) a share A total dividend of 13,5c a share was declared Pre-tax income rose 21% to R11,9m from the previous year's R9,81m

Because of GDM Finance's international base of operations and tax losses incurred through acquisitions, the company enjoyed a relatively low tax bill of 20% at R2,4m

Although bad debt did not have any major effect on the company's performance, Cowper said the risk would increase in the next six months as the economy was expected to worsen further before improving However, GDM Finance maintained stringent credit control policies on new business, and the company's bad debt risk was not expected to increase dramatically

Cowper said growth in new trade credit business was satisfactory "Trade finance activities continued to prosper and our gross assets have increased from R128m to just under R150m — we have managed our growth carefully and continue to take on only sound business."

Of the R22m jump in assets, Cowper said roughly R10m was achieved through the company's recent takeover of Repfin Holdings, a former competitor

GDM Finance acquired troubled Repfin Holdings in the beginning of January this year Cowper said this would provide a meaningful contribution to the group's profit during the current financial year

GDM Finance also acquired a 64% stake in clearing and forwarding operator African Shipping in February last year. Afship generated about R1,4m in its first year in the GDM Finance fold, Cowper said.

There was no reason to believe that GDM Finance would not have an excellent year in the current trading period, Cowper added

Support for black directors

MARCIA KLEIN

THE Institute of Directors in southern Africa (IOD) has backed the call by the National African Federated Chamber of Commerce (Nafcoc) for a sharp increase in the number of black company directors

Nafcoc has called for a 30% increase in the number of blacks on the boards of listed companies within 10 years

IOD chairman Brian Hawksworth said the IOD fully endorsed Sam Motsuenyane's call "for sharply increased black involvement in steering the affairs of SA's listed companies"

The call comes soon after the appointment of former KaNgwane chief minister Enos Mabuza to the Anglovaal, Standard Bank and TML boards

However, this was possible "only if an increasing number of blacks are educated in the responsibilities and duties of directors"

He said the IOD had offered to provide Nafcoc members with training "and whatever other assistance is required"

The IOD has also asked Nafcoc to identify possible members for the IOD, thus providing continuing education and the opportunity to meet regularly with other directors of companies.

BDay 26/6/91

Concern

A further benefit was that IOD members had full reciprocal membership of the IOD in London

Hawksworth said the IOD's support stemmed partly from its concern that only 1% of its members were black.

Ongoing recruitment efforts had met with little success, and Hawksworth said that Nafcoc's call would hopefully prove to be a turning point

Move to calm fears over pension funds

(232)

BDay 26/6/91

BRENT VON MELVILLE

GOVERNMENT has moved to calm market fears that it is to unleash a cash flow of R10bn a year on the JSE once its pension funds are freed from investment constraints

A statement yesterday said the funds would continue to invest heavily in government stock and there was no question of piling into equities

Legislation was passed on June 14 to place five state pension funds on the same footing as private sector funds A committee, headed by former Corbank MD Laurie Korsten, is investigating the phased entry of these funds into investments previously not allowed

Korsten said in a statement yesterday "Participants in the financial markets are concerned that the state pension funds' entry into the equity market will exacerbate the shortage-of-scrip problem " The bond market feared the funds would become net sellers and would, therefore, put upward pressure on gilt rates

"An irresponsible equity-buying schedule resulting in the acquisition of overvalued common stocks could be self-defeating and detrimental to the pension funds In short, the equity accumulation programme will take time," he said

Of the bond market, he said the state pension funds would continue to be net buyers of gilts

He said the final report on the effect of the "privatisation" of the pension funds on the financial sector was expected to be in the hands of the Cabinet by endSeptember

Government and the committee were aware of the lack of marketability in the equity market and the dangers of overvaluation were fully understood

"Given the nature of the financial markets, the size of the funds' cash flows and the premium on stability in these markets, it is inevitable that the state pension funds' fortunes and performances will be geared closely to the bond market well into the next century "

Korsten said at present the Public Investment Commissioners' portfolio was skewed towards the short-term of the market. The funds have R8bn in cash

"Consequently any diversification out of the fixed-interest securities could be comfortably handled without having to dispose of long-dated securities

"But prudent asset management of any pension fund required diversification both to lower risk and to raise returns relative to the risk assumed," he said

A separate board of trustees would be appointed for every fund, while the future management would concentrate on managing the actuarial shortages

Govt moves to calm market fears

232

CT 26/6/91

Own Correspondent

JOHANNESBURG — Government has moved to calm market fears that it is to unleash a cash flow of R10bn a year onto the JSE once its pension funds are freed from investment constraints

A statement yesterday said the funds would continue to invest heavily in government stock and there was no question of piling into equities

Legislation was passed on June 14 to place five state pension funds on the same footing as private sector funds A committee, headed by former Corbank MD Laurie Korsten, is investigating the phased entry of these funds into investments previously not allowed Korsten became a consultant after Corbank was taken over

Korsten said in a statement yesterday "Participants in the financial markets are concerned that the State Pension Funds entry into the equity market will exacerbate the shortage-of-scrip problem" He added the bond market feared the funds would become a net seller and will therefore put upward pressure on gilt rates

"An irresponsible equity buying schedule resulting in the acquisition of overvalued common stocks could be self-defeating and detrimental to the Pension Funds In short, the equity accumulation programme will take time," he said

On the bond market, he said the state pension funds would continue to be net buyers of gilts

He said the final report on the effect of the "privatisation" of the pension funds on the financial sector is expected to be in the hands of the Cabinet by end-September

He said that government and the committee were aware of the lack of marketability in the equity market and the dangers of over-valuation were fully understood Korsten added that the equity accumulation programme would take time and be handled "responsibly"

Korsten said at present the Public Investment Commissioners' portfolio was skewed towards the short term of the market The funds have R8bn in cash

"Consequently any diversification out of the fixed-interest securities could be comfortably handled without having to dispose of long-dated securities"

A separate board of trustees would be appointed for every fund while the future management would concentrate on managing the actuarial shortages

Spurhold's rocketing share fuels speculation

B Day 26/6/91 (232)

MARCIA KLEIN

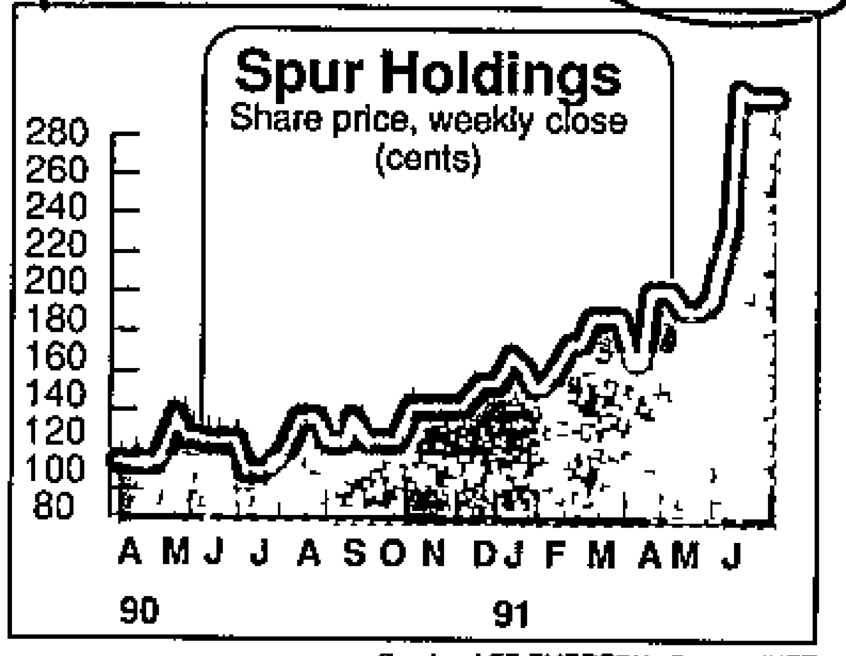
THE dramatic rise in Spur Holdings' (Spurhold's) share price has not allowed speculation on the steak ranch franchise chain to rest.

