

OWNERSHIP & CONTROL

1994

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Competition Board meets cement cartel

ROBYN CHALMERS

CEMENT industry representatives will meet Competition Board and Trade and Industry Department officials today amid speculation that a decision scrapping the industry's cartel is imminent. *Biday*

The speculation was fuelled by Trade and Industry Minister Trevor Manuel's recent statement that the cartel would have to be reviewed. Critics believed members Anglo Alpha, Pretoria Portland Cement and Blue Circle appropriated most of the benefits of lower costs, he said.

Sources said yesterday other government departments were calling for the cartel to be dissolved, in line with the reconstruction and development programme's opposition to market collusion. A Trade and Industry spokesman said a special adviser to Manuel would attend today's meeting. A final decision on the cartel was unlikely to be made at the meeting, which sources said would be largely an information gathering session.

Industry representatives were expected to put their case for the continued existence of the cartel to Competition Board chairman Pierre Brooks. *10/8/94*

The release of the board's report on its 14-month investigation of the cartel, expected in April, was delayed as political and other constraints necessitated further inquiries. *(232)*

The cement producers have remained staunchly in favour of the cartel's continued existence, arguing that there were no artificial barriers to entering the local industry and the sector received no tariff protection or government handouts.

In its latest annual report the SA Cement Producers' Association said the cartel had helped "encourage competition between manufacturers to become the lowest cost producer". Breaking up the cartel could lead to higher prices and cement shortages as risks in an unmanaged market would be too great for further investment.

Clicks joins the club of billionaires

YURI THUMBRAN

TRADING results in the new financial year had shown an encouraging trend, but it was too early to make any predictions, Clicks chairman Gordon Utian said in the company's annual report.

Utian said the Premier Group specialist mass retail subsidiary would benefit further from the expected upturn.

The expertise of Clicks' management, together with the niche market it had created would, in a growing economy, enable Clicks to regain its previous levels of profitability and continue to expand.

MD Trevor Honneyset said Clicks would strengthen its position during financial year 1995 through expansion and by offering customers greater added value. 318194

The company's turnover reached the billion mark for the first time in its 25-year history.

Turnover rose 11,8% to R1,06bn (R950m). Operating income slipped 26,6% to R40,4m (R55m)

Earnings a share fell 36,2% to 8,77c (13,79c) and dividends a share were down to 3,70c (4,60c)

Net asset value a share increased to 73c (66c).

Diskom MD David Danziger said his division, which targeted the lower- and middle-income groups, would open its first stores in high-density black areas during the current financial year. The division accounted for 18% of the group's turnover. (232)

Stores were planned for Nyanga in the Cape, Atteridgeville in Pretoria and Dobsonville in Soweto.

Recent acquisition Musica planned to increase its number of outlets during the financial year from 85 to more than 100.

MD Robin Spengler said prospects for the music division were promising, and special emphasis would be made on penetrating into large rural towns such as Nelspruit, Witbank and Secunda

Farm-Ag purchase nets Sentrachem a twin prize

BIDAY 3/8/94

BEATRIX PAYNE

PETROCHEMICALS group Sentrachem would buy industrial chemicals company Farm-Ag — so netting the remaining 50% stake of joint venture partner Sanachem — in a deal worth R238m, Sentrachem MD John Job said yesterday

The deal would be effective from September and would be financed through a share placement. However, further financial details would only be finalised next week, he said.

The group intended to invest R50m-R60m in Sanachem over the next year as "it needs investment and its scope for growth is strong"

He said earnings would be boosted through the acquisition, but was not prepared to forecast further until the financial details of the deal had been tied up

The deal had been on the cards for some time, he said. The deadline for the acquisition was March 1995 and Job said he was pleased the deal had come off earlier, and would coincide with the group's year-end

Sanachem was involved in pesticides and had seen pre-tax profits leap from R5m in 1990 to R58m last year

By launching generic pesticides and her-

bicides internationally, Sanachem had grown despite the severe drought in SA, and had supplied agricultural chemicals markets worldwide

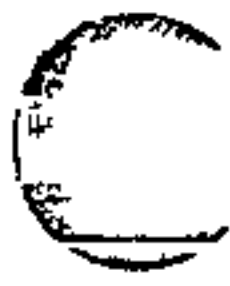
Farm-Ag would be delisted and shareholders would be offered R16,45 per Farm-Ag share and might have the option to take Sentrachem shares (~~158~~) (232)

Sanachem CE and Farm-Ag MD Robert Mangard had been contracted to stay on in the group, Job said

Job said Sanachem would "become one of the top profit producers in the Sentrachem group and it is better to have 100% of a blue chip than 50%"

The transaction was in line with Sentrachem's plans to move from producing commodity chemicals into higher value-added finished products

Before the acquisition Rale, the pyramid company above Farm-Ag, would be liquidated. Net assets of roughly R15,49 a share plus one share in Farm-Ag's Strand subsidiary for every Rale share would be distributed to shareholders



Rise for Standard Bank Investment

BiDay

318194

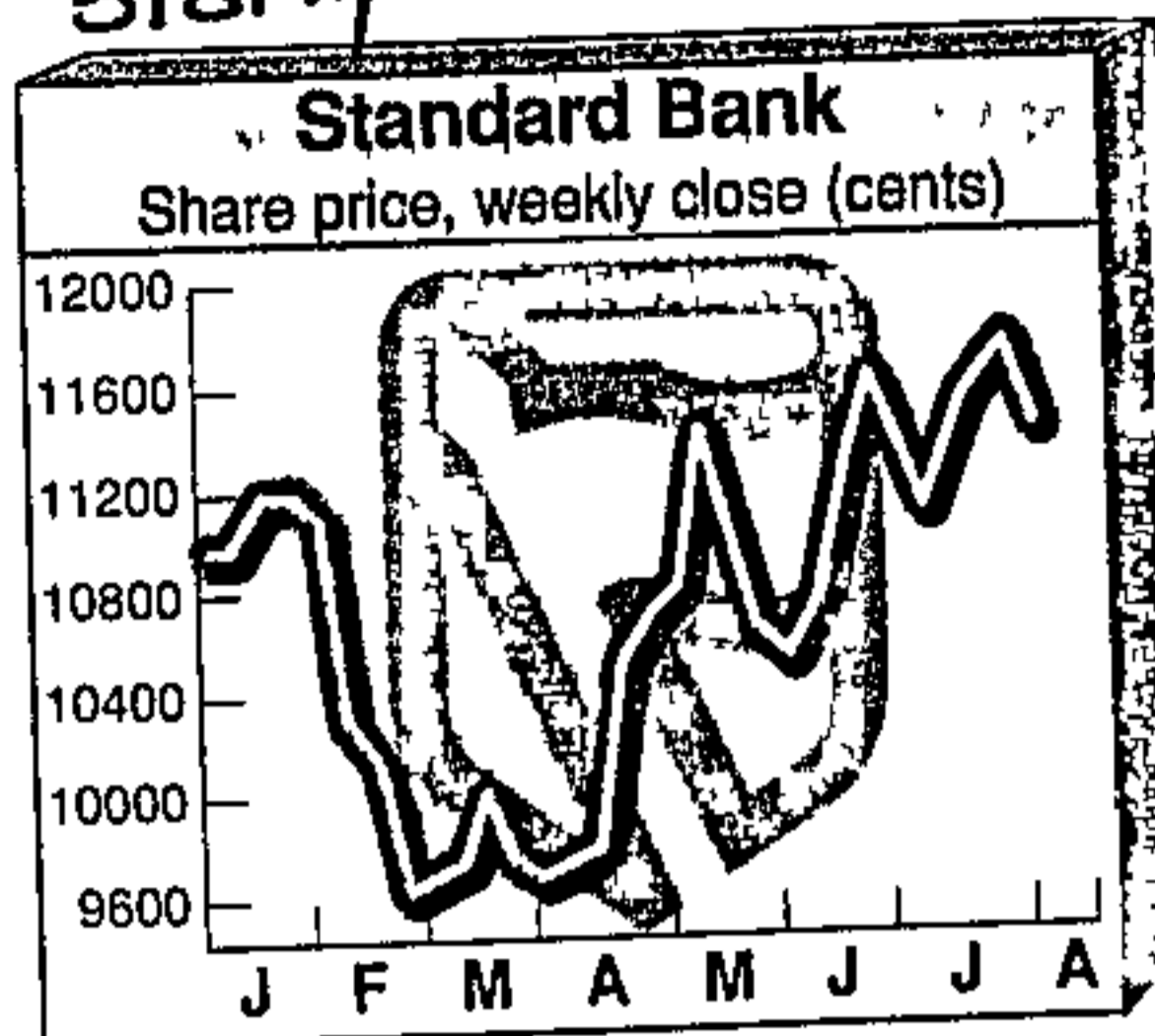
SAMANTHA SHARPE

STANDARD Bank Investment Corporation posted a 17,6% rise in earnings to 401c a share for the six months to June as lower bad debt provisions and a strong performance from other operating income helped offset pressure on margins

An interim dividend of 73c a share was declared, 17,7% higher than last year's interim dividend (232)

Growth in net interest income was relatively slow following the low rate of increase advances in the second half of last year. However, operations in London had seen a turnaround in profit.

Group MD Eddie Theron said the large London commitment meant the London operation could make a fairly big contribution to facilitating trade between SA and Europe. Acquisitions in Africa had also done well and would provide spin-off benefits for the London operation. It would be essential for the group to establish a strong presence in Hong Kong and New York.



The reduction in bad debts was a function of improved business conditions and in line with the trend among most banking groups, which had also reduced their bad debt provisions.

Total assets increased 17,9%, with continued growth in mortgage lending and

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BiDay 318194

□ From Page 1

some improvement in the demand for traditional lending products. This had resulted in an increase of 11,2% in advances in the first half of the year. While there were signs of an uptick in credit demand, it was "nothing to get excited about" (232)

Operating expenditure for the group's SA operations was kept to a growth rate of 12,6%. However, expansion and development in other African operations and in the UK kicked operating expenditure to 15,6%.

The premium and goodwill paid for strengthening the capital base of the London operation and on the acquisition of Ayrton Metals were the major culprits behind an extraordinary charge of R31m

Operating profit before tax rose nearly 15%, but after-tax profit showed an in-

crease of 16,9%. A R27m charge was made for the transitional levy, which would not be considered an extraordinary item.

Benefits from the reduction in company tax would kick in only on the 1995 income statement. "Changes to taxes announced in the Budget would have a negligible effect on results in 1994"

The group reported return on equity up at 17,3% and a 1,28% increase on return on assets. The bank expected earnings for the full year to outstrip those for 1993, spurred by expected benefits from higher economic growth, improved investor confidence and consumer demand. However, the rate of earnings growth was unlikely to exceed last year's level

Gold Fields may write off R700m

Biday 318/914

MUNGO SOGGOT

GOLD Fields could write off about R700m from its Northam Platinum stake if it followed mining investment subsidiary New Wits's decision to take a provision against the ailing platinum mine, analysts said yesterday. (30) (232)

New Wits, unveiling its results for the year to June, said it would take a R35m extraordinary charge to cover the devaluation to market value of its 3,5% stake in Northam. Gold Fields, which holds 60% of Northam, would have to write off about R700m if it was to cover the same devaluation on its 49,5-million shares.

The mining house said it would announce its decision when it published its results.

Northam said no inference should be drawn from New Wits's provision.

New Wits — which owned 2,51-million Northam shares at the end of 1993 — said the move followed the persistent low market value of Northam shares. The shares were fixed 50c higher at 625c yesterday,

against a R29 peak in 1992. The Zonderende mine called a R350m rights issue in 1992, but was soon forced to seek a R220m bank loan. The bulk of that cash has been exhausted. The mine's future now hinges on a technical assessment.

Stockbrokers said the write-offs should not affect the market's valuation of New Wits or Gold Fields as valuations would already have discounted the difference between Northam's market price and its carrying cost in New Wits's balance sheet.

New Wits reported a fall in revenue from its investments to R25m (R32m), with a final dividend unchanged at 35c. It managed to hold its dividend because a firmer gold price had helped push its investment income up 20% to R20m (R16m). New Wits's expenditure rose to R3,9m (R2,7m), R1,8m of which had been spent exploring reefs in the southern Free State.

New Naspers tabloid will do battle with Argus

AMANDA VERMEULEN

PUBLISHING group Nasionale Pers (Naspers) is to attack Argus Newspapers' Western Cape publications with a new English weekly tabloid, Peninsula Times, later this month, the paper's founder and director Marthinus Strydom said yesterday.

He said the paper — 70% owned by Naspers — planned to erode Argus's domination of the property advertising market. *BIDay 4/8/94*

It would also attempt to undermine Argus subsidiary Unicorn Publishing's knock-and-drop papers in the region

Unicorn was under additional pressure because of the defection of most of its staff to the Peninsula Times, said Strydom.

A launch into the black townships surrounding Cape Town was planned for early next year. That would increase the paper's circulation to 300 000 from the initially expected 200 000.

Earlier this year, Naspers bought a share in township paper Khayelitsha News, giving the group a foot in the door to the black newspaper market

Peninsula Times, a free distribution newspaper, would publish every Tuesday with separate editions for the northern and southern suburbs.

Strydom said Naspers's move into tabloid papers followed the growing international popularity of tabloids against the decline of broadsheet papers.

Argus advertisement manager Malcolm Dean-Smith said competition from new products was always welcome. *(145) (232)*

JCI to sell TML stake for R174m

Biday 5/8/94

MINING house Johannesburg Consolidated Investment (JCI) is to rationalise its controlling interest in Times Media Limited (TML) by selling its 23,6% direct investment to Argus Holdings in a deal worth R174m. Argus already owns 35,8% of TML, as well as other major investments in CNA Gallo and M-Net.

The transfer will be effected by the issue of 5,36-million new Argus shares to JCI, lifting the mining group's holding in Argus to 31,4% from its present 22,2%. The transaction follows the recent unbundling of Argus Holdings' Press interest through the sale of its Argus Newspaper interests to Tony O'Reilly's Dublin-based Independent Newspapers. The effect of that was to separate Argus's former newspaper interests completely from those of TML.

Yesterday afternoon, TML and JCI chairman Pat Retief, Argus MD Doug Band and JCI finance director Vaughan Bray said the restructuring would be part of JCI's own unbundling. It would leave TML as part of the unbundled JCI industrial division and well-placed for future growth and development.

The reconstituted Argus Holdings will be the JCI industrial group's vehicle for its

AMANDA VERMEULEN

media, information and entertainment interests.

TML's core newspaper interests include Business Day, Sunday Times and Financial Mail. It also owns 18% of M-Net, as does Argus Holdings, and has extensive other publishing and electronic media interests.

There had been questions about whether Argus was entitled to retain its M-Net interest when it sold its newspapers. The TML transaction will, however, allow it to comply with those ownership conditions.

The transaction is based on the issue of 110 new Argus Holdings shares at a notional price of 2 950c each for every 100 TML shares. The Securities Regulation Panel sees the transaction as a repositioning of a shareholding within an existing controlling group. Although this means a similar offer does not have to be made to TML's minority shareholders, it will be.

Retief believed it was essential that TML's print and electronic publishing interests should continue to be owned by a listed company.

Consequently he proposed that if a large

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TML

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proportion of TML's minorities accepted the offer of Argus shares, TML's publishing interests could be listed separately on the JSE with an adequate spread of shareholders.

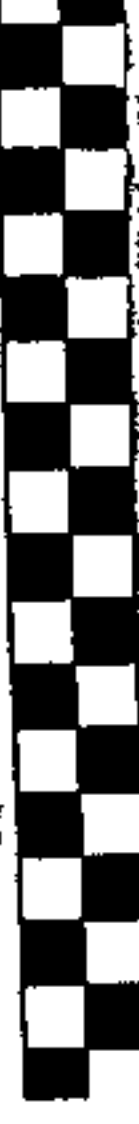
TML remains highly liquid with about R100m in cash from the recent sale of

minority interests in other newspapers and some foreign premium rate telephone services. Opportunities to deploy this cash profitably are being investigated.

It is intended to change the name of Argus Holdings soon to avoid confusion with Argus Newspapers.

fm 5/18/94

WHO OWNS SASOL?



MAJOR SHAREHOLDERS
HOLDING COMPANY

- Rembrandt Group 6%
- Liberty Life 6%
- Anglo American 8%
- Standard Bank Nominees 9%
- Public Investment Corp 11%
- IDC 12%
- Sanlam 14%
- SA Mutual 21%

fm 5/18/94

apparently not on the agenda) and in the chemical industry. So it appears to be largely irrelevant.

The report predates (and the article overlooks) decisive subsequent developments in the petrochemical industry which have effectively overcome the barrier to the export of plastic products represented by the cost of feedstocks. The formation last year of the 60/40 Polifin joint venture by Sasol and AECI constitutes the sort of vertical integration Crompton suggests.

Davies says Sasol provides Polifin with the crude feedstock from which it produces ethylene. Polifin then sells the ethylene to its plastic manufacturing plant and to Sentrachem subsidiary Safripol. SA ethylene prices are lower than the average for the US and Europe. And the "netback" price used for the manufacture of polyethylene for export is not only much lower than average world prices but often stands at a 50% discount to the local market price.

Sasol has also sold its propylene and polypropylene facilities to Polifin. Davies says that propylene and other feedstocks such as ammonia have no tariff protection and their local prices are in line with international levels.

Sentrachem director Glen Carter confirms his group now has access to ethylene at a "competitive" price on which to base its exports. A deal concluded with Polifin to supply propylene will also ensure supplies of this at competitive prices.

In Sentrachem's 1993 annual report MD John Job says exports grew by 29% and stood at 13% of sales — on the road to the long-term goal of building exports to 25% of sales. The trend will be reinforced by the new arrangements.

Polifin's Derek Lake says local polymer (polyethylene and polypropylene) prices have been higher than international prices because of the high protection afforded by formula tariffs, now being phased out in terms of the Uruguay Round of Gatt.

He notes the ethylene price has been set at 56% of the polyethylene price; so the polymer price drives the ethylene one, not the opposite as implied by Crompton. Lake believes the international ratio is 60% — somewhat higher than the quoted average historical ratio of ethylene and polyethylene prices in north-western Europe and the US.

Outstanding policy issues affect the liquid fuel industry, notably Sasol. These include marketing arrangements and tariff protection (which some prefer to call subsidies) dating to the days of oil embargoes and policies of self-sufficiency. These features of the fuel market should be rationalised through adopting free market policies, including the sale by the state of its remaining shareholding.

The Crompton report was a flawed document that relied heavily on socialist direct controls and even nationalisation of important parts of Sasol's operations and other segments of the chemical industry. Ad-

POLICY DOCUMENT
fm 5/18/94
After the event

The suggestion that Cosatu might propose the nationalisation of large parts of Sasol is sensational but unlikely. It was made in a *Business Times* article of July 31 and was based on a report submitted to Cosatu by Chemical Workers' Industrial Union secretary Rod Crompton.

The report set out a series of policy options to enable the plastics fabrication industry to overcome what it regarded as a serious problem in breaking into export markets, namely the high cost of two important feedstocks, ethylene and propylene, which Sasol produces as part of its synthetic fuel operations.

But the document is dated March 1993. And, as Sasol GM Pat Davies points out, there have since been important changes, in the political arena (with nationalisation

mitedly, it suggests nationalisation could be followed by reprivatizing (232)

What's more, it appears to have been compiled by one individual, based on his research and a series of interviews. It has been kept under wraps since March 1993 and has not been debated with petrochemical manufacturers nor the National Economic Forum for discussion.

The report claims Sasol serves the interests of blue-chip shareholders. But the interests of the life assurance companies identified amount to 41% (see table), while other institutional holdings are concealed through nominee companies. These would include mutual funds and pension or life companies. These, in turn, are trustees for many small investors, including Cosatu membership through pension funds.