Although the share eased off this week to close at 265c after climbing to its yearly high of 275c on Friday, it was still trading at three times the value of its yearly low of 90c in July last year. Excluding this week's trade, Spurhold's share had risen by a dramatic 63,6% in the last month.

Yesterday industry analysts' speculation varied from a change of control to huge increases in Spur's exports into Europe.

An analyst said that a special bargain deal on Friday indicated that 5% of the value of the company had changed hands. While he had previously been convinced that Interleisure was set to take out Spurhold, "that rumour has been squashed". However, he was sure that someone was taking a large stake in the company.

Another analyst said Interleisure would not be interested in Spur as it had recently decided to concentrate on its core businesses and had disinvested from some food interests.



Graphic LEE EMERTON Source INET

Spur MD Gerd Topat yesterday attributed the rise to good performance, with Spur being "the flavour of the month" on the JSE.

"We run tight and lean and look to the future," he said. He admitted that Spur did have "certain plans" and was "projecting for the future", but could not be drawn further.

Spur's new franchise operation Panarottis was running well, and Spur's move into the export market was "going nicely".

In the year to end-February, operating company Spur Steak Ranches increased its earnings by 49% to 22c a share and its dividend by 33% to 17c a share on a 33% rise in turnover to R17,7m.

Spurhold, with a 40% holding in Spur, increased its attributable income by 41,8% to R2,3m.

At the release of the company's results, Topat said that although the export of beverage display coolers to Europe was a small part of the business, "hopefully this will take off in the coming year".

One analyst believed the huge rise in the share price could be attributed to Spur "going heavily into the overseas market". It may have expanded overseas and could be placing shares or selling them to an overseas consortium, the analyst said.

Similarly, the rise in CNA Gallo's share has also sparked off some interest in the market. Analysts said while the rise could be attributed to a general rise in the industrial sector, some were sure that CNA Gallo was looking at an acquisition. An analyst said any acquisition would be in a related business, and it may be looking at increasing its stake on the entertainment side of the business.

It would make sense for CNA Gallo to look at the CD market, with the industry showing an 83% growth in the last year. During the year Gallo invested in 33,3% of Compact Disc Technologies.

Metpol expected to raise R220m in rights issue

B/Day 26/6/91 (232)

LINDA ENSOR

CAPE TOWN — Metropolitan Life (Metpol), in the process of being unbundled by Sankorp, has announced a rights issue which could raise about R220m

Details still have to be finalised but the issue will be on the basis of 50 new shares for every 100 shares held With 44,5-million shares in issue, and assuming a price of R10, the total raised would be R222,5m The share closed yesterday at 1 025c

In view of the pending rights issue, Metropolitan has announced a special interim dividend of 18c a share to shareholders registered on August 2

The shares issued in the rights offer will not qualify for the special dividend but only the final dividend for the six months to year-end on September 30

The rights issue, which will strengthen Metropolitan's capital base and serve as a foundation for its future growth, follows the sale by Sankorp and parent Sanlam of 10-million of their Metropolitan shares Their combined stake will drop from about 72% (excluding the 10% held by Sanlam administered funds) to 49%

Most of the shares have been taken up by pension funds, fund administrators and other institutional investors although over 1-million are being made available to Metropolitan's policy holders and employees at a discount price of 950c each

Metropolitan chairman Willem Pretorius says the aim of the sale by Sanlam and Sankorp of their shares is to broaden the shareholder base of Metropolitan and increase the marketability of its shares

Institutional investors have often complained that there is little point in acquiring an interest in Metropolitan because of the limited number of shares available on the JSE

"By Sanlam and Sankorp reducing their interest, an attempt is being made to meet the expressed needs of these institutional investors," Pretorius says

Regarding the rights issue, he says the additional capital will enhance Metropolitan's "ability to grow profitably in those important sectors of the market on which the company focuses" Most of Metropolitan's business is derived from the black community

Sanlam and Sankorp, as well as the investors who bought blocks of shares from them, have indicated they will follow their rights Sankorp will underwrite the offer

Whites buy African Bank shares

BDay 27/6/91.

THAMI MAZWAI

THE black-owned African Bank had approved applications for shares to the tune of R2m, more than half of this from whites, CE Jack Theron said yesterday

Theron said. "We have had a steady stream of applications for shares since October last year. The interest surged from January this year after the shareholders' general meeting approved the purchase of ordinary shares by all races

"Today's approval brings our issued ordinary share capital to R6,2m of our authorised R12,7m ordinary share capital

"My board, however, still believes in blacks owning the majority shares and will in future decide on a black-white share ownership ratio"

The bank previously restricted ordinary shares to blacks, while the Standard Bank, TrustBank, First National, Volkskas and NedPerm jointly held R4,5m in R1 redeemable preference shares convertible on default.

232

Theron made the announcement as his bank prepared for competition from a bank to be launched by Fabcos and Wesbank in August

Wesbank GM Robin Shale confirmed yesterday that an application for the registration of the new bank was lodged with the Registrar of Banks last month

Theron said his organisation would "respond accordingly" to the creation of the new bank

African Bank had "collared the northern Transvaal market", he said It had taken over all Lebowa Development Corporation bank agencies this year and had opened branches in Tzaneen, Thohoyandou, Queenstown and Bisho

Acquisitors keep eye on Rule 8

Star 27/6/91 (232)

Ann Crotty continues her review of the powers of the Securities Regulation Code and Panel and the way the JSE watchdog can safeguard the interests of minority shareholders.

Although two of this year's most controversial deals (Absa and Fedsure/Saambou) have fallen outside the scope of the new Securities Regulation Code and Panel, there have been a number of instances where the requirements of the new code have been felt

The most significant effect has related to Rule 8, which says that if any shareholder holding more than 30 percent of a company acquires within 12 months an additional five percent, that person must make an offer to all minority shareholders at the highest price paid for any of the five percent

The rule influenced the structure of the Liberty deal with Remgro over the acquisition of Stanbic shares

It also imposed considerable constraints on the parties involved in the battle for Absa and on the parties involved in the disputed Fedsure/Saambou transaction

In both instances the parties concerned were restricted from attempting to secure their battle position by buying additional shares

The notion of concert parties adds tremendous clout to Rule 8

Possibly the most notable application of the ruling has been the Liberty deal with Remgro, which analysts regard as having given Liberty effective control of Stanbic

Given the resultant spread of shareholders, there is little chance that any one shareholder, or even a group of shareholders, would now able to wrest effective control of Stanbic from Liberty

Because of the SRC regulations the Liberty team was not able to just rush in and buy all of the 11,3 million shares Remgro was selling

This approximate 11,6 percent of Stanbic would have lifted the Liberty's stake from about 35,6 percent to 47 percent and triggered Rule 8.

Liberty would have had to offer R45 a share to all Stanbic minorities, which would have cost the giant insurance group R2,3 billion if all of them had accepted

The five percent restriction not only applied to Liberty, it applied to any person acting in concert with Liberty

According to the SRC, acting in concert means "acting in pursuance of an agreement, an arrangement or understanding (whether formal or informal) between two or more persons pursuant to which they or any of them co-operate for the purposes of entering into or proposing an affected transaction"

So not only did Liberty have to avoid reaching the five percent level, it had to ensure that none of the parties with which Liberty Asset Management (Libam) was placing an additional 6,8 million shares could be deemed concert parties

This must have been a fairly delicate procedure for Libam As Liberty chairman Donald Gordon said at the time, the shares could not get into the hands of investors who would be difficult for Liberty

"They would be top-rated investors who would want to see Stanbic being developed, but they would not be concert parties

"We have a right to see where these shares go, but there would be no question of concert parties being involved," he said

There has been some criticism of the panel for allowing Liberty so much discretion over the additional shares

One analyst makes the point that it could set a precedent that other parties with less resources and less standing in the community might subsequently feel should also apply to them

As was indicated by the ABSA battle, the issue of concert parties seems likely to give rise to much dispute

Recently, when the control situation at Imperial Holdings was radically changed, the MD and new largest shareholder Bill Lynch was able to argue that the institutions who bought large blocks of Imphold shares were not acting in concert with him

This meant that a control situation no longer existed and so no offer had to be made to minorities

Oceana bids for UK fashion chain

CT 27/6/91 232

By AUDREY D'ANGELO
Business Editor

OCEANA DEVELOPMENT INVESTMENT TRUST (Oceana), the London-based investment trust company in which the Lewis family — controlling shareholders of Foschini — have a 56% stake, is offering £87m (R470m) for 100% of British fashion chain Etam.

Oceana increased its stake in Etam from 6,6% to 28% last month, when it paid 185p a share.

Oceana MD Michael Lewis, who is also a director of Foschini, said then that Etam, with 250 outlets, had a small market share "but we see opportunities for substantial growth in the long term".

His father, Foschini chairman Stanley Lewis, said at the time that there was no connection between Foschini and Etam, but there might be synergy later

Yesterday's announcement said that Oceana Retail Enterprises (ORE) had been formed specifically to make the offer for Etam

The bid would be financed by a consortium of UK institutional investors (£31m), a debt facility of £45m and £45m from Oceana itself Oceana would have 50% of the equity of ORE and voting control

UAL Merchant Bank said Oceana would fund its share of the offer by the placing of up to 16,7m new ordinary stock units of Oceana at £3,25 a unit UAL will underwrite the placing in full

At the same time, Foschini will acquire an interest of approximately 36% in the enlarged equity of Oceana for approximately R153m in the event of an unconditional acceptance of the Etam offer, or approximately R131m if the Etam offer is not unconditional

UAL Corporate Finance executive director Tim Sewell said that, in line with UK practice, the rights offer would be undertaken by a placing of the offer with UAL Shareholders would be entitled to claw back their rights if they wished

Any rights not clawed back would be placed by UAL with institutional and other investors in SA

Sewell said that if the bid was not successful, Oceana would probably lose its London listing

London Stock Exchange requirements recently caused Donny Gordon's FIT to surrender its London listing and move to Luxembourg

Oceana could make a similar move if it loses its London listing Its listing on the JSE would not be affected

Elcentre wins Voltex shares goal

ROBERT LAING

ELCENTRE's recent capital reduction achieved its goal of making its subsidiary Voltex's shares more tradeable and the group's spread of shareholding is now well over the JSE's minimum requirement

An Elcentre spokesman said the group had met the JSE's spread requirement before March, but it released more than 33-million Voltex shares into the market to attract institutional investors

The Elcentre and Berzack groups undertook to meet the JSE's spread requirements — which state that a company's shares must be spread between more than 300 holders who are not company employees — within a reasonable period when they transformed H & J Cables into Voltex last year

BDay 27/6/91

Elcentre reduced its share of Voltex to 53% from 60% through the capital reduction and an interim dividend distribution in specie

(232)

The company spokesman said Voltex had 600 public shareholders before the deal and this figure had risen to 3 000

Elcentre's share price initially dropped to 370c from 410c ex-rights and ex-dividend, but has recovered to 420c a share

SHARE PRICES

FM 28/6/91

ON A WING AND A PRAYER

(232)

PRICES LOOK A LITTLE OUT OF LINE WITH THE FUNDAMENTALS

Little more than six months ago, shares prices were going nowhere The mood among investors was glum and few were willing to forecast an upturn

There has been nothing in company results to make investors more cheerful For most industrial groups, including many of the large ones that make up the index, the earnings trend this year has simply been a continuation of the one seen since the beginning of last year — earnings have been either flat or falling, with little or no growth in dividends

Yet the JSE Industrial index has been regularly setting new records At this week's level around 3 900, it has gained 29% since the start of the year, 43% since the doldrums of last October — and 72% since the peak of October 19 1987 Even the Overall index has been climbing

Fundamental measures of value have been pushed to levels that in the past have generally been seen at or near to the tops of markets The average earnings multiple on the Industrial index has climbed to 13, on October 19 1987, it was 15,4 The average dividend yield has dropped to 2,8%, on October 19 1987, it was 2,5% The gold price, still a key indicator for this economy, continues to churn in its trading range below US$370/oz

As the accompanying graph shows, annualised growth in earnings being reported by groups reflected in the Industrial index has dropped to a negative figure of about 6%, while annualised dividend growth for these companies is running at only about 5%

By these criteria, it is no surprise that share prices have dropped back over the past few days Many of the leading institutional stocks are looking expensive when viewed against the present profit performance as well as the likely trend in earnings and dividends over the next 12 months

Bulls may say — using arguments heard before at the top of a market — that thin yields don't matter if you believe capital appreciation lies ahead But (see graph) corrections have generally occurred when earnings multiples and yields have not been far from present levels

As Martin & Co director Richard Jesse points out, the bull market is essentially a rerating based on future prospects — but it has occurred well ahead of the upturn that portfolio managers are assuming is now in sight And this is, incidentally, a market being driven primarily by the portfolio managers in large financial institutions, with relatively few participants

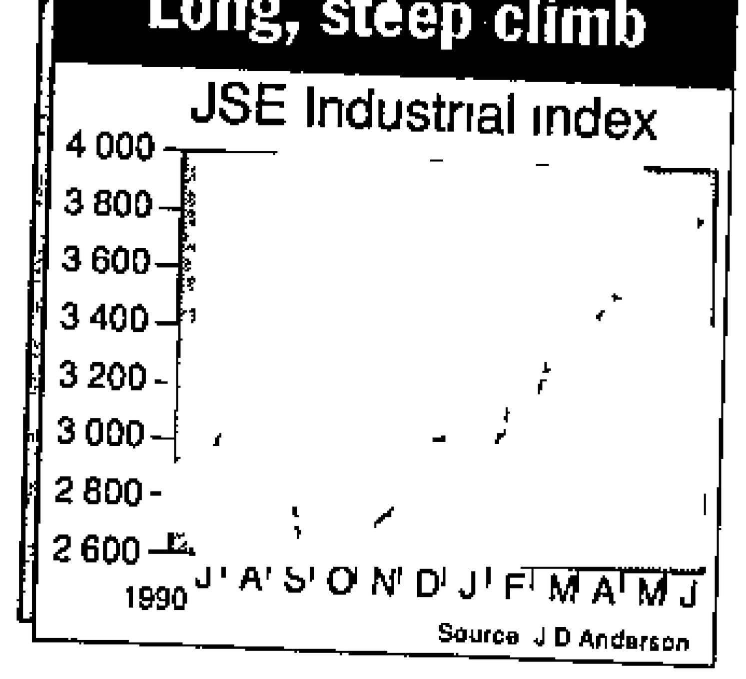
Values have patently increased But, in contrast to the 1987 bull market, trading volumes remain slack and the number of deals each day is low Over the past week, the value of shares traded each day averaged about R128m, but the average number of deals was only about 2 900 This is not enough to raise stockbrokers' revenues to levels where the industry makes money on the present cost structure They say about 4 000 deals a day are needed

Various reasons are cited for institutions' recent bullish mood One is simply the passage of time Some seven months have elapsed since share prices reached their lows late last year, so it's argued that companies are that much further into an already protracted recession and that much closer to the upturn

A turning point came, for local as well as for world stock markets, in the early stages of the Gulf War Fears of a $50 a barrel oil price were ditched and worries about a long and deep recession in industrial economies faded The JSE has often moved closely with the New York stock market and, by late January, it was turning upwards, in step with the Dow Jones But markets in New York, London and Tokyo are now drifting or turning downwards (see box)

Another factor seen as bullish is domestic politics — a major cause of last year's gloom Arguments here are based on economics as well as politics The scenario shows produced by Old Mutual-Nedcor and presented to packed audiences since early this year have undoubtedly been influential One of the conclusions — hardly new — is that SA simply must achieve annual GDP growth of at least 3% if it is to avoid falling into a worsening spiral of unemployment and violence Social upliftment programmes are proposed as part of the solution