SERVGRO

Ready for pickup in spending

Fun 5/8/94

Activities: Services group, with interests in Avis 85%, Price Forbes 48%, Fedics 48%, Teljoy 48%, Interpark 43%, Interleisure 40%, Naspers 22%

Control: Sankorp 70%

Chairman: P J J van der Walt

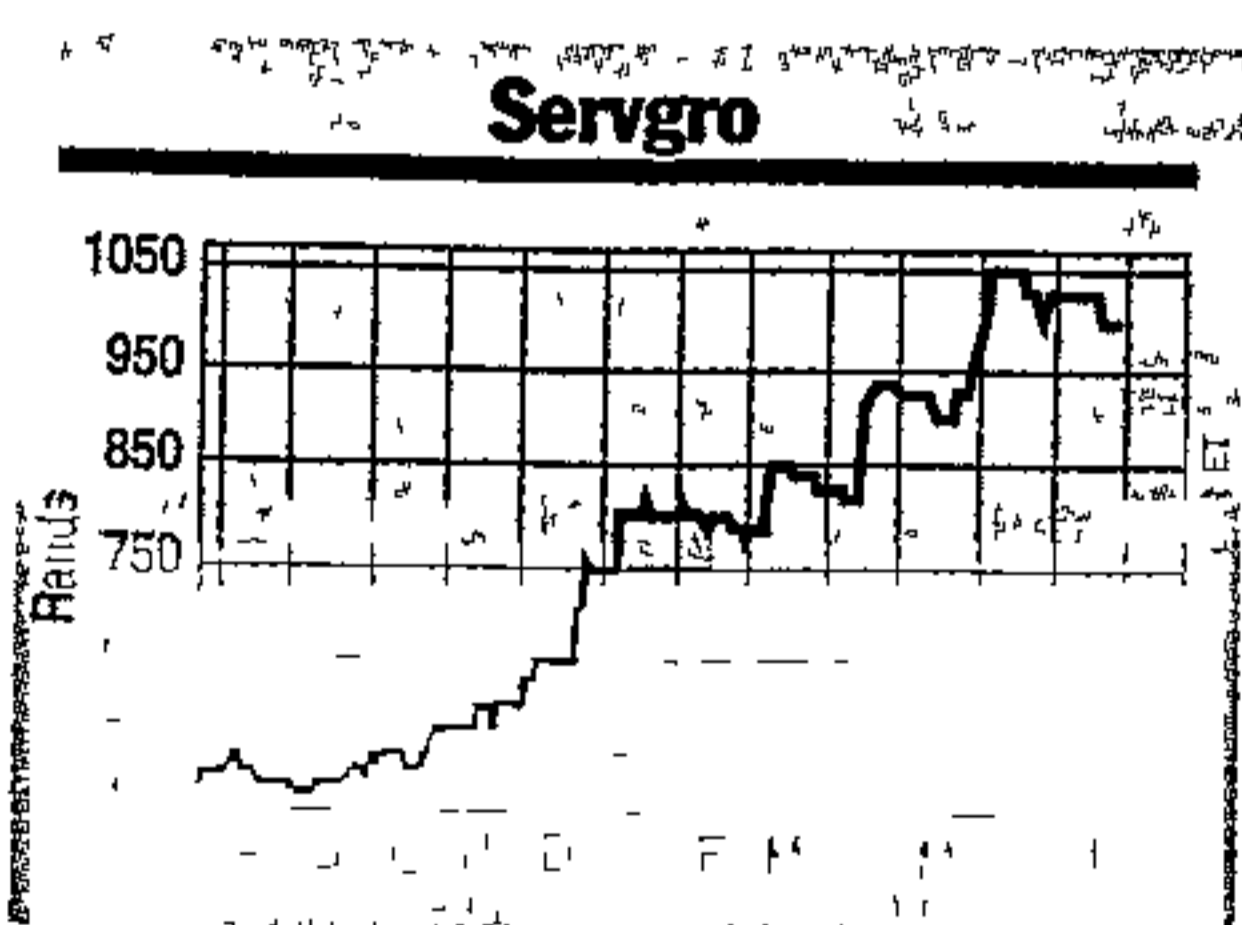
Capital structure: 110,4m ords Market capitalisation R1,1bn

Share market: Price R10 Yields 2,1% on dividend, 5,3% on earnings, p e ratio, 18,8, cover, 2,5 12-month high, R10,50, low, R5,10 Trading volume last quarter, 2,7m shares

Year to March 31	'91	'92	'93	'94
ST debt (Rm)	—	39,5	39,9	37,1
LT debt (Rm)	—	39,9	41,8	49,0
Debt equity ratio	—	n/a	n/a	n/a
Shareholders' interest	—	n/a	0,52	0,57
Int & leasing cover	8,0	7,5	8,0	7,0
Return on equity (%)	n/a	16,2	17,3	13,9
Return on cap (%)	n/a	n/a	13,7	11,8
Turnover (Rm)	725	811	921	966
Pre-int profit (Rm)	82,4	100,2	117,8	121,8
Pre-int margin (%)	11,4	12,4	12,8	12,6
Earnings (c)	34,6	41,3	47,2	53,3
Dividends (c)	16,0	16,7	19,0	21,0
Tangible NAV (c)	n/a	255	273	383

The strong rerating of Servgro's share — it trades at slightly more than double the price of a year ago, after a fairly flat performance since listing in August 1992 — is supported by the 1994 results.

But one suspects the share price also contains a strong element of discounting against future growth. There is potential for Sankorp's collection of quoted and unlisted services businesses, focused on leisure, communication and tourism through Servgro, to perform well this year. But that will depend partly on better results from 40%-held Interleisure and, to a lesser extent,



Teljoy

Interleisure accounts for about 22% of Servgro's attributable profit of R58,9m, the largest contributor except for risk management and insurance services group Price Forbes (30%)

Turnover showed satisfactory growth but earnings were held at the previous year's level due to substantial investments, mainly in Ster-Kinekor. The high investment meant additional operating and finance costs as



Servgro's van der Walt second half looking better

well as depreciation.

Interleisure MD Mike Egan says the core away-from-home entertainment business suffered from the continuing violence in SA, results would benefit if a reasonably peaceful and stable environment can be achieved.

Action has already been taken. Executive chairman Peet van der Walt says some interests have been sold, including the Mike's Kitchen chain of franchised operations, for an undisclosed amount, and the company's 50%-interest in Video Magic for just over R20m.

"We are refocusing the company, concentrating on cinema and film production operations. This will require high capital spending but growth prospects look considerably better," Van der Walt says.

New developments this year include a R20m entertainment centre at Sandton City and the opening of Ster-Kinekor's first complex in Soweto, at a cost of about R2,5m. Interleisure expects growth in operating profits for its current financial year (the year-end is in June), which will be helped by growth in the economy.

Generally, that's what Servgro needs. Van der Walt says consumer spending in the reporting period remained depressed. Once again, violence and political uncertainty around the election period had a negative effect on tourism and travel, which dampened demand for group interests in car rental, catering and hotels.

Van der Walt notes evidence of an improvement in the second half. "Teljoy has produced better results (see separate

report), car rentals are picking up strongly, and all the other businesses have performed well," he says.

Though the coming listing of Nasionale Pers, in which Servgro has a 22% interest, will not have immediate, direct benefits for the group, a market valuation of the shares should see Servgro's investment appreciate substantially.

The last valuation of Nasionale shares — at R70 — made Servgro's holding worth R160m. Van der Walt says the value after listing is expected to be about R300m.

Servgro will continue to reflect the Nasionale investment through dividend income, which should improve after the listing. Nasionale's dividend is now covered more than 10 times.

Other new developments, much in line with parent Sankorp's recent thinking, is the development of joint ventures with black business groups. Van der Walt says Fedics has entered into two joint ventures with black partners — Teljoy also has a joint venture agreement.

Servgro is well positioned for expansion. It is ungeared and is holding R50m cash at the centre, which Van der Walt says is available for investments.

Another strong feature is Servgro's cash generating ability. Cash from operations increased 61% to R130,9m, which, after the dividend payment, saw R94,2m retained.

Growth in the share price might slow down after the surge since November. But prospects appear to be good. Servgro expects real growth in earnings this year, which will be enhanced by an improvement in consumer spending. On a p e of 19,7, against a sector average of 32,2, the share seems to offer fair value.

Shaun Harris

For 5/8/94



Cape freesheet battle

Nasionale Media has launched a major onslaught against the Argus Newspapers' freesheet stronghold in the Cape Peninsula by establishing a new weekly knock-'n-drop tabloid newspaper with a claimed circulation of 200 000 making it the biggest in the country

The first issue of the *Peninsula Times* is due out on August 23. It is a joint venture between Nasionale and a company that has been publishing the 100 000-circulation *Northern Times* freesheet in the Bellville/Parow/Goodwood area for the past year.

Some Argus executives believe the project may be the first step by Nasionale towards the establishment of an English language daily newspaper in the Western Cape, although directors of the new company deny it.

Tony O'Reilly's recent purchase of Argus Newspapers and the *Cape Times* gives him an English language monopoly in Cape Town. Nasionale was also keenly interested in buying the *Cape Times* which it believed would fit in well with *Die Burger* by creating an attractive combined product for advertisers.

But O'Reilly won the battle and Nasionale is now clearly looking at other options. The company has a 70% stake in the *Peninsula Times*. The venture includes the creation of a new distribution company. The newspaper will be printed by Nasionale Pers.

Peninsula Times director Marthinus Strydom believes the publication will succeed because of an unprecedented quality of editorial content for a freesheet. Editorial plans include in-depth investigative reporting and news analysis.

Strydom says the publication will also benefit from synergies with *Die Burger* in areas such as shared classified and property advertising. The major casualty so far has been Argus Newspapers' subsidiary Unicorn Publishing, which publishes a number of weekly Peninsula freesheets with a total circulation of about 130 000.

Peninsula Times has poached some of Unicorn's most senior advertising and editorial staff.

The new publication claims to have the lowest advertising cost per 1 000 circulation of all the major newspapers in the Western Cape, including Unicorn. Advertisers will have the option of buying space in either a northern or southern edition of the newspaper or in both. Editorial content will vary slightly to cater for local issues. About 100 000 copies of each issue will be distributed.

Advertising rates for full colour in the

northern or southern edition are R46,40 per column cm excluding Vat. For both editions the full colour rate is R60,80/column cm. The newspaper plans to concentrate heavily on advertising features and has already published a programme for at least one a week until August next year.

Upstaged

It's no wonder actors hate sharing the stage (or screen) with a child or an animal. Of the TV commercials most liked by the white viewing public in each of the last 10 years, seven featured animals or children. They included the ISM elephants, the TrustBank squirrel, the BMW mouse (though in the inebriated version, cautioning people against driving while under the influence, not the original version) and Sanlam's babies.

Black viewers seem less sentimental about animals, which don't feature at all among their favourites (measured only over the past six years). Only two of their top commercials use children.

The most popular ad of the decade was Sasol's "Little boy", which also featured a dog. It has been produced using both a white boy and a black boy.

Likeability is measured by Impact Information's Adtrack, which has tested more than 10 000 commercials in 10 years.

O&M Rightford has emerged as the leading creator of likeable ads. Four of the 16 most-liked ads came from this stable. Two each came from Hunt Lascaris, Lindsay Smithers and McCann-Erickson.

Adtrack conducts weekly interviews measuring viewers' recall and liking of each new commercial. The degree to which

viewers like a TV spot is considered the best predictor of its commercial effectiveness.

Media buyout

The Media Shop, SA's largest fully independent specialist media agency, has bought control of International Media Representatives, a media sales organisation representing a wide range of foreign publications. The buyout will be spread over a number of years as IMR founder Robin Hammond, who is 65, phases out of the business.

The move is something of a departure for The Media Shop, though MD Dick Reed says acquisitions of this nature are not uncommon for media specialists in other parts of the world. "Our London associates are involved in a similar operating company," he says. "Provided you keep it at arm's length and operate independently, there is no clash."

Reed believes the synergies will be strong. "The move puts IMR into a media environment and infrastructure which will be good for it. Now they have the back-up of our group resources."

The Media Shop was founded in 1988 and its billings of R105m last year placed it eighth among all media billing groups in SA. It recently acquired the Cape-based company, Media Plan.

The agency is a member of the Media Mondiale international network of independent media planning and buying companies in 48 countries and now it has achieved worldwide billings of more than US\$900m.

IMR was founded by Hammond in 1975 and represents, among others, *Wall Street Journal*, *The Economist*, *Die Zeit*, *Figaro* and *Asahi Shimbun*.

Tony Koenderman



Robin Hammond



Dick Reed

MOST-LOVED

Year	Client	Agency
Whites		
1984	SAA	Lindsay Smithers
1985	Cremora	BBDO
1986	Sun City	Grey-Phillips
1987	Sanlam	Lintas
1988	VW	O & M (Cape)
1989	ISM	O & M (Tvl)
1990	TrustBank	DMB & B.
1991	Sasol	Lindsay Smithers
1992	Lecol	Hunt Lascaris
1993	BMW	Hunt Lascaris
Blacks		
1988	Sales House	O & M
1989	Lion Lager	BSB Bates
1990	Chicken Licken	Wilsenach
1991	Coca-Cola	McCann-Erickson
1992	Old Mutual	O & M
1993	Coca-Cola	McCann-Erickson

FM 518 194

delisted, reinvesting R1,9m for a 20% stake in the new company set up to run the Dispatch publishing business.

Externally, significant changes to TML's shareholding structure are expected shortly, precipitated by the sale of Argus Newspapers and the need for Argus Holdings to own a daily newspaper to retain its 18% investment in M-Net. As the FM has speculated before, the logical outcome would seem to be for TML to become a subsidiary of Argus Holdings.

One effect of these changes, as chairman Pat Retief notes, is that the composition of TML's profits will be different this year. This will be reflected mainly in lower earnings from associates because of the disposals and from continuing losses expected from MultiChoice (18%-held by TML) due to its investment in European pay-TV operation FilmNet and its venture into cellular telephones through MTN (195) (232).

TML has a net surplus of about R100m from the disposals, which, with an ungeared balance sheet, places the group in an ideal position to make acquisitions. Investment decisions, however, will be particularly important. MD Roy Paulson says TML has to replace what in most cases were good investments. "We were obliged to make the disposals and will have to make sure we use the cash to build up strong investments," he says.

Considering joint ventures

While there is no great urgency to make acquisitions, TML will also not want to hold the cash for too long at current interest rates. Paulson says a number of joint venture offers from overseas are being considered, as well as a local deal which could be promising.

But he also wants to invest some of the cash in TML core publications, mainly the *Sunday Times*, *Business Day* and *Financial Mail*, as well as the magazine division.

"I think we should invest in the quality of the product, which leads to a more natural and sustainable growth in circulation," he says.

The *Financial Mail* will be the first to receive attention. Paulson says the publication will be strengthened and repositioned in the market.

The value of the core publications comes through clearly in a breakdown of operations. The newspapers, which make up 84% of sales, grew turnover by 12,2%, while group turnover increased 8,4%. Operating profit climbed by 10,9% to R49,9m, while group operating profit declined 3,1%, largely from the launch costs of *Playboy* magazine which saw the contribution from the division move from a profit of R3,6m to a loss of R1,4m. Losses at FilmNet saw earnings from associates decline from R15,7m to R12,6m.

Paulson is confident of the year ahead. He says trading for the first few months of the new financial year is ahead of budget and the previous period. "TML is beau-



TML's Retief ... lower earnings from associates

tifully poised. We have good core products and people, as well as cash to invest. We must make sure we use it to develop our publications for the future."

Perceptions of the share are likely to be influenced by new factors. While there may be some uncertainty until TML's new shareholding structure is spelled out, the strong balance sheet and cash holdings could be a bullish influence on investors. The performance of the linked M-Net and MultiChoice share could lessen while development costs in FilmNet and MTN continue.

Latest results, however, should continue to underpin TML's share price, at R32,50 just off its high for the year. *Shaun Harris*

TML *FM 5/8/94*
Changing profit mix

Activities: Provides information, through core publishing of newspapers and niche and magazine publishing, electronic publishing, television, exhibitions and direct marketing

Control: JCI holds an effective 32,8%

Chairman: P F Retief, MD R H Paulson

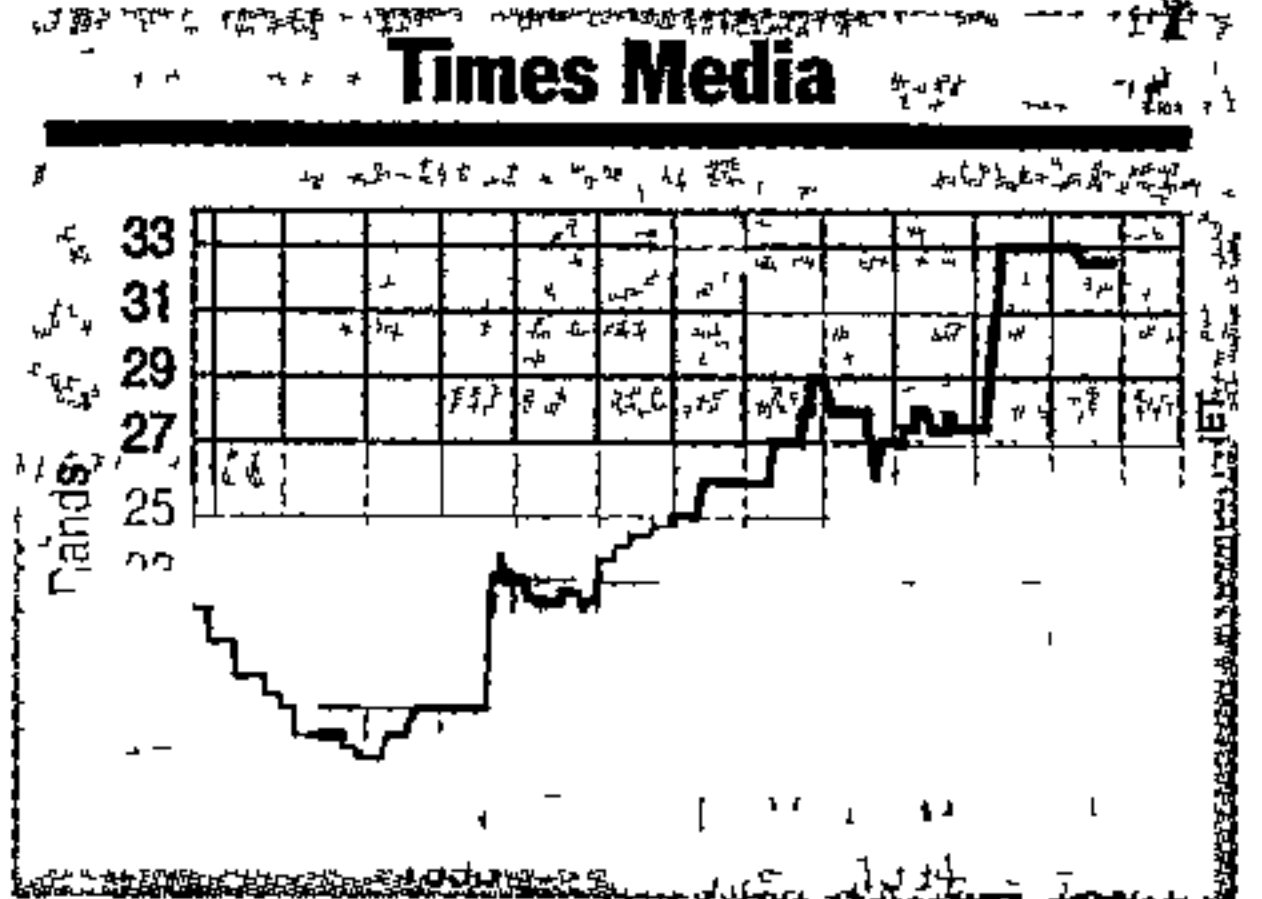
Capital structure: 22,7m 'ords, Market capitalisation R737m

Share market: Price 3 250c. Yields 2,5% on dividend, 6,0% on earnings, p e ratio, 16,6, cover, 2,4 12-month high, 3 300c, low, 1 750c Trading volume last quarter, 635 000 shares

Year to March 31	'91	'92	'93	'94
ST debt (Rm)	0,1	2,6	32,4	0,3
LT debt (Rm)	4,1	1,9	1,7	1,5
Debt equity ratio	n/a	n/a	n/a	n/a
Shareholders' interest	0,62	0,70	0,64	0,81
Int & leasing cover	n/a	n/a	37,3	n/a
Return on equity (%)	22,1	15,3	13,7	11,3
Turnover (Rm)	266	330	348	378
Pre-int profit (Rm)	40,0	54,3	47,7	49,9
Pre-int margin (%)	14,9	16,0	13,4	13,2
Earnings (c)	145	189	172	196
Dividends (c)	60	69	71	82
Tangible NAV (c)	655	1 232	1 257	1 740

Internally, Times Media (TML) has changed considerably over the year, much of it since year-end. Various interests in coastal newspapers, a printing operation and the *Pretoria News* were sold for about R60m to the recently listed Argus Newspapers

Earlier, TML sold its 47,5% interest in foreign premium rate telephone service Legion for R36,2m. And it received a liquidation dividend of R13,2m when Dispatch Media, in which TML held 29%, was



COMPANIES

FM 5/8

delisted, reinvesting R1,9m for a 20% stake in the new company set up to run the Dispatch publishing business.