Long, steep climb



Scenario shows aside, investors appear to have become increasingly sceptical that the battle against inflation will be maintained, or that the CPI will drop significantly The mildly expansionary 1991 Budget, with its tendency towards redistribution of income, contributed to this thinking So, too, have calls for more cuts in interest rates

There is no point expecting an upturn to be ushered in by the sort of interest rate cuts seen in the mid-Eighties, when prime fell from 25% to 12,5% But there is a feeling among some investors that government will want to see the economy growing well before 1994 and inflation may be accorded a lower priority to achieve this

If there is a perception that inflation will not be reduced significantly, a tendency on the part of institutions to increase the equity component of their portfolios is understandable And any moves in that direction will run up against the JSE's notorious shortage of good quality institutional stocks

There has been no improvement in supply As Simpson McKie's Dixie Strong notes, there have been fewer large rights issues and capital-raising exercises Last year's 49 rights issues raised R4,2bn, compared with the R7,5bn in 1989

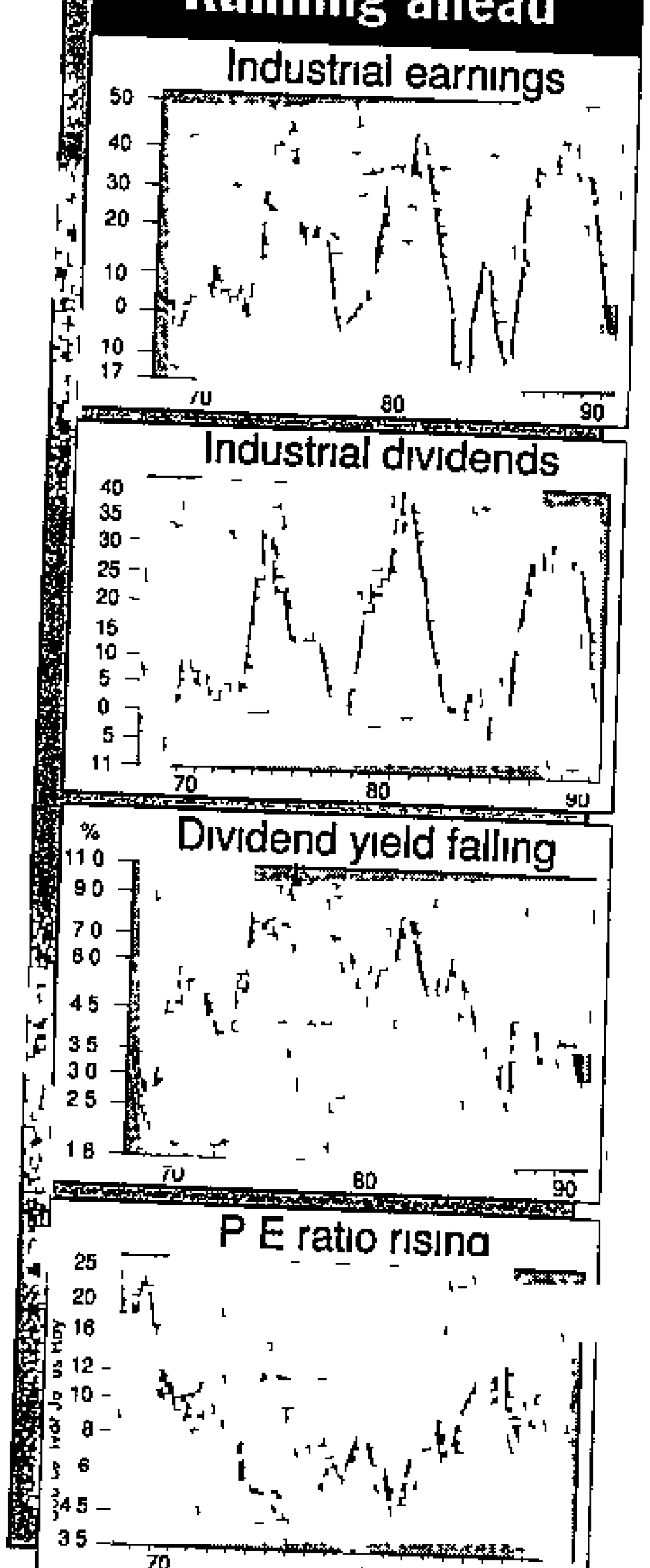
At the same time, there are fears that demand for institutional equities will be intensified, particularly when the State pension funds enter the market However, bear in mind comments by Laurie Korsten, chairman of the committee appointed by the government in March to investigate these pension funds (see *Economy*)

Korsten emphasised that government is "fully aware" of the lack of marketability in the equity market He added that the equity accumulation programme "will take time and will be undertaken on sound business principles, with due regard to acquiring stocks which afford sound investment value"

Considering present price levels, a marked

continue

Running ahead



FM 28/6/91 (232)

correction must be expected, though the dominance of the institutions may make the risk of a steep slide fairly low J D Anderson's Charles Booth feels that the investment strategy at this stage should depend on the type of investor Individual investors and small institutions, he feels, should stay out of the market, as the risks are too great But big institutions may feel they cannot afford to stay out for long

Strong feels shares would be worth buying after a correction It's possible that prices would then drift for some time, but renewed buying of selected equities could make sense

As Board of Executors' John Winship pointed out recently, during a recession it is easily forgotten how vigorously corporate earnings and dividends tend to rise when the economy is growing The graph which shows earnings growth now negative, also shows that annualised EPS growth on the index stocks averaged more than 25% between 1987 and 1989

Even so, it is difficult to accept that yields of less than 2% on many of this year's favourite stocks are realistic Consumer-based companies have shown resilience, but their prices are particularly demanding When an upturn comes, some of the groups which have been hit hardest over the best year should benefit — particularly manufacturers and exporters

Manufacturers that can compete in a more open economy and, particularly, those that can build up a firm export base, could be flourishing within a year or two Shares such as Barlows, Sappi, Amic, Sentrachem and Highveld have seen some rerating recently, but they look cheap when compared with, say, SA Breweries, Tiger Oats or Wooltru

During a reassessment that is bound to occur, rand hedge shares will become more popular, especially among investors who do not believe inflation will fall much Already the rand has depreciated this year against the dollar, continuing inflation must eventually mean weakness against other currencies too Currency weakness will also swing the attention to the mining sector

The discount on the financial rand may almost have narrowed to the point where it will stabilise This would strengthen the case for shares such as De Beers and Lonrho

Overall, share prices may well have run too far ahead for now When it is again time to consider buying, different shares and sectors should be targeted

Andrew McNulty

Numsa code for foreign investment

W/mail 28/6 - 4/7/91

232

By DREW FORREST

THE National Union of Metalworkers has spelt out its conditions for foreign investment in post-sanctions South Africa.