Externally, significant changes to TML's shareholding structure are expected shortly, precipitated by the sale of Argus Newspapers and the need for Argus Holdings to own a daily newspaper to retain its 18%-investment in M-Net. As the *FM* has speculated before, the logical outcome would seem to be for TML to become a subsidiary of Argus Holdings.

One effect of these changes, as chairman Pat Retief notes, is that the composition of TML's profits will be different this year. This will be reflected mainly in lower earnings from associates because of the disposals and from continuing losses expected from MultiChoice (18%-held by TML) due to its investment in European pay-TV operation FilmNet and its venture into cellular telephones through MTN.

TML has a net surplus of about R100m from the disposals, which, with an ungeared balance sheet, places the group in an ideal position to make acquisitions. Investment decisions, however, will be particularly important. MD Roy Paulson says TML has to replace what in most cases were good investments. "We were obliged to make the disposals and will have to make sure we use the cash to build up strong investments," he says.

Considering joint ventures

While there is no great urgency to make acquisitions, TML will also not want to hold the cash for too long at current interest rates. Paulson says a number of joint venture offers from overseas are being considered, as well as a local deal which could be promising.

But he also wants to invest some of the cash in TML core publications, mainly the *Sunday Times*, *Business Day* and *Financial Mail*, as well as the magazine division.

"I think we should invest in the quality of the product, which leads to a more natural and sustainable growth in circulation," he says.

The *Financial Mail* will be the first to receive attention. Paulson says the publication will be strengthened and repositioned in the market.

The value of the core publications comes through clearly in a breakdown of operations. The newspapers, which make up 84% of sales, grew turnover by 12,2%, while group turnover increased 8,4%. Operating profit climbed by 10,9% to R49,9m, while group operating profit declined 3,1%, largely from the launch costs of *Playboy* magazine which saw the contribution from the division move from a profit of R3,6m to a loss of R1,4m. Losses at FilmNet saw earnings from associates decline from R15,7m to R12,6m.

Paulson is confident of the year ahead. He says trading for the first few months of the new financial year is ahead of budget and the previous period. "TML is beau-

232

P.T.O.

Argus Holdings buys JCI stake in TML

■ BY CHARLOTTE MATHEWS

Argus Holdings will buy JCI's entire 23.6 percent stake in newspaper group Times Media Limited (TML) in a deal effectively worth R174 million, it said yesterday.

The transaction, which is being settled by the issue of 5.9 million Argus Holdings shares to JCI at R29.50 a share, brings Argus Holdings' stake in Times Media to 59.4 percent from its present 35.8 percent.

The transaction will make Argus Newspapers the vehicle for the media, information, entertainment and communications interests of the new JCI industrial group and will also enable Argus Holdings to comply with conditions for owning shares in Electronic Media Network Holdings, the holding company for the M-Net/Multichoice Group.

A condition of owning a stake in M-Net is that the owner should hold more than half the shares in a daily newspaper.

Argus Holdings has an 18 percent stake in the M-Net group (R232) JCI financial director Vaughan Bray said. Argus Holdings would definitely be making more acquisitions in the media and communication sector where it could see a number of opportunities.

Although it carries the same name, Argus Holdings has severed all connection with Argus Newspapers, listed in June as a new company.

Argus Holdings will be renaming shortly, but has not yet decided on its new name.

Argus Holdings will extend the offer being made to JCI to all outside shareholders in Times Media, who will be able to exchange 100 Times Media shares for 110 Argus Holdings shares.

If there is a high level of acceptances, which would dilute the minority interest in Times Media to a small percentage, Argus Holdings would explore the possibility of listing Times Media's print and electronic interests separately.

Argus Holdings' reported earnings a share in the year to March were 235c. But excluding the earnings of Argus Newspapers and the effects of certain disposals by Times Media, they were 139c a share.

If the increased shareholding in Times Media had been in place for the full financial year to March, Argus Holdings' earnings a share would have been 141c.



COMPANIES

Engelhard earnings 12% higher

MICHAEL URQUHART

MINORCO subsidiary Engelhard Corporation posted net earnings of \$31.9m for the three months to June, 12% higher than the same period last year.

The good figures for the US specialty chemical products and engineered materials company pushed half-year earnings to \$54.6m, up 23% from the first half of 1993.

But extraordinary items from the sale of an investment and accounting changes left first-half net earnings at \$34.7m.

The figures were achieved on net sales of \$563.2m for the second quarter and \$1.19bn for the first half of 1994.

Engelhard president Orin Smith said the results were especially pleasing as the company was supporting investments on several growth projects.

The new projects related to the company's environmental technology, petrol-

eum catalysts and air-conditioning technology. The company expected benefits in the second half of the year.

The main contributor to earnings was the chemicals and catalysts section, which significantly increased sales of environmental catalysts for the automotive, truck and bus markets and petroleum catalysts for the refining industry.

The pigments and additives section reported a 14% increase in earnings despite a fall-off in sales.

Stronger sales of fabricated products and productivity improvements in the engineered materials and precious metals management section were partially offset by softer industrial demand for precious metals in Europe.



Antimony demand gives Cons Murch share a lift

MICHAEL URQUHART

SHARES in JCI-owned antimony producer Consolidated Murchison surged 47% yesterday to close at R22, following a broker's report predicting 1994 earnings at nine times their 1993 level. *Baring*

The share price was more than seven times its R3 low last September. In the forecast, Baring Securities said the stronger antimony price could result in a profit of R45m for Cons Murch. *918/94*

Even if antimony dropped to \$2 500 a ton, it said that on Cons Murch's output of 3 900 tons it would be trading on a prospective price-earnings multiple of only 2,6

The company mines concentrates in the eastern Transvaal, with gold and silver produced as by-products. During the years of low antimony prices, the company concentrated more on producing gold.

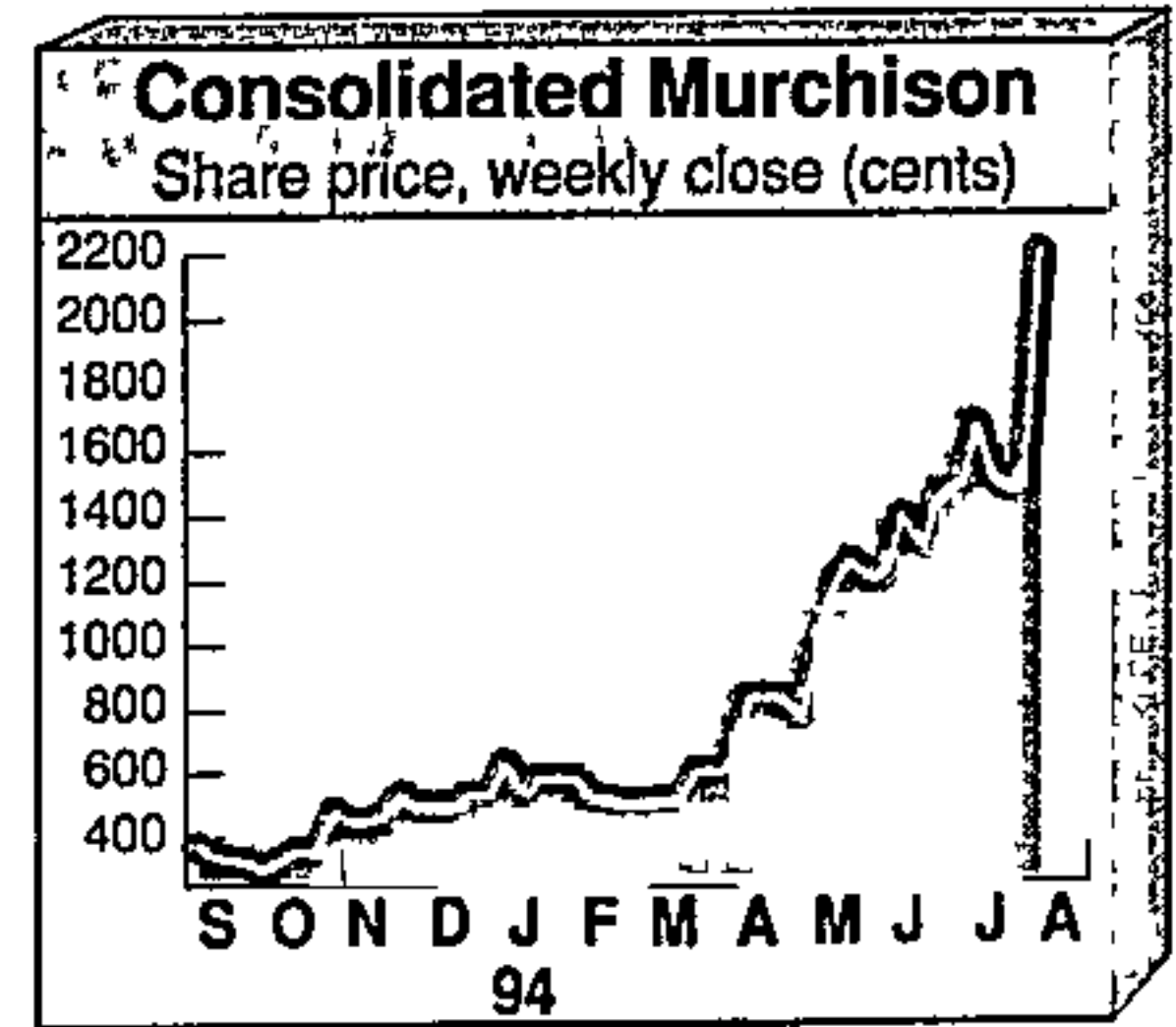
The antimony price, which started the year at around \$1 600/ton, was now above \$5 000/ton. *(232)*

Cons Murch marketing director Paul Coenen said the sudden surge in the share price could possibly be linked to the strength of the antimony market.

He said the price had been about the same as last week, and the movement was probably due to speculation.

The company produced a 60% concentrate which had to be converted before it could be used to produce antimony oxide.

Coenen said the market was led by the



antimony price, which should continue to strengthen due to good fundamentals.

He pointed to growing world demand, decreased Bolivian production and supply problems in major world producer China as factors behind the price increases.

JSE analysts said the share's gains were not justified by the earnings potential of the company. They said any profit which Cons Murch made would be coming off a very low base.

One analyst said the price of antimony would have to treble or quadruple before Cons Murch made the profit forecast by Baring Securities. The majority of the company's revenue was earned from gold, which had remained fairly static, he said.



JCI hangs fire on unbundling

Star 10/8/94

■ BY CHARLOTTE MATHEWS

JCI's unbundling process, first announced in March, is being held in check while the group awaits revisions to unbundling legislation to be passed by the government

JCI group financial manager Barry Wood said yesterday the unbundling process was certainly not on ice, but could not continue until the necessary tax legislation was in place

"The previous unbundling legislation expired in June and it did not, in any case, fit in with the structure of what we wanted to do," Wood said

"In his Budget speech, the Minister of Finance (Derek

Keys) said amendments to the legislation would be made and we are waiting to see what those are. We expect they will probably be passed by October or November this year"

KPMG Aiken & Peat senior tax consultant Noel de Charmoy said the previous legislation had exempted the disposal of shares in the subsidiaries of a group to its shareholders from stamp duty

However, this did not extend to the distribution of shares in unlisted subsidiaries

An early draft of the revised legislation on the taxation of unbundling entities had been seen, de Charmoy said, and it was expected to be more favourable than its predecessor

Wood said that in the meantime JCI continued to work towards unbundling, a complex process unlikely to be completed before March or April 1995, even if the expected legislation was passed before the end of this year. (232)

At present JCI was looking at how the staff would be split among the various entities, as well as splitting group assets.

JCI, which is 40 percent-held by Anglo American, said in March it would be splitting into three groups: a platinum company which would contain Rustenburg Platinum, Lebowa Platinum and Potgietersrus Platinum, a gold mining and minerals company and an industrial company including

Toyota, Premier and SA Breweries

In comments made in June on the announcement of Anglo American's results for the year to March, chairman Julian Oglvie Thompson said the division of JCI into three groups would prepare the way for the introduction of black capital into JCI industrials and JCI mining

The only moves evident from the JCI group since its March statement have been a proposal to merge Western Areas and South Deep mines and last week's sale of JCI's stake in newspaper group Times Media to Argus Holdings, making the latter the vehicle for the media interests of JCI

Amic on the road to higher earnings

BIDay 11/8/94

MICK COLLINS

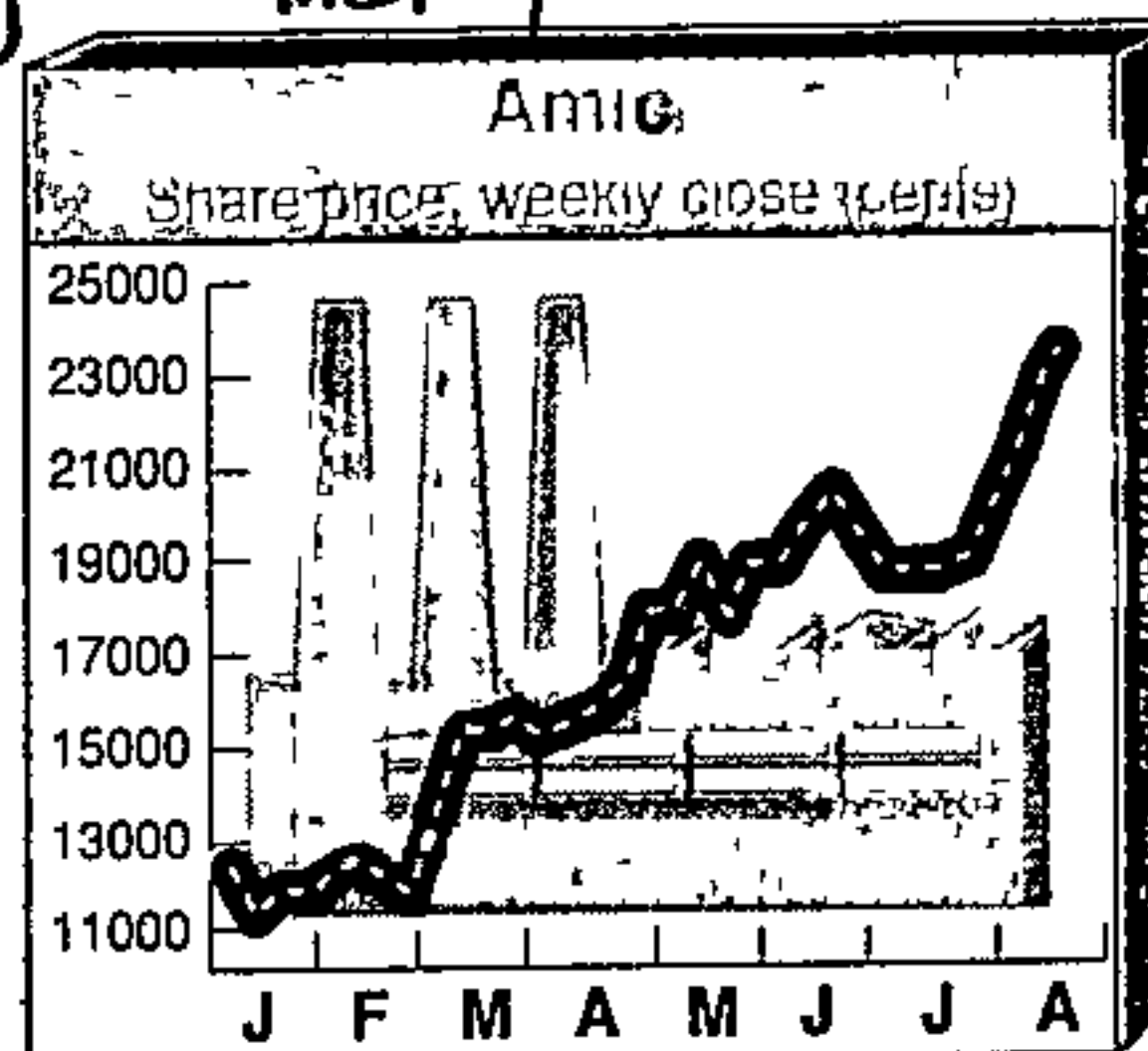
AN UPTURN in trading activities saw Anglo American Industrial Corporation (Amic) bolster attributable earnings 75% to R278m for the six months to June

Turnover, which incorporated AECI's as a subsidiary from January 1, almost doubled to R7,6bn after a strong upswing in international mining and commodities markets. For the first time in four years the group raised its interim dividend, lifting returns 20% to 132c.

Amic, which derived its earnings from the paper, engineering, construction, petrochemical and stainless steel industries, said subject to labour stability, earnings for the year would increase significantly

Earnings a share rose 60% to 434c. The company issued additional shares to buy Anglo's holding in Tongaat-Hulett and for the recent capitalisation issue in lieu of a final dividend. ~~(130)~~ (232)

Chairman Leshe Boyd said the improving business climate lifted trading margins



42% to 5,7% and operating earnings (including AECI's) to R438m (R155m in 1993). Building group LTA's results were incorporated for the full six months and its earnings showed a 13% rise to R17m

Substantial improvements from all group operations saw pre-tax profit jump 89% to R468m. Amic's tax charge rose to

□ To Page 2

Amic

BIDay 11/8/94

□ From Page

R74m from R31m. The group's debt-to-equity ratio increased from 17% to 30% after the consolidation of AECI and also because of continuing capital expenditure on the Columbus project. Cash and deposits were up 27% at R883m. ~~(130)~~ (232)

Capex for the period amounted to R447m, of which R301m was spent on new projects and the balance on replacements.

Boyd said the second half of the year had started with a series of confrontations and strikes across a broad spectrum of commerce and industry. As Amic's operations were "heavily involved in exports to world markets" the group was "well aware of wage rates and productivity levels" in competitor countries. "In part this will require that increases in salaries and wages be held to inflation or slightly above, provided there is an increase in productivity."

Major contributor AECI lifted earnings 34% to R82m and said turnover growth in subsidiaries was good, with exports increasing significantly. Following the success of a joint venture with Sasol in Polfin, a decision was taken to invest R600m in

new production facilities.

Tool manufacturer Boart increased earnings 182% to R33,6m. Strong growth was reported from the North American and Australasian operations.

Earnings at Highveld rose 78% to R49,2m and despite a mixed export performance, local steel sales improved. The R3,4bn Columbus expansion project was expected to be completed on time and within budget. The Transalloys division worked at 80% capacity for the period and Rand Carbide at full capacity.

Increased demand saw paper company Mondi's earnings rise 169% to R88m. Demand and prices were expected to remain firm in the second half. Profit for the year would show a significant improvement on 1993's. Scaw Metals reported a 21% improvement in earnings to R55m.

Abnormal income — the reduction in deferred tax provisions — offset by the one-off 5% transitional levy, amounted to R7m. Thus, with R90m in abnormal credits from 1993, was set aside to make provision for pensioners' and employees' unfunded post-retirement medical aid benefits

Stake in Argus Newspapers raised

Star 11/8/94

■ BY JOHN SPIRA

Ireland's Independent Newspapers has increased its holding in Argus Newspapers, South Africa's largest newspaper group, to 34,98 percent of the company's issued share capital

Independent Newspapers' investment in Argus Newspapers now totals R181 million, equivalent to an average of 1146c a share

The Irish group bought 30,1 percent in the South African company in July at a price of 1141c a share after Argus Newspapers shares were listed on the JSE

Independent Newspapers' increased holding in Argus Newspapers has two major implications

- It reinforces Independent Newspapers' confidence in Argus Newspapers
- The additional shares pur-

chased raise the Irish group's stake in Argus Newspapers to the maximum allowed by the Securities Regulation Panel without a like offer having to be made to minority shareholders

Independent Newspapers' representatives are currently visiting South Africa with a group of Irish and British analysts, giving rise to speculation that its second South African acquisition might not be long in coming.

Industrial surge boosts Amic earnings

■ BY DEREK TOMMEY

Industry is making good money again after four hard years of recession

The Anglo American Industrial Corporation (Amic), which is highly representative of local industry, reports a 183 percent increase in its operating earnings from R155 million to R438 million in the six months to June

If the earnings of AECL, which became a subsidiary in

January, are excluded, the increase was 91 percent, says chairman Leshe Boyd.

Attributable earnings rose 75 percent from R159 million to R278 million, while earnings a share rose 60 percent from 272c to 434c

The interim has been raised to 132c a share after remaining at 110c for four years

Boyd says there are clear signs of improving growth in domestic markets and world

markets appear to have moved into an upswing

Most operations are close to or at capacity, and further earnings growth is expected.

However, because of a jump in earnings in the second half of last year, it is unlikely that earnings growth of the review period will be repeated for the full year

The only dark cloud is possible industrial action. But Boyd is confident that current negotiations between Seifsa and

Numsa will be ratified

Japanese businessmen refer to annual wage negotiations in March as the spring offensive

With most wage settlements in SA negotiated in June and July, Boyd says South Africans should label the time their winter offensive

Because of the increased cost of medical care, Amic plans to provide about R90 million by the end of this year to cover its liabilities for pensioners

Start

11/8/94

(438) (232)



4 IDC takes pragmatic line

MUNGO SOGGOT

THE Industrial Development Corporation (IDC) would deviate from its main function and assist black ownership of non-industrial businesses when nobody else was willing to do so, corporation GM Malcolm MacDonald said yesterday.

MacDonald said some eyebrows had been raised at the IDC's involvement in the Methold takeover by Africa Life Investments earlier this year, as the IDC's primary role was to finance industrial businesses.

"The IDC acted as a third party to warehouse the deal as nobody else would do it, but in the long term the IDC should stick to industrial projects," he said.

Other recent examples of the IDC's role in promoting black ownership included financing black-owned clinics, which were now "going well".

As banks and the private sector made money available for this sort of

venture the IDC's involvement would be phased out, he said.

Although most IDC finances were channelled into natural resource beneficiation projects, its manpower was mainly focussed on fostering small and medium sized industrial enterprises into which it had poured about R257m in the year to June.

The IDC planned to continue selling part of its major stakes to help fund these projects (232)

The IDC had recently sold shares to raise R1,9bn, he said. (232)

Although companies in which it held other major stakes — such as Alusaf and Columbus — still had to come on line, MacDonald said there would probably be opportunities to sell stakes in these projects.

MacDonald said there was "great synergy" between the IDC and RDP.

Interleisure cashes in as more go to the movies

AMANDA VERMEULEN

ENTERTAINMENT group Interleisure lifted earnings by 5,5% to R37,1m for the year to June following a reduction in the tax rate to 30% (33%) and the disposal of its stakes in Mike's Kitchen and Video Magic

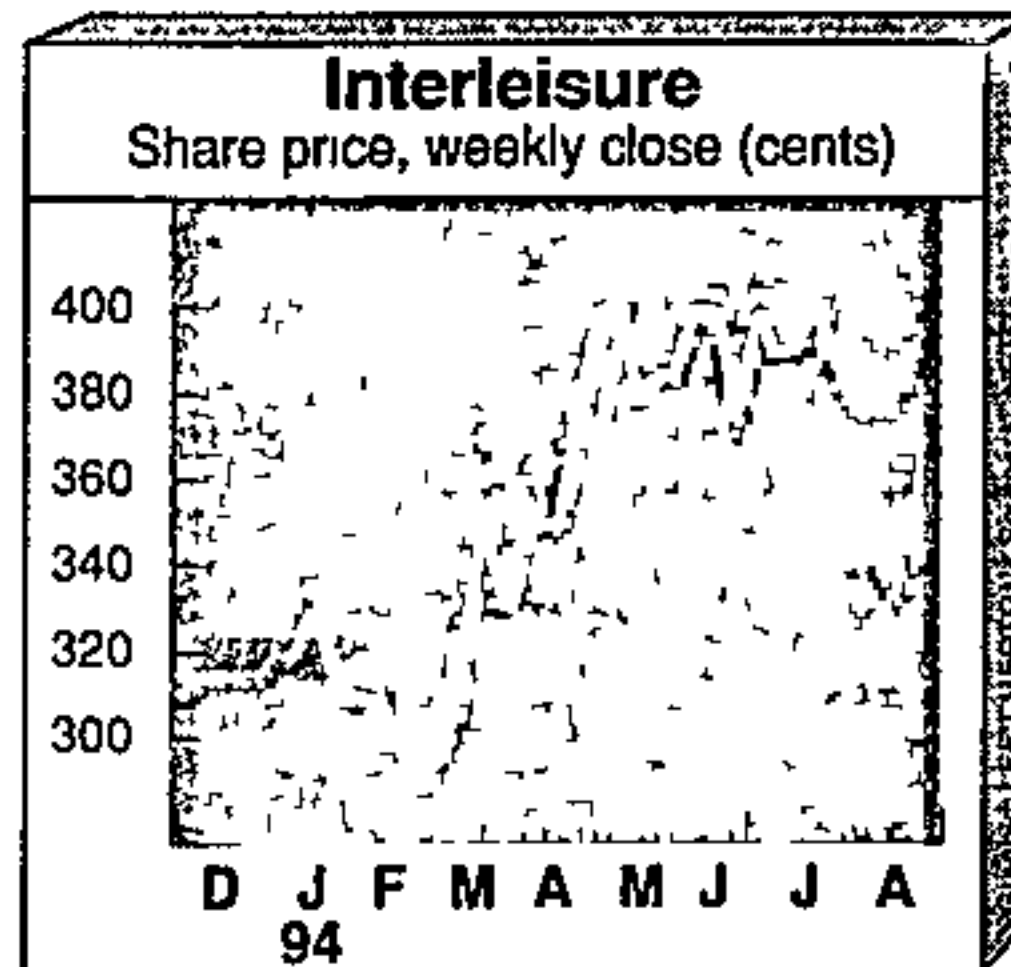
Earnings increased to 19,6c (18,5c) a share and the total dividend for the year of 11c remained at last year's levels

Turnover remained almost constant at R426,8m (R426,1m) while operating profit declined less than 1% to R58,8m Tax was reduced to R16,7m (R18,1m)

MD Mike Egan said comparisons with last year were inappropriate as last year's revenues included the disposal of the sports division

In the current year, however, the group also disposed of its 100% stake in Mike's Kitchen, and its 50% stake in Video Magic, for a total of R38,9m "The proceeds had a favourable impact on the balance sheet with gearing virtually eliminated"

Egan said the group had narrowed



its focus on its core operations which included Ster-Kinekor and film production company Toron Studios.

Ster-Kinekor experienced good growth, with cinema attendances up 7%, despite general violence which tended to keep people home. The growth was attributed to a number of big-grossing films such as Aladdin and Jurassic Park, and the opening of 24 new cinema screens.

Toron reported substantial growth off a low base, with the most significant contributions coming from The Video Lab and Leon Schuster's

There's a Zulu on my Stoep, which broke the SA box office record for local productions

Ster-Kinekor Video merged with Daru Video earlier this year, and prospects for the coming year were good

Cinemark and Computicket, however, experienced declines in profits as a result of cutbacks in screen advertising and tourism

Egan said the group's prospects were good as the continued expansion of the Ster-Kinekor chain and a promising line up of good films were expected to produce acceptable growth

He said, however, that the current draft regulations on tobacco advertising could have a negative effect on earnings growth as cinema remained the only audio-visual medium permitting cigarette advertisements

"The board is making strong representations which, while recognising the state's right to regulate, propose that regulation should restrict rather than deny the cigarette advertising opportunity"

Profurn back on track after dip in trading

DIFFICULT trading conditions during the first quarter took their toll on furniture retailer Protea Furnishers' (Profurn's) half-year results to June 30. Chairman Gerald Rubenstein said conditions improved during the second quarter and the company's marketing strategy

BiDay 12/18/94
YURI THUMBRAN

changed during this period to an indoor sales operation with competitive pricing which slightly reduced operating margins (232)

Trading in neighbouring states remained good and the company's turnover rose to R68m (R59m) (32)

The company reported attributable income of R2,6m (R1,9m) and earnings a share increased slightly to 0,7c (0,6c).

No dividend had been declared for the interim period. Profurn managed to bring its gearing down to 1,6% (6,9%)

Net asset value increased to 22,9c (21,3c), but p.e ratio dipped to 3,1 (3,9)

Yesterday, the company's share price jumped 20% on the JSE to 30c

A planned merger between Profurn and Morkels was suspended "to avoid being sidetracked during good trading conditions".

fm 12/18/94
newspaper After disposing of its interest in Argus Newspapers, it was probably logical to acquire a daily newspaper by making TML a subsidiary

But the implications go further than those mentioned in the statement In his chairman's statement in TML's 1994 annual report (*Companies* August 8), Retief says TML's earnings from associates are expected to fall because of disposals and losses from MultiChoice, but that this will be partly offset by "revenue arising from the increased cash holding." Retief is referring to cash of about R100m that came mainly from TML's disposal of its minority newspaper interests to Argus Newspapers (at the behest of Argus Holdings) and the sale of its interest in offshore company Legion

But if the voluntary offer to TML minority shareholders contained in the announcement is well supported, there might be no cash left in what will remain of the listed TML ~~(445)~~ (232)

Briefly, it seems the intention, if most minorities accept the offer of 110 Argus Holdings shares for every 100 TML shares held, will be to split TML in two. That could lead to the relisting of one entity, the new TML containing the publishing and electronic information interests, while TML's 18% interest in M-Net/MultiChoice and the R100m cash will be held in a separate, possibly delisted, company.

Premature assumption

Retief says this assumption is premature, a decision has not yet been made on the possible delisting of part of TML or where the cash will go. "It's not clear where the cash will finally reside," he says. It could be divided between the two TML companies, held by one of the two, or held by Argus Holdings But he makes it clear it's JCI's decision

Retief contends TML shareholders will not be prejudiced If the offer to minorities is well supported and if the cash and M-Net investment go into a separate, delisted company, they will be offered shares

But the new TML publishing company could be prejudiced, which appears to contradict Retief's statement in TML's annual report that part of the R100m should be reinvested in TML's core publications

Retief says no. His chairman's review is addressed to shareholders and no matter where the cash is held, it can still be spent on TML's core operations "It would not be in our interests if we did not invest in what we think is a successful company"

Asked why an offer was extended to TML minorities when not required by the Securities Regulation Panel, Argus Holdings financial director John Sturgeon says there was sensitivity on the issue, because it involved the press fitting into a new structure "We believe the offer to minorities is the right thing to do Though it is voluntary, the deal basically involves concert parties," he says

Views on M-Net, more particularly Multi-

fm
Choice (which holds the loss-making Film-Net), are mixed It might not be unwise to separate TML's information activities, represented by the publications and electronic interests, from the losses expected from MultiChoice over the next few years However, TML has stuck with the investment, twice following M-Net rights issues, which, in 1987, put some strain on finances Should MultiChoice start to pay in a few years, as management predicts, the new TML wouldn't benefit directly

In the short term, the cash is important It represents disposals made by TML, in the case of the minority newspaper interests, not entirely willingly Strongly performing investments were sold and replaced by cash, which now earns only 6,9% after tax. It would normally be invested to replace the disposals. If the offer is well supported, though, the operating company might not benefit from the cash

All this depends greatly on the level of acceptance by minorities What would they be getting? Shares in Argus Holdings would be exchanged at market values ruling when the deal was struck TML minorities would thus be exchanging their shares in a publishing company for shares in an investment holding company which is essentially a dividend funnel Other than subsidiary TML its investments would include stakes in CNA Gallo, CTP Holdings and M-Net Investors

TML/ARGUS HOLDINGS Intentions unclear

fm 12/18/94
Pat Retief, as chairman of Times Media Limited (TML) and Johannesburg Consolidated Investment (JCI), is at the centre of the reshuffling of shareholdings in TML and Argus Holdings

Last week's announcement said JCI will sell its 23,6% holding in TML to Argus Holdings (thereby giving it 59,4% of TML), to be settled by issue of 5,9m Argus Holdings shares worth R174m ~~(445)~~ (232)

It seems the main reason for the disposal is to allow Argus Holdings to retain its 18% interest in M-Net and MultiChoice To do this, Argus Holdings has to publish a daily

12/18/94
could choose to hold any of these investments directly. ~~(445)~~ (232)

TML has become more focused and is a managed operation Management of Argus Holdings now consists of CE Doug Band, who has moved to Premier, where he becomes chairman next year, Sturgeon and a secretary

The choice, therefore, is between a dedicated media information share with interests in print and electronic media, or between a broader spread of listed investments spanning print, entertainment and other communications interests.

More important, though, is that minorities deserve to have much more clarity on what the options and the intentions are The announcement merely alludes to this in a thoroughly vague paragraph referring to further intentions regarding TML If minorities are to evaluate this offer in an objective and reasoned way, there is a clear onus on the majority shareholders to spell out the intentions clearly

Shaun Harris

LENCO *Fm* 12/8/94
Investing abroad

Activities: Holding company with investments in footwear, clothing, shoe components, metal cookware and rigid plastic packaging

Control: Lenco Investment Holdings 50,3%

Chairman: G D de Jager

Capital structure: 72,5m ords Market capitalisation R906m

Share market: Price 1 250c Yields 1,3% on dividend, 5,7% on earnings, p/e ratio, 17,7, cover, 4,4 12-month high, 1 250c, low, 625c Trading volume last quarter, 596 000 shares

	'91	'92	'93	'94
Year to February 28	37,6	18,7	51,2	45,0
ST debt (Rm)	34,4	27,5	45,4	57,3
LT debt (Rm)	0,48	0,25	0,35	0,32
Debt equity ratio	0,48	0,56	0,50	0,54
Shareholders' interest	3,3	3,8	4,2	5,4
Int & leasing cover	21,2	22,4	15,3	16,9
Return on cap (%)	441	455	594	672
Turnover (Rm)	54,2	58,4	59,3	73,2
Pre-int profit (Rm)	12,3	12,8	10,0	10,9
Pre-int margin (%)	43,2	49,3	59,8	70,7
Earnings (c)	10,0	11,5	14,0	16,0
Dividends (c)	155	184	235	313
Tangible NAV (c)				

(232) Executive chairman Doug de Jager spends most of his time planning how to invest his diverse group's large positive cash flow (R26,6m for fiscal 1994 after paying R11,9m dividends)

It's instructive to see how these funds were allocated. Expansion of capacity absorbed R22,4m, upgrading existing ca-

COMPANIES

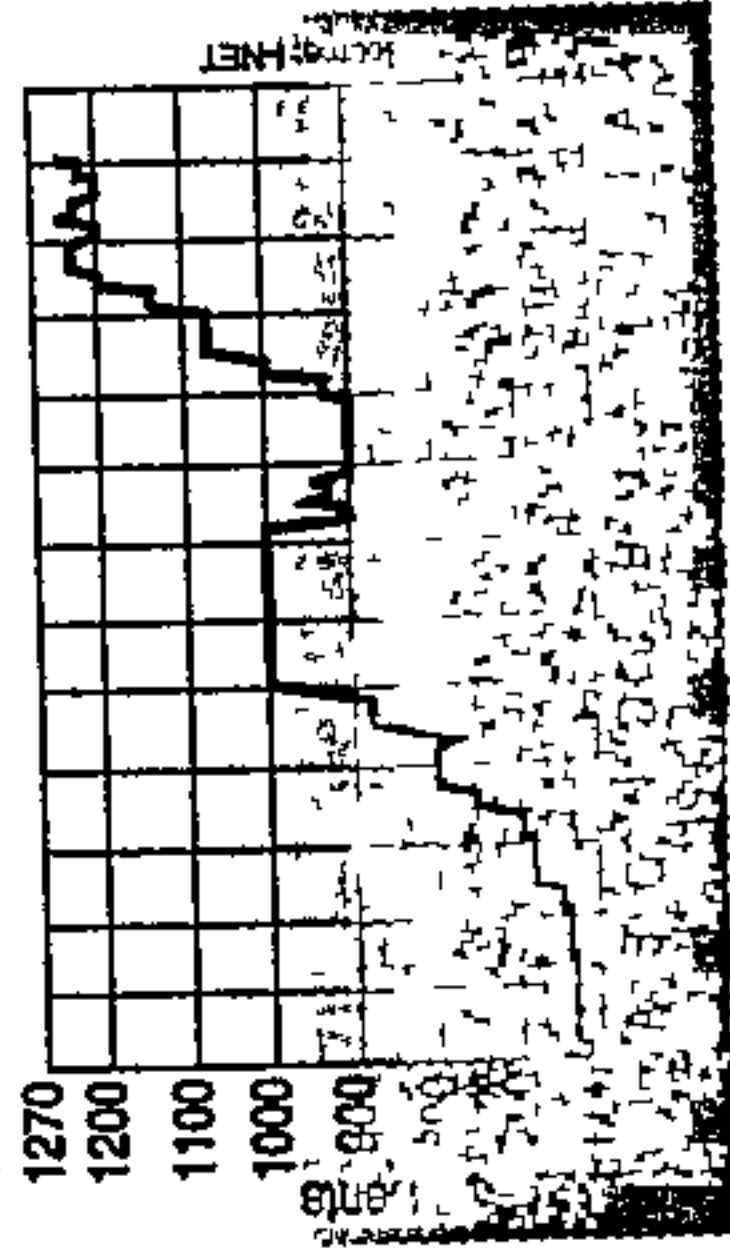
Lenco's second largest contribution came from footwear. It produced 33% of group operating profit from 41% of the group turnover. The holding in Amshoe was increased from 57% to 92% during the year. In March, the balance of Amshoe's issued share capital was converted into redeemable preference shares, which were redeemed to give Lenco 100% of Amshoe's issued shares. Amshoe's listing was then terminated. *(232)*

De Jager says the clothing interests performed well, despite slack demand from the retail sector. Exports helped to buoy performance and the division produced an operating profit of R13,6m (18% of the group's) on R100m turnover (15%). The housewares division, still being rationalised, posted turnover of R128m and operating profit of R5,3m. Since 1988, throughout the depression, Lenco's remarkable track record was attained by acquisition and generic growth. Turnover growth has been a compound 33%, attributable income 35% and EPS 22%.

De Jager has long talked of Lenco's need for a rand-hedge investment. The Australian acquisition is a start. His ability to buy under-used assets reasonably and turn them into substantial profit producers is proven. The recently acquired housewares division should show improved results in the current year. And the other existing operations will benefit from recovery in the economy. The share price has all but doubled since a year ago when investors recognised management's expertise and the group's potential (Sanlam recently bought 4,5m new Lenco ords for R50m). The current price and high rating indicates the market expects sustained earnings growth. While that is probably justifiable, the share looks fully priced.