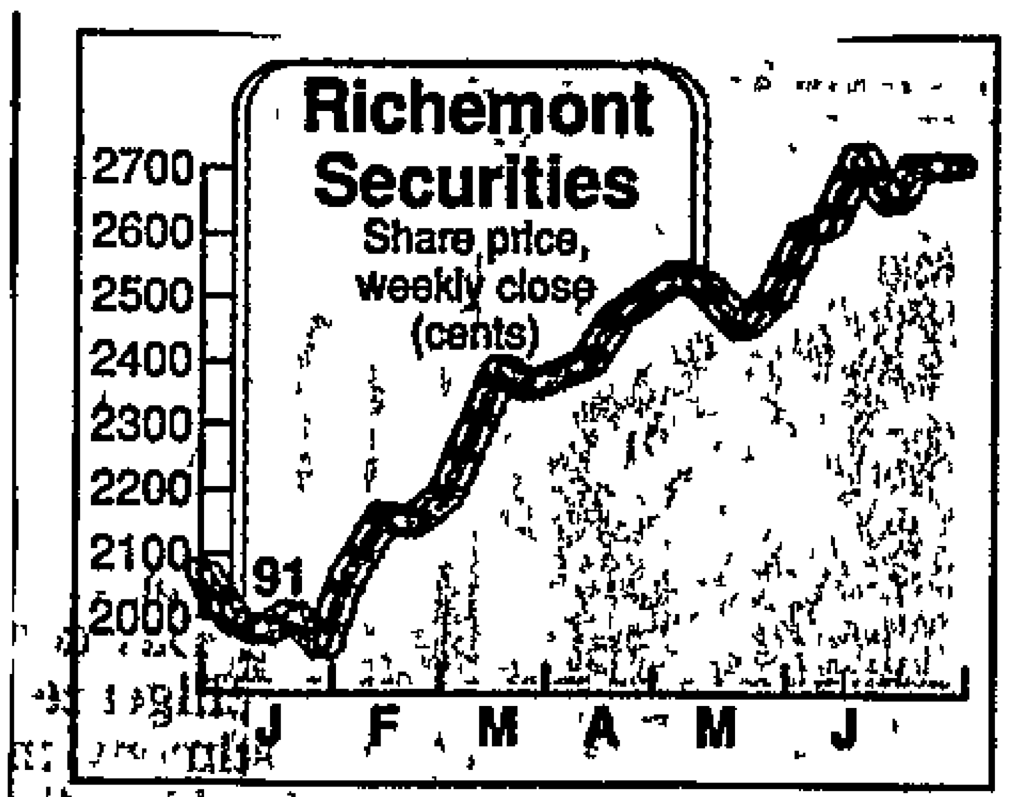
At its weekend congress, Numsa called for a code, to be jointly developed with the Congress of South African Trade Unions and canvassed with its allies, to ensure investment "benefits the working class".

The terms of foreign investment must be made public and open to negotiation between the state and civil society, including unions, it says.

Numsa calls for investment to develop manufacturing, mining, agriculture and social services — and a ban on speculative financial or property investment. Investment on the JSE must be "limited".

"Investment must comply with the short, medium and long-term policies laid down by the state in negotiations with the mass organisations of civil society," the resolution says.

Investors must agree to support centralised bargaining and national and industry training programmes, and will also be bound by minimum labour standards. They will have to comply with nationally negotiated wage levels.



Graphic: LEE EMERTON Source: INET

Richemont turns in another fine effort

BRENT VON MELVILLE 232

SWISS-BASED luxury group Richemont turned in another sterling performance to bolster net profits by 21% to £177,3m (£146,3m) for the year to end-March.

The rise came off a 9% improvement in gross sales revenue to £6,5bn (£5,9bn) and net sales revenue of £3bn, a slight improvement on last year's £2,9bn.

The tobacco and luxury goods group, which represents Rembrandt's international investment interests, boosted its dividend per unit 23% to £50,625 (£41,25), off earnings per unit of £308,7 (£254,7). Ahead of the results, its SA share price jumped 80c (2,9%) to R27,90 to close in on its 12-month high of R28,25.

Shares in Richemont, also listed in Zurich, Geneva and Basle, trade in parcels of 1 000 undivided shares, known as deposit receipts. At the current exchange rate, the dividend a deposit receipt translates to 23,9c a share, putting the stock on a dividend yield of 0,9%. BDay 28/6/91

The price-to-earnings ratio has moved down to about 19 from a historical rating of about 23 times. Investment analysts feel the results justify the strength and marketability of the counter on the JSE.

Richemont is invested heavily in the luxury goods industry through controlling interests in Cartier Monde SA, which include Cartier, Piaget and Baume & Mercier, and Dunhill Holdings Plc, including Alfred Dunhill, Montblanc and Chloe.

JOHN CAVILL reports from London

☐ To Page 2

Richemont

BDay 28/6/91 232

☐ From Page 1

that Richemont subsidiary Rothmans International has ridden through the US and British recessions and the Gulf war to return a 12% increase in pre-tax profits to £542,5m in the year ended March 31

Net attributable profits rose by 23% to nearly £250m, with earnings a share up 22% to 78,5p Rothmans is increasing the total dividend by 20% to 18,5p

Sales (net of tobacco taxes) notched up 3,3% to almost £2,3bn A drop of 8% in luxury goods (Dunhill and Cartier) to sales of £208m was offset by tobacco's climb of 7% to £2,05bn.

Sales were blighted by the global economic downturn in the second half of the year and weaker export currencies

Operating profits, however, improved sharply because of cost cutting and productivity gains Luxury goods recorded an 11,5% increase in sales, representing a margin of 26,5% against 22% the previous year Tobacco, at £351,5m, generated an extra 8% with margins fractionally higher at 17,1%

After charging rationalisation costs of £9m, overall operating profits were 9,7% better at £477m (including share of associates) Net interest earnings from Rothmans' £714m cash pile jumped 32,4% to £65,4m This brought pre-tax profits to £542,5m

This was achieved despite the loss of £28m caused by the rise of sterling against the dollar

Rothmans share rose 53p to 980p — 5,7% — on the news to value the group at nearly £3bn

Civil judgments are soaring as the recession bites

232

B/Day 28/6/91

THE rand value of civil judgments against companies soared 73% to R65,3m during the first quarter of this year compared to the same period last year.

The value of judgments against individuals rose 32% quarter-on-quarter for the same period to reach R49m

Recession is biting into company turnovers and, in an effort to counteract this, businessmen are increasing the availability of credit

Little more than lip service is paid to the concept that no customer is better than a defaulting customer

Salesmen, in an effort to drive up commission earnings, sell to customers whose accounts are already in arrears

Kreditinform MD Ivor Jones says "The high rate of interest is largely to account for the shortage of liquidity

"When interest rates climbed sharply over a short period, consumers saw their disposable income drop, and sales followed suit

"Years later, there is still no sign of a recovery

"The rate of liquidations tends to follow the interest rate and so unless interest rates drop suddenly and radically we can expect to see liquidations increasing before levelling off

"Retailers are squeezed from two sides Not only have they been faced by shrinking markets, but they are also subject to the high cost of money"

Natural

Jones says these trends are a natural part of the normal economic cycle —with one abnormal and threatening factor

"There is no sign of a levelling off in SA's economic cycle and the peaks and valleys are becoming more vicious and destructive to business," he says.

"There is an element of instability in the cycle and this is aggravated by the small entrepreneur, who serves to muddy whatever market he is operating in

"By manipulating price, production rates and the like, he can create artificial supply and demand conditions but, being small, can rarely sustain performance

"It is in the interests of SA as a whole, as well as individual businessmen, for standards of management to improve within the small business sector."

Insuring the debtors' book is a neglected aspect of effective credit management, he says — and there are others

"The most valuable tool any credit manager can have is information

"The small business will be affected not only by the amount a customer can buy, for example, but also whether the customer will pay him on time

"Two tips for managers are not to allow too few debtors to dominate their books, and to know each one of their debtors intimately," he says

Knowing the debtors involves knowing who their key suppliers are, what market share they hold in their industry and the general state of the industry in which they operate

"With information like this it becomes possible to assess how great a risk the debtor is," says Jones

"A debtors' ledger is an asset and must be managed as an asset portfolio.

Spread

"The wise businessman will give himself a spread of low-risk customers who buy small quantities up to high-risk customers who buy large quantities — and a range of permutations in-between"

A well-managed book will ensure customers pay timeously or, if they tend to allow their credit to extend beyond previously agreed limits, carry the burden of the cost

"As much as a company needs a marketing policy, it must have a credit policy," he says

FM 28/6/91 (232)

DEREGULATION (232)

DOWN BUT NOT OUT

Six years after government first considered deregulating trading, parliament finally passed the Business Act last month, knocking down many of the hurdles that have long impeded the informal sector

But the battle to end local government restrictions on street hawkers and other small businesses may not be over Local authorities, which are loath to give up both the fees they collected from licensing small businesses and the control they wielded over hawkers, are still contesting the Act They want it amended in next year's session to bring back many of the controls that have just been scrapped

But the Act may already have a loophole that allows provincial governments to frustrate its intent Shepstone & Wylie attorney Michael Hands, whose firm has represented some 22 local authorities in Natal, says the implementation of the Act is left to each province FM 28/6/91

This could mean that provincial authorities will delay putting it into effect until parliament approves the controls being sought on hawking and other businesses

The Law Review Project's Louise Tager, however, indicates that local authorities will be violating the law if they delay implementation "While broadly speaking it is correct to say that the Act's implementation will depend on the provincial administrations, the spirit of the legislation will become effective from the beginning of next year"

The government-funded Law Review Project was instrumental in writing the Act

While probably reducing work for lawyers, the Act certainly will create many jobs for other people "The Act is one of the most radical deregulations in the world," says the Free Market Foundation's Leon Louw "I don't think people realise how important it is"

Replacing interim measures in force for 18 months, the Act ends all restrictions on trading hours except for Sundays and public holidays, abolishes licence requirements for all businesses except those handling food or engaged in the escort trade, and removes many of the regulations that have hindered street hawkers for years (*Business & Technology* February 22)

Says Tager "The Act removes the barriers to entry into the economy without affecting existing laws, for example liquor law requirements or residential trading laws People should be free to trade and policies should be easily enforceable" She says laws requiring hawkers to move a certain distance after a certain time — the move-on rule — were difficult to enforce and not easily understood

Opposition to the Act runs deep In an article being distributed to clients, Hands says the Act is a radical departure from the traditional belief that licensing legislation generates revenue at local government level He believes that licensing provides a necessary control over business activities by ensuring compliance with health bylaws, town planning schemes and other rules

Hands is particularly concerned with the deregulation of the informal street trade He believes that the inability of local authorities to limit street trading to a demarcated stand and the abolition of the move-on rule will cause chaos "We are not opposed to making things easier for the man in the street But at the same time one has to guard against opening the floodgates to the detriment of existing business"

Tager says the Act is balanced "Deregulation doesn't mean no regulation Provisions in the Act prevent hawkers from blocking entries to buildings, public walkways, State buildings and churches We need discipline, but we have to have freedom" She says confining street traders to a demarcated area would deny the reality that street trading is here to stay

Street-corner barbers *no more close shaves with the law*

Much of the debate is a storm in a teacup While established businesses want to prevent competition on their doorstep, the reality is that the street vendor serves a very different type of customer than the shopowner Says an attorney involved in deregulation "There's more to competition than the cost of overheads in fixed premises The shopowner usually offers the client a wider range of goods, better quality, protection from the elements, and privacy In short, the street vendor seldom diverts customers from existing premises but creates new clients."

Clearly the customer should be free to choose how and where to shop Says the attorney "The philosophy of control is an old policy that needs to be done away with One doesn't need controls to regulate business. Experience proves that controls have served only to keep people from starting new businesses"

Next up on the trading deregulation agenda should be the abolition of the laws prohibiting most types of trading on Sundays and public holidays as well as legislation preventing the showing of movies on Sundays But this topic is traditionally a hot potato Says one lawyer "Government is still concerned with the Dutch Reformed Church's opposition" However, concerns like this might well be luxuries an underperforming economy can ill afford ■

FM 28/6/91

EXECUTIVE ATTITUDES 232

UNHAPPY DAZE

Clem Sunter may not have got it all right with his now-famous Anglo-sponsored scenario for the future of SA, but he brought the low road/high road options into the language. A disturbing new survey has found that 70% of business leaders appear to accept the low road as inevitable and are planning (if that's the word) for it

The survey was conducted by the Decision Makers Group, a business and marketing consultancy Though the sample of only 60 senior executives was small, it was representative of 80% of the country's business power, according to Decision Makers' executive director Tony van der Schyf

The executives tended to split into two camps· the pessimistic 70% and the more bullish minority. The majority was found to be paralysed by fear and uncertainty and unwilling or unable to adapt to changing marketing conditions The minority feels more optimistic and is more aggressive in adapting to and capitalising on change.

Even though most of the executives accepted that exports, the black market and added-value products were the major potential sources of growth, new products and markets were generally seen in the context of "getting back to basics," as Van der Schyf puts it Strategic imperatives were expressed in such terms as "sticking to the knitting" or concentrating on the core business. Big companies saw acquisitions and mergers as the major short-term opportunity for growth.

Instead of preparing for the changes ahead, they were obsessed with cost-cutting and staff rationalisation. Short-term thinking took precedence, a factor aggravated in listed companies that are under pressure to maximise short-term profits and return on shareholders' investments.

"Organisations less exposed to investment scrutiny were more favourably disposed to current conditions," Van der Schyf says. Thus the bullish minority was comprised of a greater number of executives of smaller and privately owned companies.

Other attitudes that he found worrisome included:

☐ The apparent inability or even unwillingness, especially among middle management, to recognise and adapt to changing market conditions;

☐ Procrastination and indecision about what action to take;

☐ A lack of consensus on the need for a focused strategy. Lip-service is being paid to

Continue —D

FM 28/6/91

strategic planning, new products and new markets, and

☐ A lack of understanding of the source of their companies' true core competence.

Perhaps most alarming, the business leaders showed no commitment to stopping inflation. Virtually all the executives interviewed were highly critical of the financial authorities for their approach to inflation. Most felt the battle had now reached the stage of overkill and that a quick fix for inflation was not possible without severely damaging the economy ■

Fm 28/6/91 (232)

JSE COMMITTEE: NEW FACES

After nine new candidates were proposed ahead of last week's election, five different faces have appeared on the 12-man JSE committee Compared with many previous years, that looks almost like a palace revolution. But there is nothing yet to suggest that the Old Guard has been effectively challenged, nor that there will be any real changes in the way business is done

New members are John Turner of Turner Paterson Faure (245 votes); Dixie Strong of Simpson McKie (239), George Huysamer of George Huysamer & Partners (193), Norman Lowenthal of Lowenthal & Co (181); and Geoff Rothschild of Frankel Max Pollak Vinderine (173)

Other members are Humphrey Borkum of Davis Borkum Hare (263), who is also chairman; Rob Roy of Ivor Jones Roy (274), Francois Tolken of Martin & Co (215), Mike Sims of Anderson Wilson (200); Paul Fergusson of Fergusson Bros, Hall Stewart (196), Richard Lurie of Lurie Johnston (195), and Peter Redman of Mathison & Hollidge (191)

The newcomers will presumably be seeking to bring about some changes. Some brokers are hopeful that Lowenthal, for example, will give the small firms a stronger voice; George Huysamer, on the other hand, may add his weight to efforts to persuade government that stockbrokers' fixed commissions and other privileges should not be meddled with But even if all were to act together — which they probably won't — the new members will not have a majority on the committee The JSE's clubby power structure does not get penetrated easily or swiftly

Names of those who failed to gain re-election are perhaps just as informative as those who did Among them are Malcolm Stewart, who had played a prominent role in seeking full investigations into alleged irregularities Another was David Shapiro, who had also been involved in investigations He was also seen as being more inclined to take an independent line on issues such as the JSE's computer services

This committee doubtless comprises men of ability. But it bears repeating that this is a crucial period for the JSE; the buck stops with the committee, not management. Nobody should think problems will be resolved by improving the "image" and pruning some administrative costs A more creative and incisive approach is needed

Renovations and war knock Karos

MARCIA KLEIN

THE partial or full closure of some Karos hotels for refurbishment, coupled with the effects of the Gulf war on the international tourism industry, affected Karos Hotels' profits for the year to end-March. B|Day 28/6/91

Karos, which has also announced a R14m rights offer to increase facilities at two of its hotels, dropped 25,4% in attributable profits to R4,1m (R8,5m) on a 22,6% rise in turnover to R70,8m (R57,8m).