All meetings are in Johannesburg unless otherwise stated. S = Special meeting. ▲ = Per unit.

LENCO



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Gerrid Hirston

Fm 12/8/94

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DATES TO REMEMBER

- Last day to register for dividends: Friday Aug 19: A Alpha 55c, Anglo 2c, Bloch 18c; Caltex 6,855c, Capital ▲14,43c, Cenprop ▲12,25c, Custif 16c; Hiveld 23c, SBC 73c
- Meetings: Monday Aug 15: FML
- Wednesday, Aug 17: Cor Synd (S), Intrust, Southern (Rondtboech)
- Thursday Aug 18: Advtech, CMS (Sandton), Randex
- Friday Aug 19: Benoni Gold, Brumall, Chubb, Cons Mining, Egoli, GDM, Ozz, Southgo, Venter, Wit Nyl, West Wits

All meetings are in Johannesburg unless otherwise stated. S = Special meeting. ▲ = Per unit.

INVESTEC

Fm 12/8/94

The fat lady's still singing

Activities: Banking, securities trading, property and financial services

Control: Investec Holdings 50%

Chairman: B Kardol, CE H S Herman

Capital structure: 35,9m ords Market capitalisation R2bn

Share market: Price 5 700c Yields 2% on dividend, 4,3% on earnings, p e ratio, 23,2, cover, 2,1 12-month high, 6 350c, low, 3 000c Trading volume last quarter, 347 000 shares

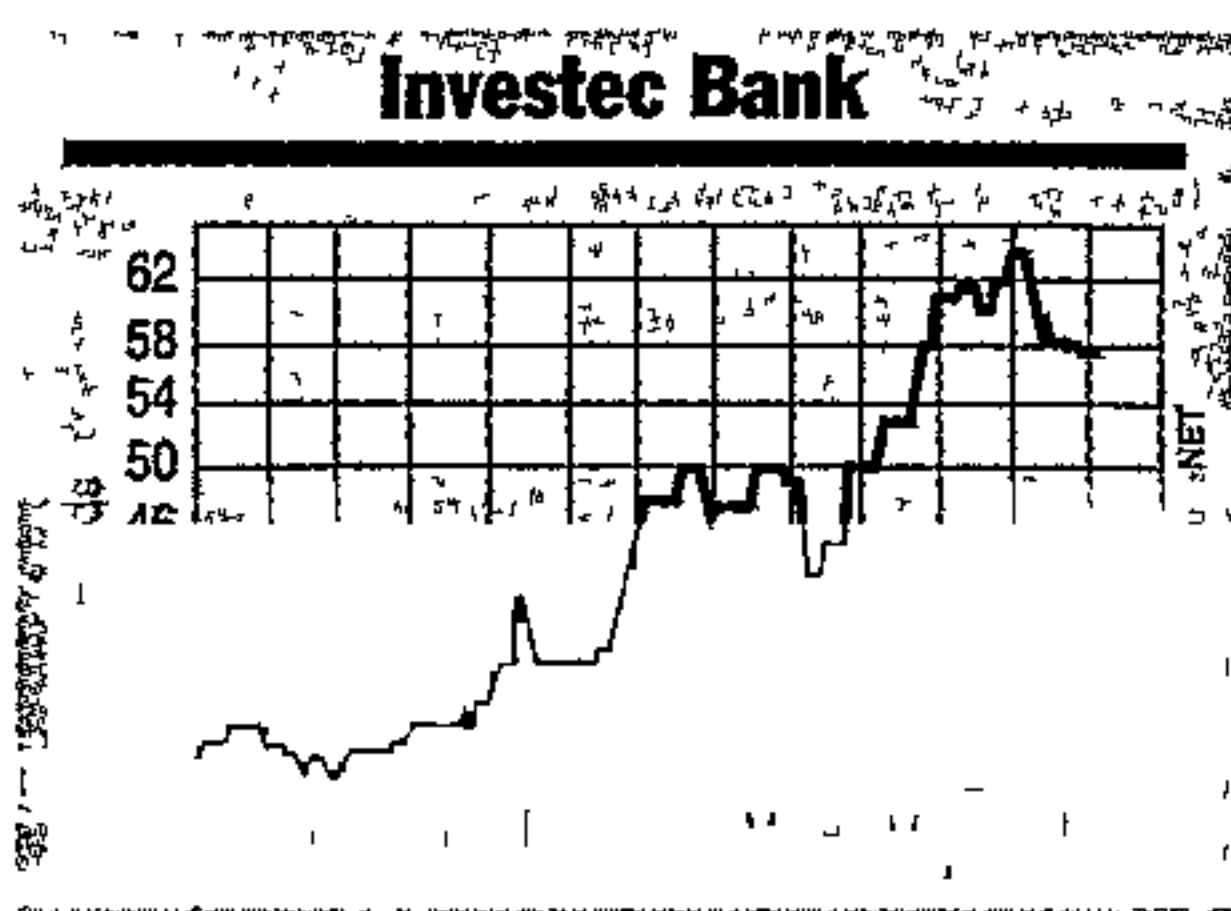
Year to March 31	'91	'92	'93	'94
Total assets (Rbn)	2,88	3,87	5,60	10,97
Advances (Rbn)	1,91	2,59	3,34	4,02
Attributable profit (Rm)	24,0	33,2	54,0	80,0
Return on average equity (%)	22,4	19,9	15,5	20,4
Return on risk-weighted ass (%)	*1,5	*1,4	1,8	2,0
Earnings (c)	120,0	152,0	188,3	246,2
Dividends (c)	56	70	90	115
Tangible NAV (c)	676	1 127	1 413	1 375

* Based on average total assets in 1991 and 1992

What shareholders see when they read Investec's annual report isn't exactly what they get. The truth is that inadequate disclosure by all SA banks over many years, followed in the last 12 months by a rush towards revelation, means what you thought you saw in the last annual report has turned into a chimera. In Investec's case this is accentuated by the recent purchase of Sechold.

And it all turns out to be good. EPS of 246c is 31% better than 1993 and the dividend of 115c is 28% improved. If you are an owner, it is a pleasure; if you're not, it makes you envious.

It is a group with an unusual history. Ten years ago it was possible to say cynically that it was run from a postbox in Amsterdam. However, consistent increases in earnings couldn't be ignored for ever and it is a remarkable track record — 30c diluted EPS in 1985 on 6,6m shares, 224c this year on 47,4m ords diluted. Investec's



success comes as much from its leadership — at the top, its managers are hungry for success, low key and exhibit few signs of corporate middle age — as from its policy

of hiring bright young executives and providing many carrots

The question for Investec must be how it positions itself now to make the most of what happens over the next few years. It says unequivocally that it wants to be highly respected and the country's foremost merchant banking group. And it has certainly moved a long way down that road. Most important perhaps is its capital adequacy: its capital ratio now stands at nearly 16% and this puts it in the big league — along with the most prudently capitalised of the Eastern banks, better than many in the UK and leading the field here at home.

Second is the rights issue which raised another R307m in July (R177m in Investec Holdings (Inhold)). What this makes clear is that Investec's managers — just as those at Liberty — are well aware of the advantages of operating from a large capital base. And they have been helped in this by the company's high p e, servicing the new capital is less onerous at high p es — in percentage terms, the money doesn't have to work as hard.

Investec draws most of its operating profit from personal banking — 53% last year (interestingly, its biggest cost was personnel — also 53%). In past years Investec was able to generate revenue from writing deals at margins lower than those of its competitors. That's not so easy any longer. So it is apparent that the move last year into securities trading through the plum of Sechold, which fell so fortuitously into Investec's grateful lap, is one of two areas the group has targeted.

Sechold brings a massive tax loss to Investec's party, my guess is that the right thing now is for the group to pump a large bundle of the rights issue money into Securities Equities (where Sechold suffered those horrendous losses) so as to pass fat interest cheques — tax free — through to the bottom line.

Second, it seems Investec will increasingly address the international market. Already 44% of its income comes from foreign operations — principally Allied Trust, a modest banking operation in London which operates a special form of personal banking by post, and Integro, the institutional and private client fund management operation which Investec founder Ian Kantor runs out of Holland.

This is only surmise on my part, but part of Investec's strategy may well be to interest a major foreign bank in taking a stake — say a third — in Sechold (probably at a handsome profit). That fills a dual role for the foreigner: it provides access to local



Investec's Stephen Koseff turning to equities

securities trading activities and a base from which to access SA's major corporates with international products.

Third are a variety of local possibilities. MD Stephen Koseff has trumpeted his displeasure — and Investec's — about the continued sanctity of the JSE, and he is leading the team of angry young bankers now threatening to establish a second exchange. In my view, he needn't bother: the JSE will be opened sooner than many think. When the barriers do come down, Investec will become a prime player in equities, probably making markets and guaranteeing liquidity in the most important blue-chip stocks.

Of course, it is always possible I am calling this wrong, however, I don't think the music has stopped yet. If you believe banking stocks have a place in your portfolio, this is a good counter to collect.

David Gleason

CLICKS Fm 12/8/94 The burden of cash

Are the days of cash-across-the-counter trading numbered? Or is the current cash scarcity just a passing phase? Ask any retailer what was most difficult to pry from the average consumer over the past 18 months or so, and the reply will inevitably be — cash.

Almost without exception, cash-based retailers suffered a decline in real turnover growth in their existing stores during the period. Even among primarily credit-based retailers, the proportion of cash to credit sales fell.

The cash-based Clicks was no different. It grew turnover by 11,7% to exceed

New business boosts Fedsure

Star 12/18/94

■ BY CHARLOTTE MATHEWS

A combination of growth in premium income and a good performance from all its investments boosted financial services group Fedsure's total funds by one-third to R9,7 billion in the six months to June 1994 compared with the same period in 1993

Attributable profits grew by a quarter to R30,6 million on which earnings a share were 35,7c (29,6c)

An interim dividend of 22,25c a share, one-fifth better than in the first half of 1993, was declared

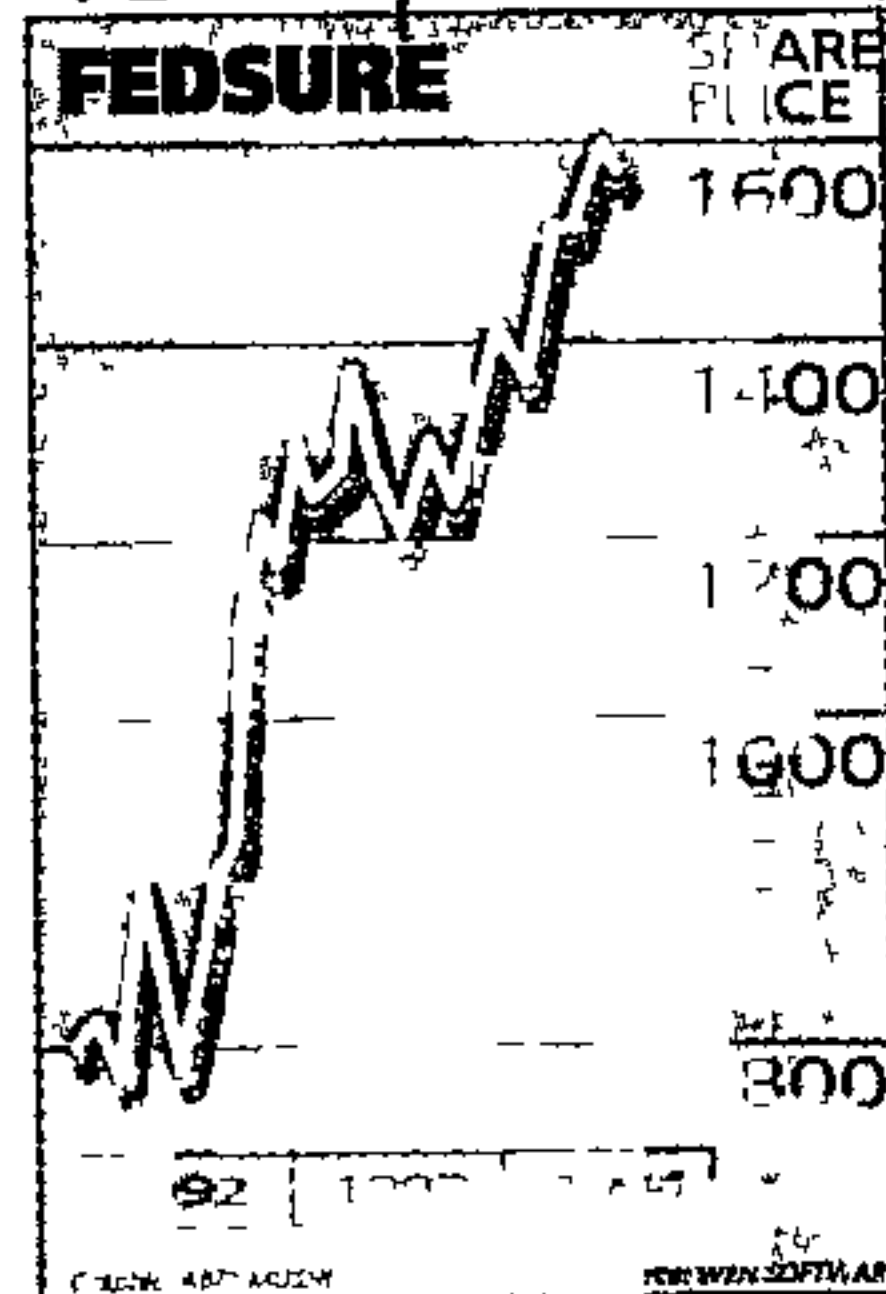
It is the firm's policy to declare an interim dividend equal to half the full dividend for the preceding year because an actuarial valuation is not done mid-year.

Fedsure is the holding company of Fedlife, which has interests in Investec, Saambou, Fidelity, Umbank and short-term insurance through a 70 percent-held subsidiary, Fedgen. (232)

Fedlife's gross premium income was 36,1 percent higher than last year, including a 21 percent rise in recurring premium income and a 74 percent rise in more volatile single premium income. Premium income growth was well above the 10 percent rise in expenses in the same period

Fedsure CE Arnold Basserabie said in an interview the surge in single premium income arose from a better spread of business from the investing and insuring public, the group's competitive rates for annuity business and the introduction of new products

The credit life and funeral businesses taken over from Saflife last year for R60 million had performed extremely well, Basserabie said. The group recently opened an office in Na-



mibia, blending its existing business with the operations taken over.

Basserabie recently visited the US and UK where he spoke to analysts and potential investors. Although actual foreign investment flows into SA remained small, there was considerable interest in the possibilities of investing in SA companies, Bassarabie said.

The group already has a few foreign shareholders and later this month will be launching an American Depositary Receipt (ADR) programme, promoted by the Bank of New York, in the US. This will facilitate US investors buying into Fedsure.

The advantages of an ADR programme are that it will spread Fedsure's shareholder base more widely and raise the profile of the company among investors and institutions, he said.

Fedsure shares were trading at R15,75 yesterday, where they offered a historical p.e of 25,2 against the insurance sector average of 20,4

The shares are slightly below their recent all-time high of R16,00 but have risen steadily over the past few years, making good returns for investors

Unbundling doubles IDC's profit

SI Times (Buss)

14/8/94

By CIARAN RYAN

THE Industrial Development Corporation will report profits in excess of R1,3-billion this year, twice last year's R602-million, following the unbundling of its two investment trusts, Natsel and Indsel.

The funds will be re-deployed to cover the IDC's share of the Alusaf, Columbus, Namakwa Sands and Sappi's Saiccor projects

Once fully on stream, these four projects are expected to generate export earnings of between R5-billion and R6-billion a year, equal to nearly 30% of current gold exports

Several other projects on the drawing board, including a Corex steel mill, a phlogopite plant to produce alumina, magnesia and potash from Foskor waste, a naphtha cracker plant, a zinc smelter and a sugar-based chemicals plant, could add a further R5-billion to R6-billion in export earnings, vastly reducing the country's dependence on mineral and precious metals exports.

The IDC is committed to investing R10-billion over the next five years in a variety of export-oriented projects. The total capital requirements of these projects is R30-billion, the balance to come from private sector partners

The World Bank has criticised capital-intensive investments in Alusaf and Columbus for failing to create jobs. Both projects will create fewer than 3 000 jobs from a total capital invest-

ment of nearly R10-billion. The World Bank says a R50-million investment in clothing would yield between 25 000 and 40 000 jobs.

The Bank says poverty reduction and wealth redistribution in the absence of sustained economic growth cannot succeed without progress towards more labour-intensive investment.

Malcolm Macdonald, IDC's senior general manager in charge of finance and economics, says a healthy balance of payments is critical for sustained economic growth.

"We have to boom exports if the economy is to grow, and one of the most efficient ways of doing this is through mineral beneficiation."

Replying to the World Bank report, Mr Macdonald says the IDC has investigated the clothing industry but found it uneconomical.

"South Africa needs to produce higher quality clothing to crack the overseas markets, and this is not something that can be turned on and off overnight. But we will be looking more closely at this in future"

The IDC has been criticised for sitting on mature investments such as Sasol, Foskor and Iscor rather than investing profits from these investments in job creation schemes.

Mr Macdonald replies that the IDC had substantially reduced its holdings in Sasol, but the ongoing debate over privatisation

forced it to retain its shareholding in Foskor, while Iscor's share price had performed poorly since listing in 1989. (232)

Bernie Panaroff, chief adviser to the RDP's Minister Without Portfolio, Jay Naidoo, says the IDC is to play a pivotal role in reconstruction and development as part of a broader industrial strategy aimed at creating jobs (232)

"We are in full agreement with the framework of the RDP," says Mr Macdonald. "The country must maintain fiscal discipline and develop a macro-economic policy if we are to achieve the kind of growth rates required to make a success of the RDP. The IDC has a critical role to play in advancing the aims of the programme by increasing gross domestic fixed investment and the level of manufactured exports."

In addition to the R10-billion investment in beneficiation projects committed for the next five years, the IDC is behind several schemes aimed at boosting export capacity in small and medium-sized enterprises

It has also assisted black economic empowerment by providing bridging finance to black investors in Metpol and other deals.