Operating profits were up by 8,1% to R14,2m (R13,1m), but a threefold hike in the interest bill to R5,4m (R1,8m) and an increase in depreciation saw pre-tax profits decline by 37,3% to R5,6m (R9,0m).

Earnings fell by 51,6% to 15c (31c) a share, and a final dividend of 3c (6c) a share brought the full-year dividend to 6c (12c) a share

Directors said they were "fully aware" of the effect refurbishments would have on short-term profits, with 25% of the group's total rooms and facilities being unavailable during the year.

However, with the completion of the refurbishment programme — except for the Polana Hotel in Mozambique — Karos was well-placed to meet the expected demand in tourism, they said

A capital expenditure programme of R17m, to be partly funded by the rights offer, has been approved to enhance facilities at the Karos Indaba Hotel and Karos Mont Aux Sources Hotel.

Strong showing by lagging divisions revives Chubb

B|Day 28/6/91.

MARC HASENFUSS

STRONG performances from Chubb Holdings' physical and electronic security divisions ensured a 40% rise in earnings for the group in the year to March 1991

Chubb's physical security division increased its contribution to operating profit 46% to R6,1m and the electronic security division increased its contribution 58% to R7,8m

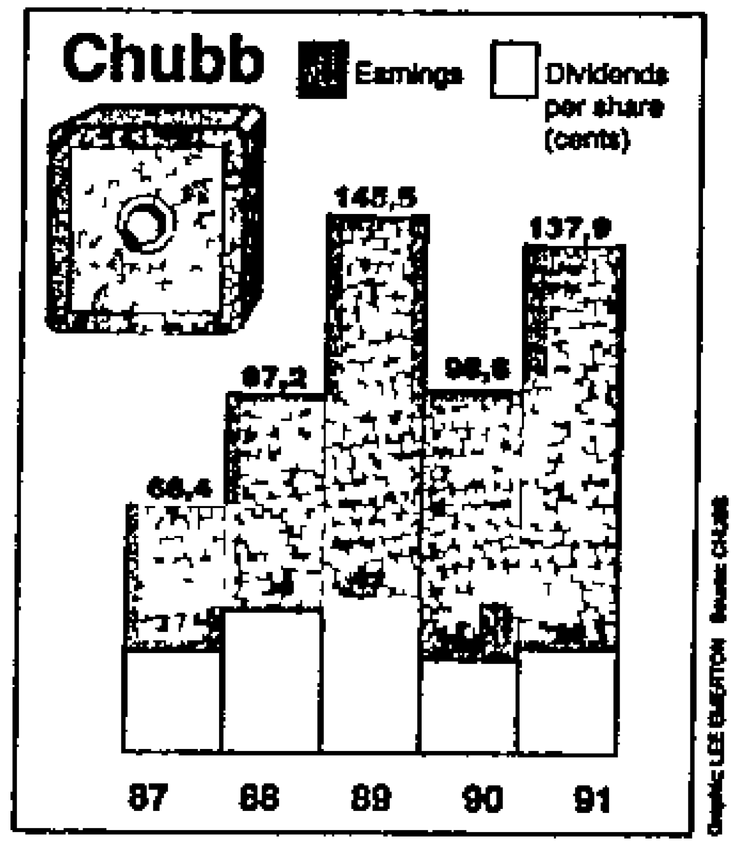
Ironically, Chubb's 32% earnings crash in the previous financial year was due to poor performances by these divisions

This year Chubb's fire security division was the bad apple, with a 40% decline in trading profit to R2,6m

However, turnover climbed 20% to R173m

Slightly improved margins helped lift operating profit 22%, while lower taxation partly offset a 33% increase in interest paid

Attributable earnings soared to R7,6m (R5,4m), although directors said "increased competition and low demand for group products from the construction industry adversely affected performance"



Earnings a share increased 39,9% to 137,9c on the back of a greater number of shares in issue A final dividend of 17c was declared

Total payout to shareholders was 28c, covered 4,92 (3,91) times

Chubb benefited from a partial pension fund contribution holiday Directors said had this not happened, earnings a share would have been 117,7c

Directors attributed the finance cost increase to R4,9m (R3,7m) to high domestic interest rates and higher borrowings stemming from capital expenditure, acquisitions and higher working capital levels

Abercom minorities offered 79% carrot

232

B|Day 28/6/91

BRENT VON MELVILLE

MALBAK is to buy out the minorities in its ailing Abercom subsidiary in a healthy offer almost 80% above the ruling price

Assuming the offer is accepted, Abercom will then be delisted

Malbak has offered minority shareholders 125c a share, a 79% premium on the existing share price of 70c

Abercom, whose sole investment is an 86% holding in UK-based packaging group MY Holdings through wholly owned Tawneydown, has traded in a range between 85c and 35c over the past 12 months

It has long been the financial thorn in Malbak's side

Malbak was forced last year to inject R51m into MY to keep its head above water

Despite the loan MY is still suffering from a high debt burden

Malbak chairman Grant Thomas said yesterday the group had looked at a number of alternatives when it realised the capital injection had not worked

Among them was the possibility of a rights issue in Abercom to recapitalise the business, but Abercom would have had to raise about R120m on the basis of seven new shares for every one at a price of 60c a share

Thomas said it had been clear for some time that Abercom's capital was being steadily eroded by MY's disappointing performance over the past several years

Tawneydown is also heavily geared, with borrowings standing at about £15m

He said the group would continue to run the operations at MY as best it could

"It is in far better shape than it was a couple of years ago, but MY has not paid any dividends to Tawneydown, and is unlikely to do so for some years"

The buyout will cost Malbak about R8m, but will have no material effect on either the earnings or net asset value of a Malbak share

Big tax leap hits Musica

MARCIA KLEIN

EXTRA shares in issue and a huge tax hike reduced Musica's 48% rise in pre-tax profits to a 5% decline in earnings a share in the year to end-March

The music retailer increased its turnover by 38% to R28,4m (R20,6m) Profit before interest was up 48% to R2,3m (R1,6m) and pre-tax profits rose 48% to R1,7m (R1,2m)

However, a 118% rise in taxation to R869 200 (R399 000) — after past tax losses ran out — left profit after tax only 11% up at R838 200 (R756 000)

The 5% decrease in earnings to 4,8c (5,1c) a share was mainly due to extra shares in issue from a five for one capitalisation issue A 20% higher dividend of 2c (1,67c) was declared, and cover lowered from 3,05 times to 2,43 times

Satisfactory profits from Columbia, Acrem

B|Day 28/6/91. 232

LIZ ROUSE

COLUMBIA Consultants and its rural retailing group, Acrem Holdings, both held profits at satisfactory levels in the year to March

Columbia achieved a 1% increase in attributable profits to R6,3m (1990 R6,2m), equal to earning of 21,2c (20,9c) a share. Dividend cover has been increased to 1,8 times and with the declaration of a final dividend of 8c, the total is down to 12c (15c)

Columbia scored on a low tax rate for the year Difficult trading and depressed economic conditions are reflected in a 13% drop in operating income to just over R10m (R11,5m) on a 5% increase in turnover to R71,1m (R67,4m), while interest paid was up at R4,1m ((R3,56m) and income from other investments was down at R1,3m (R2,3m)

Columbia CE Gordon Polovin says in his preliminary report that the ratios for current assets to current liabilities of 2,9 and interest-bearing debt to shareholders' funds of 0,61 and the return on shareholders' equity of 16,6% remain satisfactory

Acrem traded satisfactorily given the difficult trading conditions

Attributable profit amounted to R6,6m (R6,2m) on a 5% rise in turnover to R56,4m (R53,7m) But the doubling of the number of issued shares in the R15,5m rights offer (which reduced gearing from 116,6% to 55,8%) resulted in a 45% decrease in earnings a share to 8,5c (15,6c)

However, dividend cover has been dropped to 1,4 times (3,1 times) and the dividend total is up at 6c (5c)

Acrem's balance sheet is healthy with a current assets/liabilities ratio of 3,6 1, but Section 24 of the Income Tax Act has cast a shadow over four years' cash flow and income

Cash flow is estimated to be badly affected by about R2,5m a year for the next four years There will be no recourse to debt

Acrem has consolidated five branches into the remaining 11

W&A report in a race against time

B/Day 28/6/91. (232)

BRENT VON MELVILLE

THE big question on the market at the moment is whether Jeff Liebesman's W & A Investment Corporation will manage to get its annual report to shareholders before the group's interim results are published.

The delay in publishing the report is coming close to contravening JSE regulations that annual statements be published within six months of the year-end W & A's year-end is end-December

The JSE's GM listings Richard Conellan says late publishing of financial statements is the bane of the JSE He says the JSE will now insist that W & A gets a formal extension from the registrar of companies

He said it was frustrating because the JSE is trying to run an orderly market and, in W & A's case, the market was really dealing blind The only sanction the JSE had was to suspend the listing — a step it would be loathe to take.

Wondering

There is also the consideration that the longer it takes to publish results, the less meaningful they become.

Analysts are wondering mainly if it will answer the question of how W & A intends to alleviate its debt load, at present almost R1bn

Liebesman blames the slow accounting of Elcentre for the delay

However Elcentre, as an associate, will not be consolidated into the results Elcentre's year-end is June and its annual report was out last December

W & A financial director Neville Cohen insists that the Elcentre figures must be audited and incorporated in the results, which takes time

Liebesman says the annual report should be mailed to shareholders between 9 and 14 July

There has, in the meantime, been strong market speculation that Liebesman is considering hiving off some of W & A's underperforming assets, specifically, Elcentre/Elgro

However, Liebesman this week denied that there were any intentions to sell the Elcentre holding

● LIEBESMAN

W & A holds an effective 33,5% in Elcentre but has no management say

To sell at Elcentre's current market price of about 415c would net W & A R90m

There has also been speculation that Liebesman may have tried to sell some of his stake in Gentyre

Liebesman also denied this.

However, analysts say W & A must reduce its debt load somehow and Liebesman has discounted going back to the market In addition, it could be hard-up for cash — senior bankers say Liebesman is not popular with his bankers

W & A has also got the restructuring of the still loss-making Edworks group to take into account.

Its recently installed executive chairman Neville Howitz says Edworks will be selling its upmarket chain of stores and rationalising the rest

Rand Mines about to sell its forests

(232)

ANDREW GILL

NEGOTIATIONS were under way for the sale of Rand Mines' forestry and timber assets as part of the group's move to sell under-performing and non-core assets, chairman Dammy Watt said yesterday

Wholly owned subsidiary Lotzaba Forests, valued at about R20m, was a non-core asset, which had a tenuous relationship with mining, Watt said

He said negotiations were under way with "a number of interested parties" for the sale of Lotzaba Its contribution to group profits in 1990 was more than R2m

Meanwhile, an announcement concerning the Impala Platinum/Barmine deal is expected towards the middle of next week after several postponements

Watt said the transaction being concluded was a complicated one, but he was convinced it was in the best interests of shareholders to see it through to the end.

Sources said Rand Mines and Gencor were waiting for government sanction on a tax issue

Analysts said the question of tax shields was likely to be Gencor looking at ways of offsetting expenditure through its current interests

BDay 28/6/91.

However, with ring fencing still in place it would be difficult to strike a deal with government on the issue, one analyst said

Watt said the sale of the group's listed investments was "going quite well".

A market source said a significant portion of the investments had been placed with a Cape-based institution, possibly Old Mutual.

Negotiations are still under way concerning the sale of Vansa Watt said it was the subject of discussion with the likely buyer, Chromecorp Technology

New rules are tough for small brokers, investors

S1 Times (Bus (Times) 30/6/91. (232)

By JULIE WALKER

SMALL stockbrokers depending on private clients face a tough future because the rules about number of days' payment have been tightened

The change arose out of a case where a stockbroker allegedly sold shares he bought for a client who failed to pay for them after 15 days

JSE rules specify that clients must pay for their shares within seven working days Stockbrokers must sell the shares on the eighth day if they have not received payment by then

Error

The client bears the loss or takes the profit resulting from any movement in the price of the shares over the intervening period

But most stockbrokers bend the rules for the benefit of clients and are prepared to wait for payment for up to two weeks

In the case mentioned, it is believed the client said that the stockbroker erred in holding his shares for 15 days He should have stuck to the rules and sold them after seven

The client argued this way because the price of his shares was dropping He therefore incurred a bigger loss when they were sold on the 15th day than he would have had they been sold on the eighth day

The loss was reportedly R100 000, five times what he would otherwise have lost. The client would only stand for the loss incurred up to the eighth day

Buying and selling within 14 days is called jobbing Many stockbrokers earn most of their living out of this practice either on their own book or from the trading activity of private clients

Technical analysts use a 14-day cycle to track share-price movements and try to predict a pattern

No stockbroker wants to be in such a grey position at the whim of a client But on the other hand, none wants unilaterally to be the only firm not to grant an extra discretionary period

An approach was made to the JSE, which sought legal opinion The opinion was that the extra seven days are ultra vires

The outcome is a gazetted change precluding stockbrokers from granting the extra seven days In future, shares not paid for will be sold out after seven working days The rule became effective on May 30

After seven days, each case is presented to the JSE and leniency is granted where circumstances merit Such cases would include non-receipt of new issues of scrip, the death of a client after buying but before paying for shares, and so on

But the shorter period means jobbers have only half the time in which to make a fast buck Officially, only 15% of trade on the JSE is on stockbrokers' own books — jobbing stock

Since members do not pay brokerage any upturn is money in the bank Donwturns are part of the risk

Simple

The onus lies on stockbrokers to ensure the creditworthiness of clients The rules say a stockbroker must satisfy himself that his client is a corporate body capable of paying for securities against delivery

Some stockbrokers welcome the clarity on the grey area between seven and 14 days, but general opinion is one of dissatisfaction

Postal delays alone often mean that brokers' notes arrive after seven days, particularly to platteland dwellers Postal payments take as long to come back

Many clients are unaware of the change and are surprised to find the new discipline attached to their brokers' notes

In an illiquid market even a simple switch between shares can become difficult in only seven days

One portfolio manager dealing with several stockbrokers says the small man is being squeezed out of the market through high-brokerage costs and now a doubling of the risk of trading

"The institutions will soon have 100% of the market and it will be manipulated," she says.

Glasses raised over beer offer

By DERRICK LUTHAYI

C/Press 30/6/91

RESPONSE to the offer of 44 million shares in National Sorghum Breweries Limited, which closed on June 19, has exceeded the expectations of the company's directors.

Over 90 percent of the offer has been taken up by more than 9 000 investors throughout the country. The remaining block of less than 10 percent of the shares has been taken up by the Industrial Development Corporation who are the underwriters of the offer.

However the IDC admitted the offer was only valid for one month-end and has agreed to requests from individuals, burial societies, black business and stokvels who said they needed more time to consult with members and arrange finance to sell their shares to applicants at R1 each until July 31

NSB executive chairman Mohale Mahanyele, said: "We are the only company of this size that brings blacks and whites together, with blacks in a leading role. The company's mission is black economic empowerment and this share offer is a cornerstone of this policy.

"The entire offer was structured so as to enable black people to take advantage of a unique opportunity to participate for the first time in the mainstream of the South African economy."

He said the offer was virtually restricted to members of the black community, that no single investor could own more than 10 percent of the share capital, and that the share price of R1 is guaranteed for 12 months.

NSB negotiated special arrangements with The Standard Bank and African Bank to ensure loans would be made available to prospective shareholders

Mahanyele stressed that 30 percent of the offer had been set aside for NSB employees – by far the largest stake to be owned by workers in any major company in South Africa.

Mahanyele is pleased with the success of the public share offer campaign.