"One burning issue which has to be resolved is small business development," says Mr Macdonald. "There are several small business development organisations inherited from the homelands and these will have to redefine their roles"

Acquisitions give boost to Bidvest

BIDAY 15/8/94

BEATRIX PAYNE

INDUSTRIAL holding group Bidvest reported a 141% surge in attributable income to R89,9m for the year to June as acquisitions and organic growth boosted profit, group chairman Brian Joffe said at the weekend

Joffe said the results were "highly satisfactory but not as good as they could be" given the continued pressure on margins from a loss of trading in the run-up to the elections and "tough" trading conditions

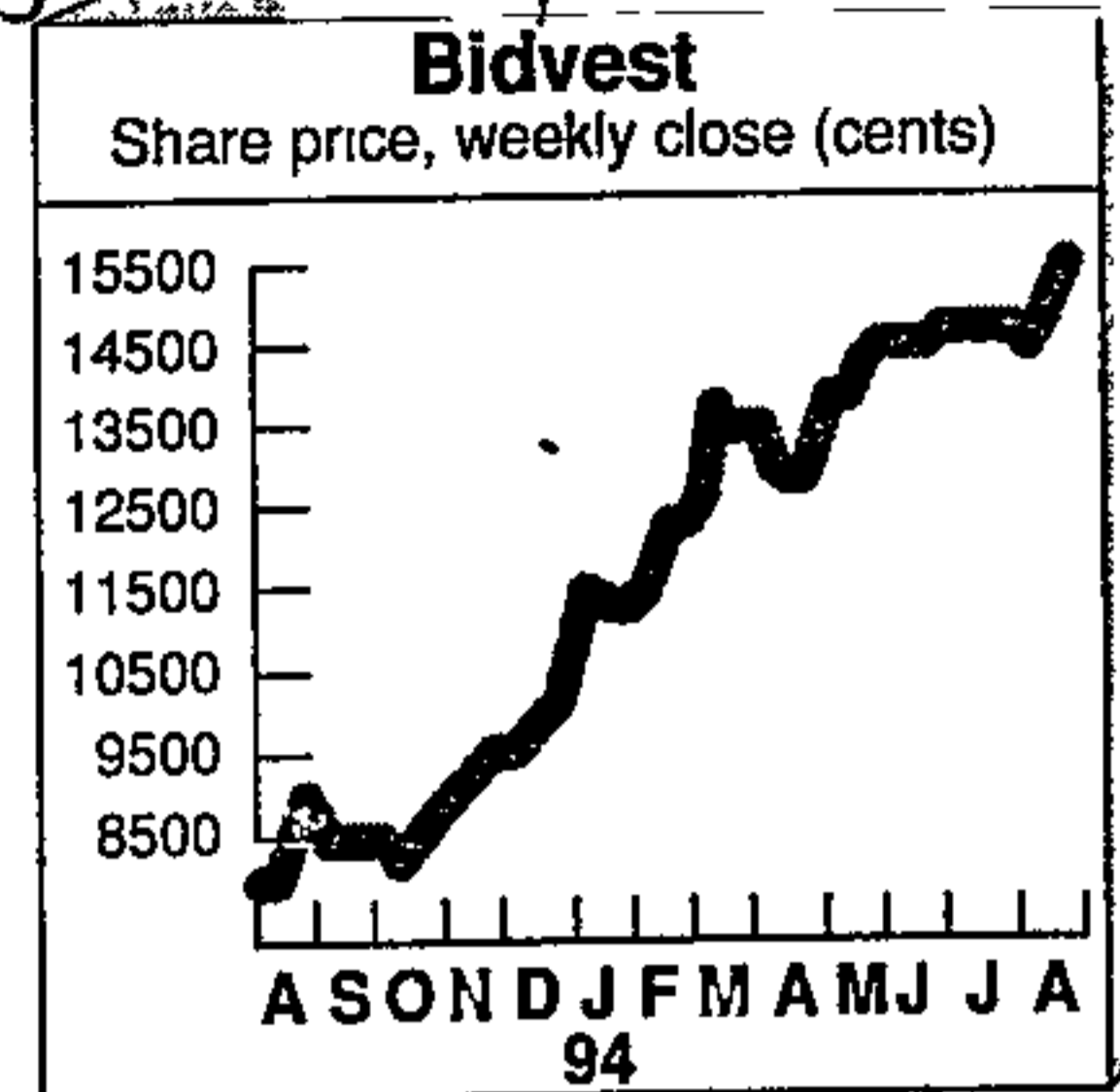
The services, packaging and freight group reported undiluted earnings 61% higher at 891c (552c) a share.

Turnover more than trebled to R2,5bn (R775m) after the group acquired freight clearing and forwarding company Safcor for R263m last July. The group also bought pest control and office cleaning company Prestige for R31m early in the year.

Operating income rose 67% to R118m and finance income rose to R20m (R10m)

Debenture interest payouts rose to R17,4m (R10,2m) which left pre-tax income 144% higher at R120m (80) (232)

The tax bill jumped to R26,3m (R10m)



after an increase in the tax rate from 20,5% to 25,6%. A transition levy payout of R4,5m left net income more than double the previous year's at R89,9m (R39,3m)

The group reported extraordinary income of R1,6m which represented the disposal of cosmetic group Justine and an adjustment to deferred tax due to the change in the normal company tax rate

□ To Page 2

Bidvest

BIDAY 15/8/94

□ From Page 1

A final dividend of 160c (112c) was declared bringing the total dividend for the year to 302c (210c)

Cash on hand rose to R296m (R190m). Joffe said the group was shopping around for suitable acquisitions but had no specific timetable (130) (232)

"We won't be rushed into an acquisition unless we feel it's right - R250m is a lot of money to make a mistake with," he said

But executive director Georg Demetriades said "the sooner we find a good investment the better" as falling interest rates meant the cash holding was punitive and the money would be better invested in the group

The group was considering the possibility of setting up "reciprocal" arrangements with offshore interests in the US but this was still at a very early stage, Joffe said

He said future economic prospects and the expected rise in tourism should result in better growth in 1995

Joffe said all divisions had performed

satisfactorily under challenging circumstances

Safcor had performed "according to expectations" but the low-margin nature of the business had reduced the group's overall operating margin. This had been compensated for by the high volume of business generated.

The newly formed cleaning services division Bidserv had performed "well" and Prestige Cleaning and Pest Control had made a significant contribution to the group's results

Packaging and fastening division Bidpac had been bolstered by the R23m acquisition of GE Hudson during the second half but food and catering ware division Cater Plus had borne the brunt of "difficult trading conditions"

Bidcorp, which held 74% of Bidvest, saw attributable income rise to R66,4m (R28,3m) and earnings a share almost doubled to 426c (288c). A final dividend of 83,25c was declared

Sasol takes 50% stake in fertiliser firm

PETROCHEMICALS company Sasol has bought a 50% stake in independent Delmas Fertilisers for an undisclosed amount

The company said the move formed an integral part of Sasol Fertilisers' strategy to expand its products and service range

The agreement included building a liquid fertiliser plant at Secunda. Construction had begun and the plant was expected to come on stream in September

A Sasol spokesman said utilisation of existing equipment at the Secunda plant had kept the cost of the new plant to less than R1m. The main market for its products would be in the Eastern Transvaal.

Delmas Fertilisers, based at Deimas in the Eastern Transvaal, had established

production facilities at Potchefstroom, Endicot and Pongola

Sasol Fertiliser MD Pieter Viljoen said the company was entering the market mainly because its customers would derive one major advantage — a fertiliser which was less labour intensive as it was easy to handle.

"In addition, Sasol will present farmers with the opportunity to buy high quality granular fertilisers as well as enable them to avail themselves of the excellent service from its liquid fertiliser plants."

All raw materials, the main ingredient being liquid ammonium nitrate, were available at Secunda and Sasolburg

MICK COLLINS

sively, but it is a sector that does not have a significant effect on the imported milk than in the past.

Bonnita's listing 'for farmers'

EDWARD WEST

CAPE TOWN — Premier Group made a commitment to list Bonnita when it took a 53% stake in the dairy products group, Bonnita CEO Tom Vosloo told the Investment Analysts Society in Stellenbosch on Friday.

Vosloo said the planned listing at the end of the month meant farmers would be able to offload shares at market-related prices if they wished.

Other reasons for Bonnita's planned listing included enhanced market awareness of the group, increased tradeability of the shares and establishing a market-related share price, Vosloo said.

Of the 300-million shares authorised, 210-million shares were in issue of which 111-million were held by Premier, 4-million by CDC and 95-million by farmers and staff.

About 1 000 farmers, with 65 000 cows, supplied the group with more

than 1-million litres of milk a day, from which the group's products were made.

He said Bonnita aimed to expand its food product range so as not to make the group as dependent on the flow of milk. In this regard for instance, the group had for the past three months been exporting fruit juices to the UK.

Exports in the past tended to be the result of balancing out demand and supply of milk and its products, but this would change with development of dedicated export products, he said.

In the financial year to April the flow of milk exceeded product demand — which reduced the group's operating margin to 7,1% from 8% the previous year — as a result of the

poor economy, business disruption and unrest and illegal imports.

Vosloo said illegal imports were entering SA through neighbouring countries because the quantitative import control and permit system was ineffective.

The industry had applied for tariffs in line with GATT to control illegal imports. The tariffs were likely to come into effect within months.

Bonnita's gearing in the past financial year fell to 13% from 140%, mainly as a result of a R100m injection from Premier when it took a stake in Bonnita after it was privatised from being a co-operative.

Vosloo said the normal growth rate of dairy industry product sales was about 5%, but industry growth had resumed only in the past three months. No growth was reported in the past two years.

BIDay 15/8/94

W & A 'to
B/Day
reduce debt'

BEATRIX PAYNE

INVESTMENT holding group W&A was likely to have chiselled R200m off its Ribn debt through recent sales, analysts said at the weekend

The company — which is to report results for the six months to June this week — was unlikely to declare a dividend for some time, an analyst said 15/8/94

The company — which recently sold its Housewares business for R77m and its JD Group stake for R161,4m — was expected to bring down operating losses

The group reported a R155m attributable loss for the year to December with interest-bearing debt at R801,5m (232)

Despite business conditions having been generally better for its subsidiaries, analysts said interest payments on its debentures would leave W&A in the red at operating level

Sechold pays for derivatives foray

B/Dewy 16/8/94

ROBYN CHALMERS

SECHOLD made a R193,8m attributable loss for the year to June, against last year's R23,6m profit, as the full effect of last year's disastrous foray into the derivatives market — which ultimately cost the banking group its independence — fed through to the bottom line

The R198m loss incurred by the futures trading operation and a R19,9m bad debt written off against a loan marred an otherwise solid performance by the Investec-owned group's core trading subsidiaries

The attributable loss was equivalent to a loss of 344,4c (100,3c profit) a share and no dividend was declared (232) (232)

Sechold chairman Stephen Koseff said the group's interim results — which disclosed a R107,9m loss on its futures positions — differed from the year end as account was taken of the tax benefit arising from the loss

"The directors consider it to be more prudent to recognise the tax benefit of this loss only when realised. Accordingly, the deferred tax asset previously raised has been reversed," he said. No further adjustments or write-offs were expected

Good first half trading conditions for subsidiaries NDH Bank, District Securities Bank, Securities Investment Bank and Secfin Bank contributed to a 49% hike in the

group's operating profit to R119,5m

Bad and doubtful debts absorbed R6,5m (R4m), and after taking other income and administration expenses into account, pre-tax profit almost doubled to R52m

The write back of deferred tax left a tax bill of R2,4m, and higher preference dividends of R20,3m on newly issued preference shares led to profit before abnormal items of R29,2m (R24,6m)

The balance sheet was substantially boosted by factors including the injection of R125m by Investec when it acquired Sechold earlier this year and a rights issue in April which raised R123m. The balance sheet also benefited from a R160m increase in the group's preference share capital and the acquisition of minority interests in three banking subsidiaries. Sechold acquired the management-held minority interests in exchange for Sechold shares

Ordinary shareholders funds rose to R224,4m (R83m) and total shareholders funds increased threefold to R424,4m (R143,3m). Koseff said as the bad and doubtful debts had now been fully written off and the four banks were trading well, a resumption of growth in earnings and dividends could be expected this year

City Lodge set to gain from Kersaf

B/Day 16/8/94

AMANDA VERMEULEN

HOTEL group City Lodge lifted earnings 36% to R14,5m for the 11 months to June, as occupancy rates outstripped the industry average

The company reported 11-month earnings so its year-end would correspond with that of Kersaf Investments, which bought a 44% stake in City Lodge in January

Earnings a share increased 35,9% to 58,6c and a final dividend of 17c was declared. This brought the total dividend for the year to 29c (24,8c)

Turnover increased 25,7% to R66,2m,

partly as a result of full period contributions from three new hotels

Executive chairman Hans Enderle said two new Town Lodges were opened late in the financial year

Occupancy rates hit 75%, compared with a 47% industry average. Operating profit grew 27,4% to R30,3m, while pre-tax profit increased to R20,8m (R16,2m)

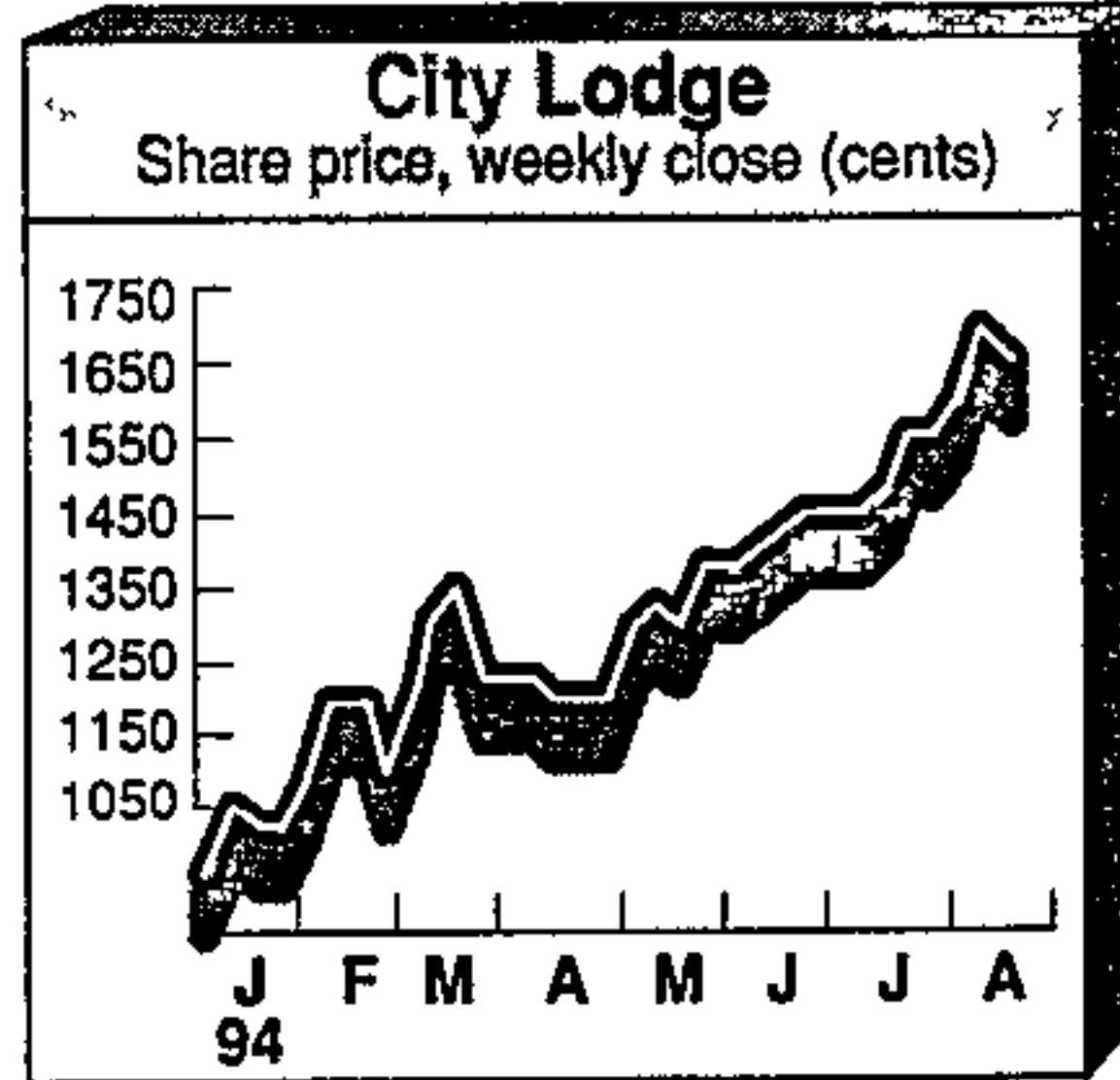
Tax rose to R6,3m (R5,4m)

The capitalisation share route was chosen to conserve cash for future hotel developments, reducing the tax rate from 34% to 30%

Enderle said that Kersaf's acquisition of the Mine Pension Fund's stake in the company augured well for City Lodge's future growth, not only in SA, but in neighbouring states and even overseas. He said Kersaf would assist in marketing the company overseas to attract some of the expected increase in foreign visitors

Shareholders' funds increased to R63m (R18,2m) largely as a result of the revaluation of land and properties. This contributed to net asset value a share rising to R3,59 (R2,42)

Prospects for continued earnings growth were good



BUSINESS

Naspers listing given go-ahead

Start

BY ALIDE DASNOIS

Nasionale Pers (Naspers) shareholders have given the green light for the group's listing on the Johannesburg Stock Exchange next month.

At a meeting in Cape Town shareholders approved plans to restructure Naspers' capital with a view to listing 111,4 million shares on the printing and publishing board of the JSE

Through a share split, existing shareholders will hold one half of their interest in Naspers directly and the other half indirectly through a new unlisted company, Nasionale Pers Beherend.

Executive chairman Ton Vosloo said that though listing was a big step for the group, the time was right for Naspers to open up its shareholding

Vosloo said Naspers' conservative dividend policy would be maintained, though dividends would rise

16/8/94
Dividend cover could be expected to drop from the present 11 times to about eight times

Vosloo expected good results for the rest of the year. The newspaper division had already stabilised after the election disruptions, he said. Advertising volumes were rising and City Press was maintaining strong growth. Newspaper sales were at high levels.

Though thinner publications in the first quarter had put pressure on the magazine operation, advertising in magazines had increased from July

The book trade had a good - though traditionally quiet - quarter

Associated investments - including M-Net - were performing well.

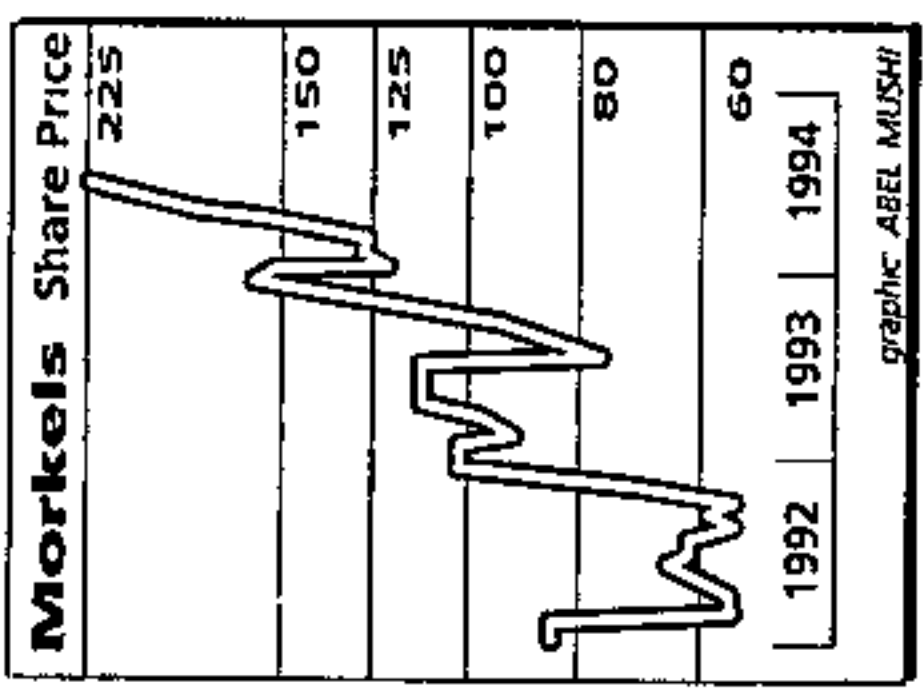
Naspers' results in the first four months of its current year were "a short head" behind last year's.

In the year ended March, the group showed record income of R102 million.

(232)

Morkels considering rights issue

By Marc Hasenfuß



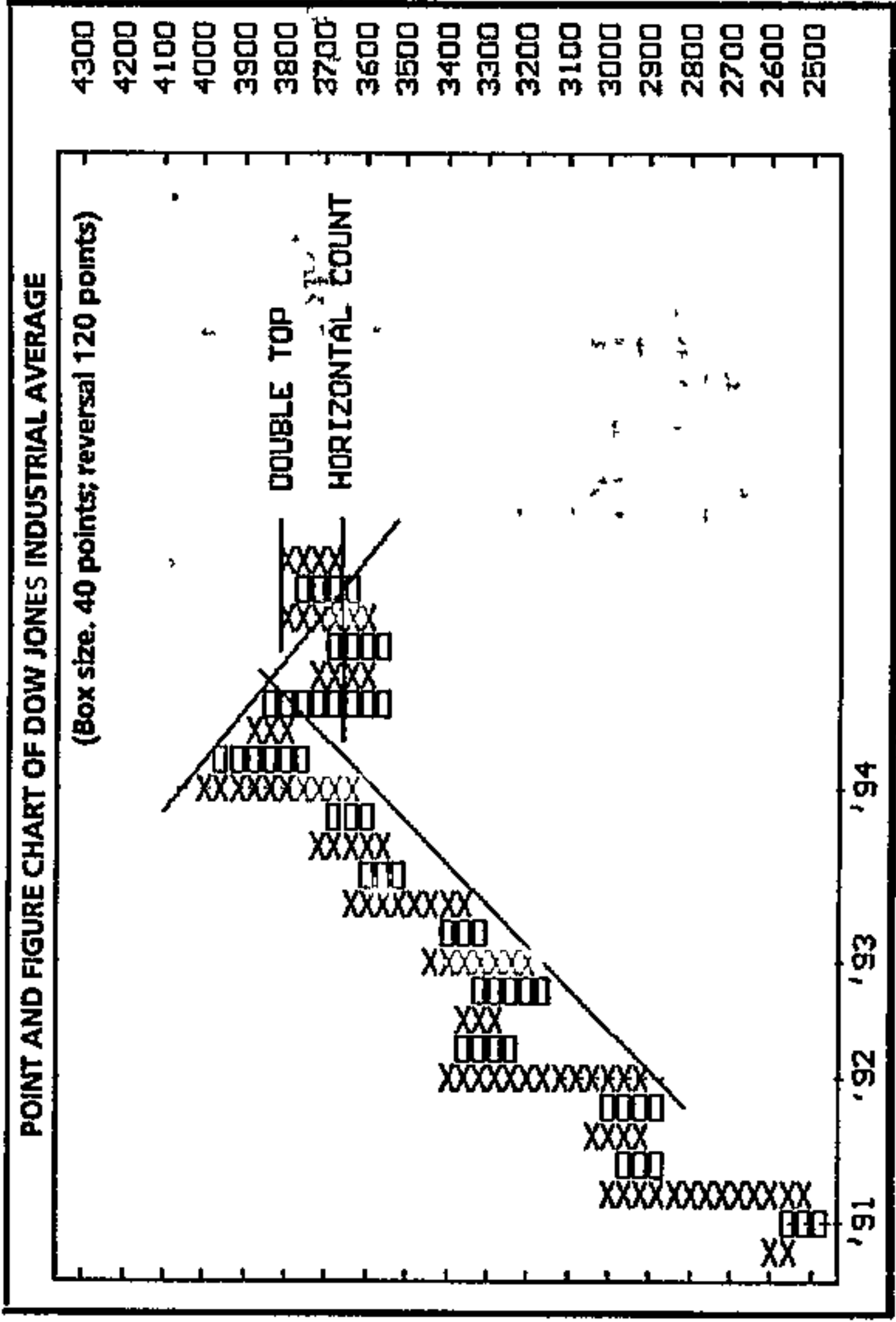
BY MARC HASENFUSS
 German investor Claas Daun, the majority shareholder in the Morkels Group and Protea Furnishers, is sitting pretty, with prospects for his furniture empire looking spry.
 The Morkels Group, which consists of Morkels Furniture outlets, Totalsports and Ajay Sports, is currently considering a rights issue to strengthen the capital base to cope with better-than-expected sales for the year ending March, 1995.
 Daun, chairman at Morkels, predicted the company's working capital requirements would grow faster than could be satisfied from profit retention.
 Provided there is earnings potential, Morkels in the medium term will be seeking regular increases in share capital. But no date had been set for the rights issue.
 Morkels was budgeting for an 11 percent increase in turnover

to R353 million and a 20 percent jump in net profit to R10 million. The company was also aiming for a slightly reduced gearing ratio of 100 percent.
 Daun argued that if the current improved level of consumer demand was sustainable, these projections could prove conservative.

But he stressed the importance of bolstering the balance sheet to handle the strain of increased credit sales.
 "While this resurgence in consumer demand would have a positive effect on earnings, additional sales inevitably would be credit driven, which would strain the company's financial resources and give rise to an unacceptably high gearing ratio," Daun reported that Morkels furniture chain remained the group's profit mainstay, although Totalsports and Ajay Sports "more than held their own".
 He noted that sales at Morkels fell by about three percent, compared with a furniture sector growth of nearly seven percent — primarily in the lower income segment.
 Morkels maintained market share in the middle to upper-income levels of the furniture market, Daun said.
 Two new stores were opened

recently, while four stores in urban shopping malls were closed and two re-located.
 Daun's other major business interest, Protea Furnishers (Profurn) performed encouragingly in the half year ended June, posting a 35 percent jump in attributable earnings to R2,6 million.
 More importantly, Profurn carried the hopes of 7,500 investors whose original investment in the Supreme Group went sour.
 These results gave a ray of hope for many Supreme debenture and preference shareholders who lost nearly all their savings when Supreme was unexpectedly liquidated last year.
 Profurn recorded a 15 percent increase in turnover to R68 million, but margins were squeezed, leaving operating profit up a four percent at R4 million.
 Directors attributed the weaker margins to a changed marketing strategy

CHARTING THE MARKETS



Point and Figure (P&F) is one of the oldest charting methods and is useful for tracking major trends. Columns of crosses reflect up-moves, noughts down-moves.
 Unlike a conventional line chart, P&F does not plot the price every day, but only if it moves by more than the "box" size, (in this case 40 points).
 A trend reversal (new column) is only started if the price-reverses by more than three times the box size, a technique which helps to eliminate confusing "whipsaws" and minor fluctuations.
 This P&F chart shows that the Wall Street correction is over and that a fresh rally is under way, with a new "double top" giving a buy signal.
 The horizontal count suggests that the Dow is set for an assault on the 4000 mark — good news for the JSE, as further gains in the American market will extend the local bull market.
 CHART BY METASTOCK
 FROM PROGRESSIVE SYSTEMS (017) 485 1131

Frame group is back in the black

Bl Day 17/8/94

YURI THUMBRAN

TEXTILES group Frame bounced back into the black for the year to June, reporting attributable income before extraordinary items of R11,8m against last year's R8,5m loss

Earnings a share rose to 57c (41,4c loss), while borrowings were eliminated and the company had R19,5m in cash on hand

Turnover rose to R645,8m (R628,2m) and operating income recovered to R30,4m (R13,6m). Taxation increased from R172 000 to R2,6m, mainly due to the transition levy (232)

The KwaZulu/Natal company posted a dividend of 8,5c compared with none last year. Retained income rose to R230m (R201m).

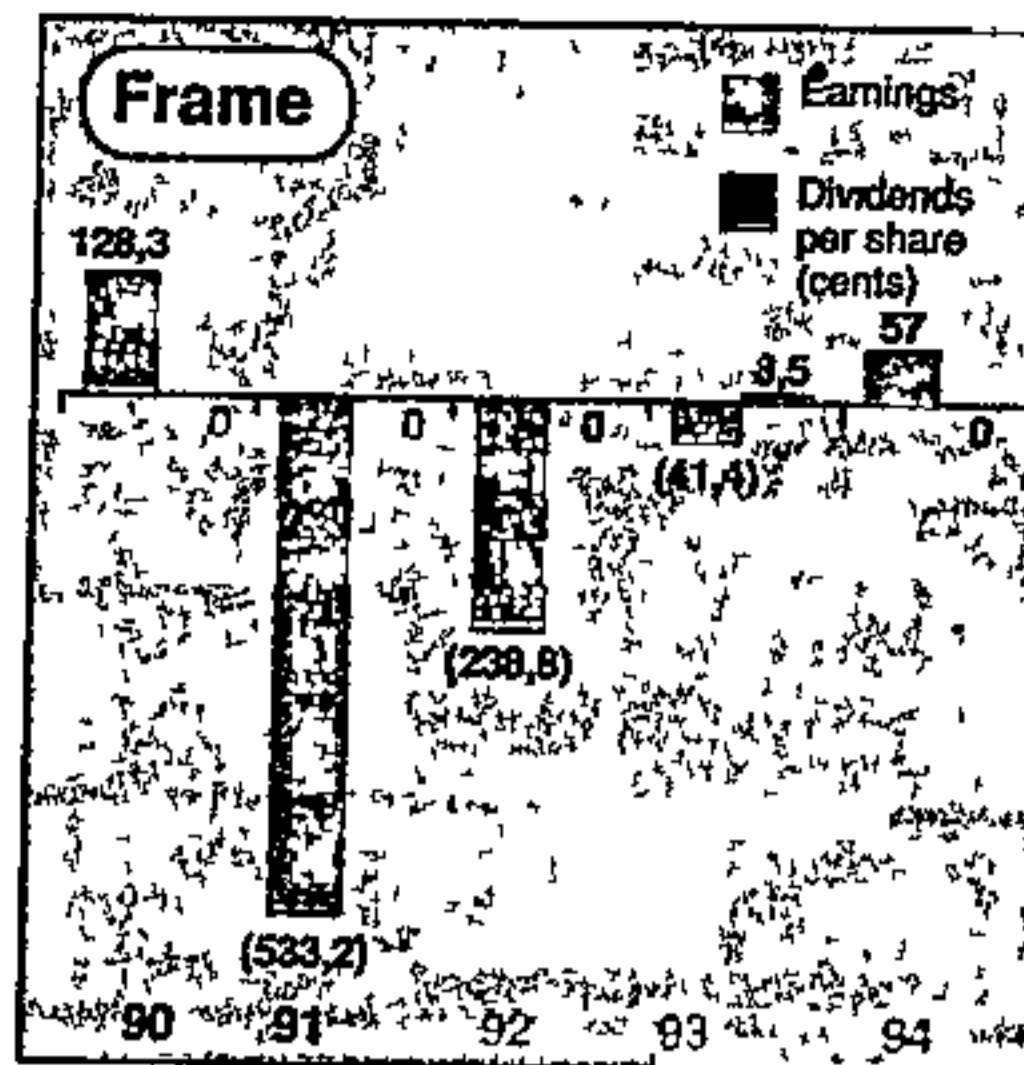
Chairman Mervyn King said the results were the pinnacle of a five-year plan to revive the company.

If the economy continued to improve and the Swart Panel recommendations on the textile industry were implemented by October, this year's results would improve

Trading had been hit by a high level of imported textiles, while the Customs and Excise Department failed to police regulations properly

King was upbeat about the elimination of borrowings — which stood at R96m last year

The group had also benefited from selling or closing peripheral business, closing mills outside KwaZulu/Natal, upgrading plants and reducing its



Graphic: LEE EMERTON Source: FRAME

working capital.

He said the industry needed the certainty of approval of the 10-year plan submitted by the Swart Panel to the Trade and Industry Minister.

The plan for clothing and textiles was part of an overall change to a more liberal global trading policy.

He also called for the scrapping of exchange controls.

Subsidiary Consolidated Frame Textile (Confram) posted attributable income before extraordinary items of R19,3m compared with a loss of R13,4m. Earnings a share rose to 34,4c compared with a loss of 24c

The extraordinary item of R23,9m on Confram's income statement was attributed to the disposal of the Polyester fibre division and its Harri-smith property. Of this Frame's attributable share was R15,3m. Confram declared a dividend of 5c. There was no dividend last year

Penrose in disarray over shares

BIDAY

AMANDA VERMEULEN

PRINTING company Penrose was in disarray yesterday as chairman Albert Alletzhauser and printing and publishing group CTP argued over whether CTP would buy Alletzhauser's controlling stake.

The company, the board of which split over Alletzhauser's decision to buy financial services group Timelife for R2m, had its shares suspended on the JSE after the price lost 31% to fall to 100c on Monday. Its high on June 20 was 190c.

Alletzhauser, who earlier this week said he wanted to keep his stake in Penrose, said yesterday he was negotiating to sell his 32% holding to CTP to pursue his financial services interests through Timelife. He had yet to tell the Penrose board.

CTP MD Edwin Jankelowitz said negotiations were taking place but no deal had been struck.

Yesterday Alletzhauser presided over a relaunch of Timelife. Soon after the Penrose board asked the JSE to suspend the company's shares until the boardroom dispute was resolved and pending a possible restructuring of Penrose.

Alletzhauser said the CTP deal would allow Penrose to maintain its core business of publishing. A formal announcement was waiting for JSE approval. He said Terry Moolman, joint MD of Caxton, which owns 52% of CTP, would confirm that CTP had initiated the talks.

Sources close to CTP said Alletzhauser had been hoping to sell his 32% interest in Penrose for R12m.

CTP had balked because it placed a

To Page 2

Penrose

BIDAY

17/8/94

From Page 1

significantly lower value on Penrose's assets. They consisted mainly of an old diary binding machine and new colour printing equipment pledged against borrowings.

Losses reduced Penrose shareholders' funds in 1993 while long- and short-term liabilities grew more rapidly than current and fixed assets.

Earlier this week Alletzhauser said he had been negotiating to sell 30% of Penrose Book Printers to a black consortium

for R30m. He said the company was a R25m-a-year business. But a shareholder yesterday estimated the book business's total worth at no more than R3m.

Penrose's acquisition of Timelife was ratified by Penrose's board on July 26, Timelife MD Bill Haslam said. The R2m purchase price had been received on July 31. Alletzhauser said he could force the Timelife deal through a shareholders' meeting in three weeks, but would not do so to the detriment of the company.

Hard work continuing to pay off for Frame

Star 17/18/94

BY CHARLOTTE MATHEWS

Textile manufacturer Frame continued the turnaround seen at interim stage to post a full-year profit in the year to June after extraordinary items of R27,1 million from a R12,7 million loss in the year to June 1993

Chairman Mervyn King said yesterday the results were pleasing, but he was predicting that 1994/95 would be better

Turnover grew 3 percent to R645,9 million, but operating income more than doubled to R30,4 million from R13,7 million previously

Finance charges fell to R8,7 million from R22,8 million as the group moved to a position of R19,5 million net cash from R96,7 million net borrowings in 1993

Earnings were 57c a share (loss of 41,4c a share in 1993), and shareholders have been offered capitalisation shares or a dividend of 8,5c (no dividend in 1993)

Consolidated Frame (Confram), the operating company, reported earnings of 34,4c a share from 1993's 23,8c a share and capitalisation shares or a dividend of 5c a



Mervyn King . . . no more rationalisations

share The dividend was passed in 1993

In 1994, capital expenditure was R24,5 million King said this was expected to rise to R40 million in 1994/95 and the same level of expenditure was likely to be necessary each year (232)

The proposed 10-year plan for the clothing and textile industry, now awaiting the approval of the Minister of Trade and Industry, would reduce protection to a low level after five years.

Frame had to ensure its level of technology was comparable to its European competitors by that time.

Frame has completed a five-year plan which has seen operations cut back, plant upgraded, working capital levels reduced and borrowings of R300 million eliminated.

King said no more rationalisations would occur under the plan but any further moves would depend on the long-term plan for the textile industry. If that were approved and the economy continued to improve, no major downsizing would need to be undertaken.

The group's export activities were progressing well, with the contribution from the export division more than double a year ago and growing.

Frame shares closed at 900c yesterday, slightly below their twelve-month high of 925c, but more than six times higher than a year ago. Confram were similarly buoyant.

At their closing price of 500c, they were seven times their 70c of last August. With the slimming of operations and better prospects, the shares could still run some distance.

Penrose shares suspended

BY CHARLOTTE MATHEWS

Printing group Penrose Holdings' shares were suspended from trade on the JSE yesterday after an announcement by its directors earlier in the week that there was a dispute about the direction of the company. (232)

At the same time, printing and publishing group Caxton Holdings director Edwin Jankelowitz confirmed Caxton was talking to Penrose, but declined to elaborate.

The suspension announcement also referred to the "potential restructuring of the

company. Penrose directors said this week there was a dispute on the board about whether the direction of the company should be its core printing business or financial services after its recent purchase of a majority stake in Time Life Insurance.

In a separate statement, Adcorp Holdings MD Keith Rhodes said he wished to emphasise that Penrose held only 15 percent of Adcorp, acquired from Absa, and not the whole company, an impression that might have been created by yesterday's report on Penrose

COMPANIES

Sharp rise in Seardel earnings

CAPE TOWN — The Seardel Investment Corporation lifted earnings 85,4% to 120,1c (64,8c) a share for the year to June 1994, chairman Aaron Searll said yesterday.

The group — which derives most of its income from its clothing operations and to a lesser extent its consumer electronics division — lifted turnover for the year 7,7% to R1,15bn.

Pre-tax income climbed 86,5% to R43,4m, while taxed income was 66,9% up at R29,3m. Reduced average borrowings and lower interest rates resulted in finance charges falling R5,5m. The debt equity ratio fell to 49% (62%).

The group's share of attributable income from Frame amounted to R2,4m compared with a write-off last year of R1,7m.

A final dividend of 17c was proposed, bringing the total dividend for the year to 24c (1993 13c).

Seardel Consolidated Holdings — which

EDWARD WEST

derives its income from its 50,1% stake in Seardel Investment, declared a final dividend of 17c (9c), bringing the total for the year to 24c (13c).

Searll said he was deeply concerned about the prevailing uncertainty and lack of consideration being shown to exporters of clothing.

"Our Duty Credit Certificates (DCCs) earned over a year ago are now only being issued. For the moment the DCC scheme continues, but only until March 1995 — with no indication at this stage as to what will happen from April 1995 onwards."

He said government's decision to make GEIS taxable without any counterbalancing change and improvement to any other benefits had significantly reduced the export incentive available to the clothing industry.

UK operations boost Liberty Life

B/Day 18/8/94

SAMANTHA SHARPE

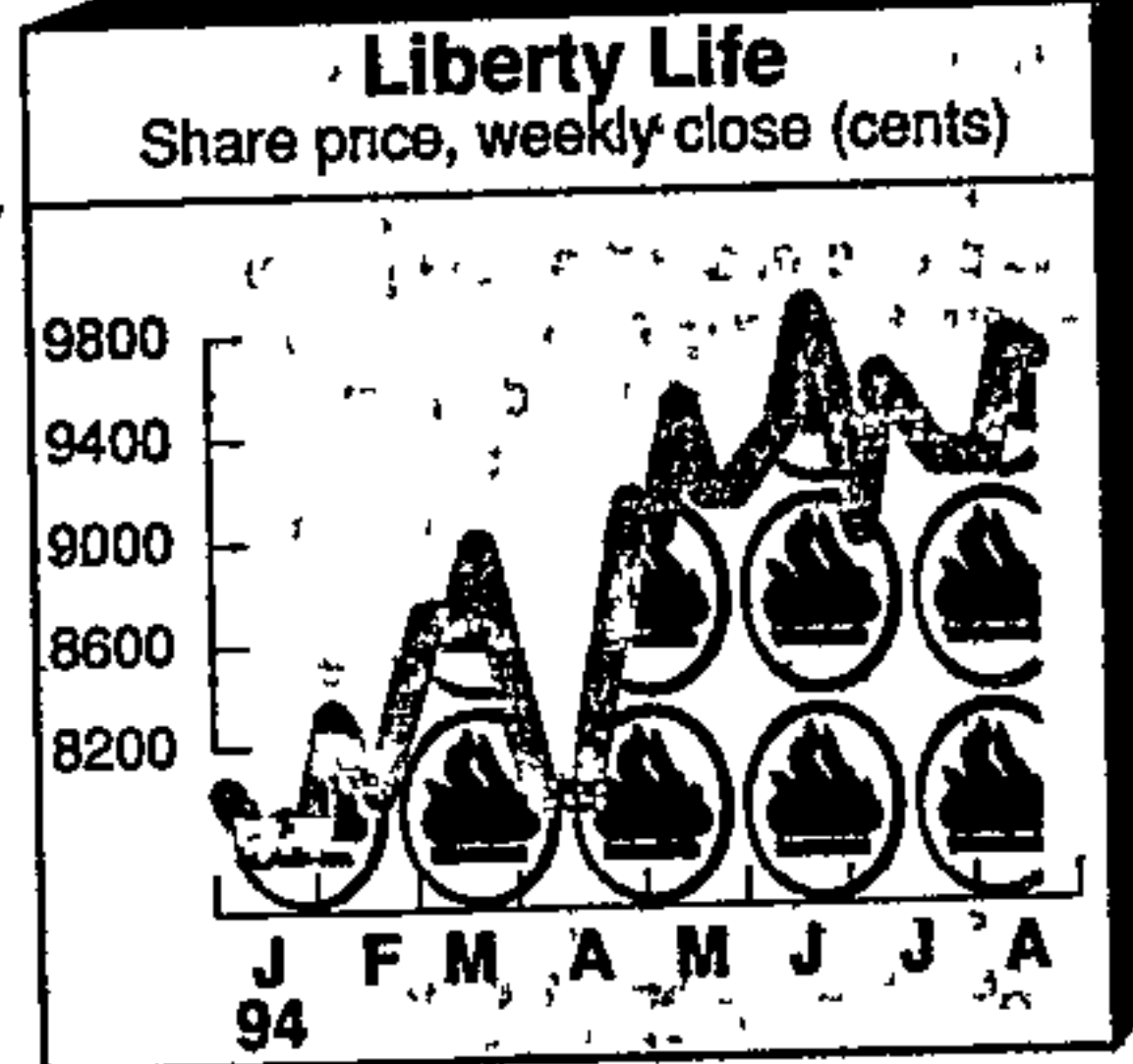
RECORD levels of new business from life operations and buoyant trading conditions in the UK helped boost Liberty Life's attributable earnings 27.1% to R225m for the six months to June (232)

New business written by Liberty Life and wholly owned subsidiary Charter Life reported a record 64% increase to R1.7bn, with new annualised recurring premium income up 28% at R441m

The half-yearly performance led to earnings of 96c a share, compared with last year's 77.3c, and the declaration of a 20% increase in its interim cash dividend of 96c.

But terms of an award of capitalisation shares in place of the cash dividend would be announced early next month.

Liberty Life MD Alan Romanis said the wider Liberty Life group had been involved in an extensive capital raising exercise, resulting in fresh capital of about R5bn in the last year. The flotation of 80%



Liberty Life-owned Libsil, involvement with TransAtlantic Holdings and flotation of UK-based Capital Shopping Centres had contributed R3.4bn to this.

The rest was made up by the issue of \$360m convertible bonds and scrip divi-

□ To Page 2

Liberty Life

B/Day 18/8/94

□ From Page 1

dends after last year's interims and dividends (232)

Romanis said the flotation of Libsil would provide a "bullish flow of funds" back into Liberty Life, augmented by the impact of scrip dividends issued.

Of the \$360m bond issue about 20% had been ploughed back into SA, with the rest held offshore for the further use of Liberty Life in SA or for investment overseas

He said Liberty had nothing on the cards regarding ventures in the US

Parent company Liberty Holdings reported a 21.3% increase in attributable profits to R137.9m, with earnings a share

up 20.1% to 298.4c.

While an interim dividend of 264c was declared, Romanis said shareholders would be offered capitalisation shares in place of the cash dividend. The terms of the issue would be made known later.

Libsil reported income after tax of R72.7m and earnings a share of 13c. But the company's net asset value a share fell to 1 252c (1 279c), following the general downturn in SA's share market, he said

The group's First International Trust showed an increase in attributable income of 31.6% to R35.8m, boosted by the performance of TransAtlantic Holdings.

Amrel aims to raise R155m in upcoming rights offer

FURNITURE and footwear retailer Amrel would raise R155m through its upcoming rights offer which would reduce gearing to below 130% and allow the group to show a profit in the year to March 1995, MD Stan Berger said.

"We have got to post a profit next year," he said yesterday, adding that the group would publish a forecast late next week as part of its rights issue.

Finance director Bruce Sinclair said the group had calculated that a R415,3m debt would be "sustainable". Debt was currently at R512m and after clearing R100m off the bill the group would use the remaining R50m to improve its information technology systems.

By clearing R100m off its debt the group would be able to save R18m in interest charges, he said.

The major shareholders — including SA Breweries which holds 69% of the group — had agreed to support the issue and the company had received an 85,4% commitment on the issue.

BEATRIX PAYNE

After the rights issue, gearing — which included a R70m provision — would be reduced to 125% and the group intended to maintain it below 130%.

But trading conditions had generally improved since last year and results for the six months to September would be an improvement on last year's after-tax loss of R8,3m. "The first six months are always the toughest but we show most of our profits in the second period," Sinclair said.

The group reversed its interim loss and reported earnings of R3,3m (R4m) for the year to March (232) (30)

It reported an operating profit of R62m but paid out R56m in financing costs. But the bottom line was salvaged by a lower tax bill of R2,8m (R5,2m).

Berger said trading conditions this year were "more settled" than last year's.

"There is greater consumer con-

fidence and a lot of pent-up demand since the elections."

He said the group was unlikely to be delisted like SAB's other subsidiary OK which was delisted after reporting losses. If SAB had had misgivings about the group's future it would not have subscribed to the offer, he said.

The debt was acquired through expansion financed by debt rather than organic growth in the business, Berger said.

The group had gone through strict rationalisation since 1987 and had sold off a number of its assets and closed some operations.

Future performance would depend on the effect of industry strikes but Sinclair said the group had concluded most of its wage negotiations before April.

Although turnover was set to improve, Sinclair said, the group would only feel the effect of improved consumption from the reconstruction and development programme and higher employment levels in 1995 or 1996.

More fine results from Liberty Life

The Liberty Life Group has once again produced a sparkling set of results for the six months to June

On the back of record levels of new business written by its life operations and strong performances from its principal overseas investments, all group companies recorded handsome earnings gains

Liberty Life's net taxed surplus increased by 24,2 percent to 96c a share. Total net taxed surplus was 27,1 percent up at R225 million. ~~(232)~~ (232)

The interim cash dividend is 96c — 20 percent higher than last year's halfway payout

Terms of an award of capitalisation shares (to both Liberty Life and Liberty Holdings shareholders) in lieu of the cash dividend will be announced early next month

Liberty Life's total assets grew from R86,6 billion on De-

18/8/94
cember 31 last year to R94,8 billion on June 30 1994

Liberty Holdings' earnings were up 20,1 percent to 298,4c a share. Profit attributable to ordinary shareholders rose 21,3 percent to R137,9 million

The interim cash dividend is 264c — 20 percent ahead of last year's

Libsil's net taxed income inclusive of equity-accounted earnings totalled 38,5c a share — 13c if equity-accounted earnings are excluded. The interim dividend is 13c. Net asset value on June 30 was 1252c a share (1279c on December 31 1993)

FTT's earnings rose 31,1 percent to 19,8c a share, from which an interim dividend of 8c (7c) has been declared, mainly as a result of an excellent half-year for TransAtlantic Holdings Plc, in which the group has a 57,4 percent interest.

Mines call for deregulation

CT 18/8/94 (232)

CHAMBER of Mines president Jurie Geldenhuys yesterday urged Parliament to limit the regulation of the mining industry and provide a stable operating environment

"The state's regulatory role should be confined to the minimum to ensure safe and orderly production," Geldenhuys told a parliamentary select committee on mineral and energy affairs

"We need deregulation, not more and more control," he told the committee chaired by former National Union of Mineworkers acting secretary general Marcel Golding

Responding to questions, he resisted calls for increased regula-

tion of mining house expenditure on adult education, housing and after-care for people disabled in mine accidents

"We are a price-taker on the international markets. We get the price and we have to produce gold under that price

"It's impossible for the industry to take responsibility for educating of all employees and their children," he said

National Party MP Johannes Niemann took issue with Geldenhuys on education, saying "It's a moral obligation of the chamber to ensure that everyone who works for a mine is at least literate"

His comment was echoed by

ANC members who insisted that mines should offer every employee a career growth programme that would include transferable training

"I have a fundamental problem with that. At the end of the day, that moral obligation costs money," Geldenhuys responded

He told the committee that the first obligation of mine owners was to investors, but he said the chamber was concerned about keeping the industry alive and not only about profits

"We need a stable taxation system. If you decide to impose levies on us and increase working costs, you will sterilise minerals in the ground



Deon Viljoen has been appointed chairman of the Hospitality Industries Training Board.

BUSINESS SA Pepsi venture 75 percent black-owned • RDP and affirmative seminars

Announcement on Pepsi deal

By Mzimkulu Malunga

NEW Age Beverages, a consortium of black business people spearheading Pepsi's return to South Africa, is expected to make an initial announcement at the end of this month regarding its future plans.

The company's chief executive Mr Khehla Mthembu says everything is on track.

He says this initial announcement will only concentrate on the progress made so far while the final announcement, which will detail the company's way forward will be made at the end of next month.

Two months ago American beverages giant, Pepsi, announced that it is returning to

South Africa after an absence of almost 10 years

Although parties involved in the Pepsi deal remain mum about the amount of money involved in the investment, it is estimated that it will add up to a total of about R400 million over a period of time.

NAB, the company that will have exclusive rights to produce Pepsi products in South Africa, will be 75 percent owned by consortiums of local black business and another US based black business group trading under the name, Egoli Beverages. Pepsi will own 25 percent of NAB.

The local business consortium, led by Khehla Mthembu, will be responsible for the day-to-day running of the new outfit.



Working flat out ... Mthembu and company.

Gold Fields might close Northam

B1 Day 19/8/94

MICHAEL URQUHART

GOLD Fields was considering closing Northam, the struggling platinum mine which had soaked up more than R1,7bn, the mining house said yesterday.

Unveiling Northam's R129m attributable loss for the year to June, chairman John Hopwood said geological and labour problems would prevent the mine reaching its planned production rate of 150 000 tons a month — the target it had been scheduled to reach more than a year ago.

The technical assessment on the Zonder-einde mine would be complete by October and the decision would be taken then.

But the assessment had already shown

that the targeted production rate was unattainable in the medium term. Even if Gold Fields chose to keep the mine going, operations would be scaled down, with job losses among its 7 500-strong workforce.

Hopwood said the platinum price, which has recently strengthened, would have to jump 25% before Northam broke even at current operating costs.

Sales revenue stood at R238,4m, but costs were R364m. The loss was compounded by a R10m finance charge, bring-

To Page 2

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Northam

B1 Day 19/8/94

From Page 1

ing the mine's accumulated loss to R180m.

Grades were static at 5,5g/t, but Hopwood said production at 1,1-million tons was well below planned levels. This was mainly attributable to geological hitches. High water levels had stymied attempts to offset this with additional stoping.

Northam also suffered labour problems which disrupted its production build-up.

The mine — which called a rights issue of R350m in 1992 — had exhausted its cash

resources and a bank loan of R220m, and was running on R25m bridging finance supplied by Gold Fields. At the current rate of losses the bridging finance should last till the end of October, Hopwood said.

Should Gold Fields decide to keep Northam going, the mine would approach shareholders for funding. Gold Fields had already written off R663m of the value of its 60% stake in Northam, in line with the mine's poor JSE performance.



WALTONS

Taking a rosier view

Activities: Makes and supplies commercial stationery, office furniture, toys and babywear

Control: Walhold 50,1%

Chairman & MD: FEA Roberts

Capital structure: 68,2m ords Market capitalisation R484m

Share market: Price 710c Yields 2,5% on dividend, 7,3% on earnings, p/e ratio, 13,8, cover, 2,9 12-month high, 710c, low, 300c Trading volume last quarter, 1m shares

Year to February 28	'91	'92	'93	'94
ST debt (Rm)	56,5	28,4	53,4	83,9
LT debt (Rm)	41,1	65,2	74,1	97,1
Debt:equity ratio	0,56	0,50	0,61	0,83
Shareholders' interest	0,43	0,44	0,39	0,37
Int & leasing cover	5,4	5,6	4,4	3,5
Return on cap (%)	29,3	25,4	18,2	16,1
Turnover (Rm)	685	748	788	861
Pre-int profit (Rm)	106,0	99,3	83,8	85,0
Pre-int margin (%)	15,5	13,3	10,6	9,9
Earnings (c)	52,6	47,6	43,3	51,5
Dividends (c)	19,0	19,0	15,0	17,5
Tangible NAV (c)	184	198	201	227

Chairman Frank Roberts paints a rosy picture of Waltons' trading "We are ahead of budget in all divisions June, July and August have so far been fantastic," he enthuses That's a welcome change from a year ago.

Though the second half of financial 1994 was much better than the first, the results showed few signs of a profit turnaround. It was a dismal year, brightened only by the reduction in the company tax rate to 40% That boosted EPS, which advanced by 19%

With finance costs up 20% to R19m, the 1,4% rise in operating profit was turned into a 3% drop in pre-tax income The lower tax rate saved the day and made the performance appear much better than the trading result.

The cash flow statement offers grounds for concern. While turnover increased by 9,3%, cash generated by operations remained unchanged. A large, R15m increase in cash used to replace plant, equipment and vehicles and a R12m jump in tax paid were mainly behind the negative cash flow of R48,7m (1993: R23,8m). Also, stock increased R20m, debtors R27m and cred-



Waltons' Roberts .. ahead of budget in all divisions

itors R16m

The cash drain was funded by more debt Long-term loans rose by R23m, short-term loans by R24m and the overdraft by R6m. Gearing deteriorated to 0,83.

While this may seem bad news, two underlying factors were mainly responsible for the negative cash flow: one is apparently being cured, and there is good news about the other.

Subsidiary Reggies, the baby goods and toy retailer, had a bad year (see next report) Its sales climbed sharply but pre-tax profit plummeted to R467 000 from R3,4m and attributable earnings of R1,6m in 1993 turned into a loss of R481 000 (EPS a loss of 7c). Reggies' management has changed, 30 shops have been closed and attention is being focused on reducing expenses, improving trading densities and stock turn. Waltons has written down the carrying value of its investment in Reggies by R4m

On the other hand, aside from the upgrading and replacement of plant and machinery throughout the group, a significant portion of cash flow was used by the Helios-Minolta division which sells photocopiers, facsimile machines, laser printers and office machines. It had a good year and the value of its machines let to customers jumped from R35m to R56m

The average turnaround period of these leases/rentals is about four years so, while the division is growing, it consumes cash rapidly But the business written is profitable and, says financial director Mark Davis, it's low risk He adds that its market share continues to grow

232

In the current year, tax payments will not be as high as in 1994 when a final tax payment relating to a film investment scheme had to be made Management expects that improved profitability will help to maintain gearing

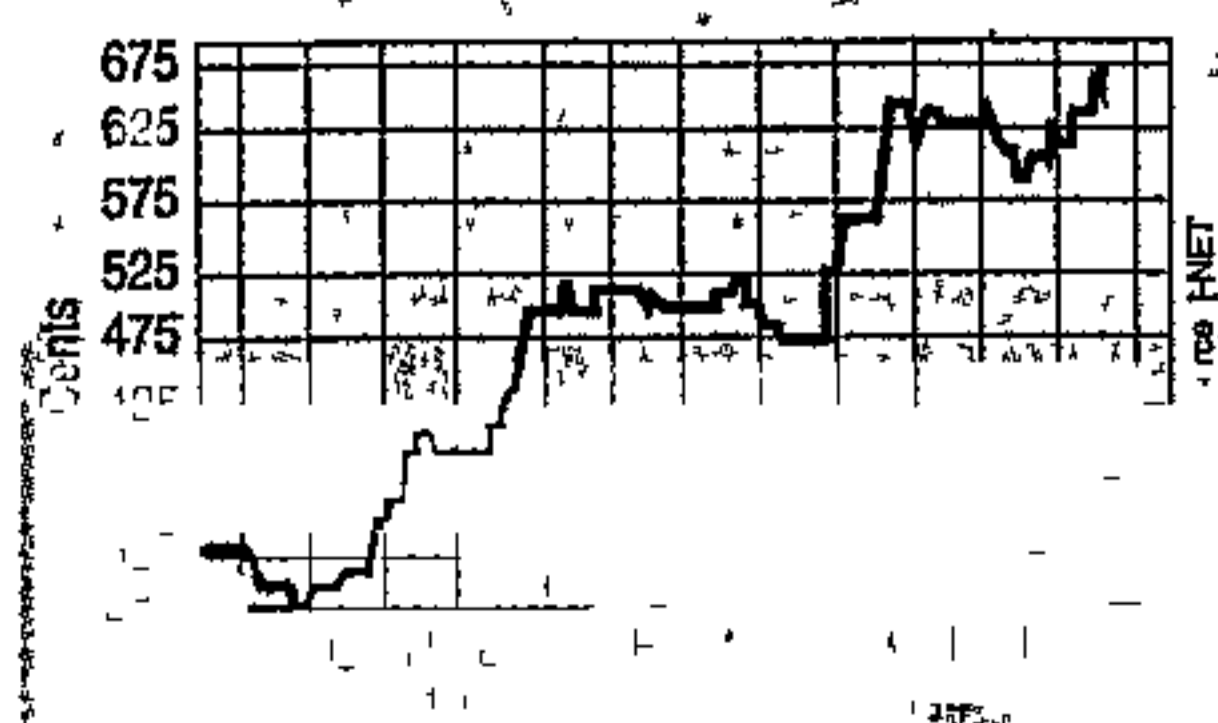
However, Davis says cash flow will again be negative because of the programme to replace and modernise plant and equipment, and because of new Minolta business It could be a good time for Waltons to go to the market with a rights issue aimed at reducing gearing and minimising interest payments.

Ozalid is again making profits and the stationery distribution division — still the nucleus of Waltons' activities — is doing well and is expected to have a good second half. Roberts says office equipment and allied products maker Atomic Holdings is "mordantly busy"

A year ago, Waltons traded at a low of 300c The share has moved to a new high of 710c, discounting much of the hoped-for earnings recovery Assuming earnings grow by 15% in 1995, EPS will move to 59c to put the share on a prospective p/e of about 12 That is by no means excessive. If Roberts's optimism is anything to go by, that target should be attained.

Gerald Hirshon

Waltons Stationary



ALTRON *Fun 19/8/94*
Rich in cash

Activities: Professional electronics, telecommunications, power electrical and information technology Holds Altech (56%), Fintech (66%), Powertech (55%)

Control: Ventron

Chairman: W P Venter *(232)*

Capital structure: 19,2m ords Market capitalisation: R1 853m

Share market: Price 9 650c. Yields 1,8% on dividend, 5,6% on earnings, p/e ratio, 17,7; cover, 3,1 12-month high, 10 000c, low, 6 500c. Trading volume last quarter, 69 000 shares

Year to February 28	'91	'92	'93	'94
ST debt (Rm)	7,0	5,0	40,5	34,0
LT debt (Rm)	29,0	28,4	8,3	3,7
Debt:equity ratio	n/a	n/a	n/a	n/a
Shareholders' interest	0,53	0,56	0,77	0,77
Int & leasing cover	27,0	n/a	n/a	n/a
Return on cap (%)	20,3	18,3	8,5	7,7
Turnover (Rm)	2,66	2,65	2,72	3,24
Pre-int profit (Rm)	300	295	281	292
Pre-int margin (%)	10,8	10,4	10,3	9,0
Earnings (c)	411	489	534	544
Dividends (c)	142	159	170	175
Tangible NAV (c)	16,51	19,47	23,50	28,15

Altron sits at the pinnacle of one of SA's most important electronic groups. As such, its performance excites considerable interest, not least among investors. And financial 1994 wasn't one of its better years. EPS grew by a modest 1,8%; in the context of a significantly higher inflation rate, that is disappointing for many shareholders. In a token gesture, the dividend was squeezed a little to yield another 5c and a total 175c for the year.

But no-one can complain about the balance sheet which displays unusual strength. Long-term liabilities are a modest R3,7m by comparison with fixed assets of R411,3m and net current assets of R585m. There are short-term loans of R34m, but they are dwarfed by cash holdings of R311m. In one area, though, the numbers evoke a flutter: minority interests are greater than those of its direct shareholders, and I am surprised no explanation is provided. Financial director John Sayer says this is a function of the group structure.

Altron operates essentially through holding companies which concentrate on three discrete sectors: telecommunications equipment, electronic systems, electronic com-

Fun 19/8/94
 ponents and the like (Altech and quoted subsidiary Autopage), various power electric products including transformers, cables, lighting, batteries and electrical appliances (Powertech and quoted subsidiary Gen-

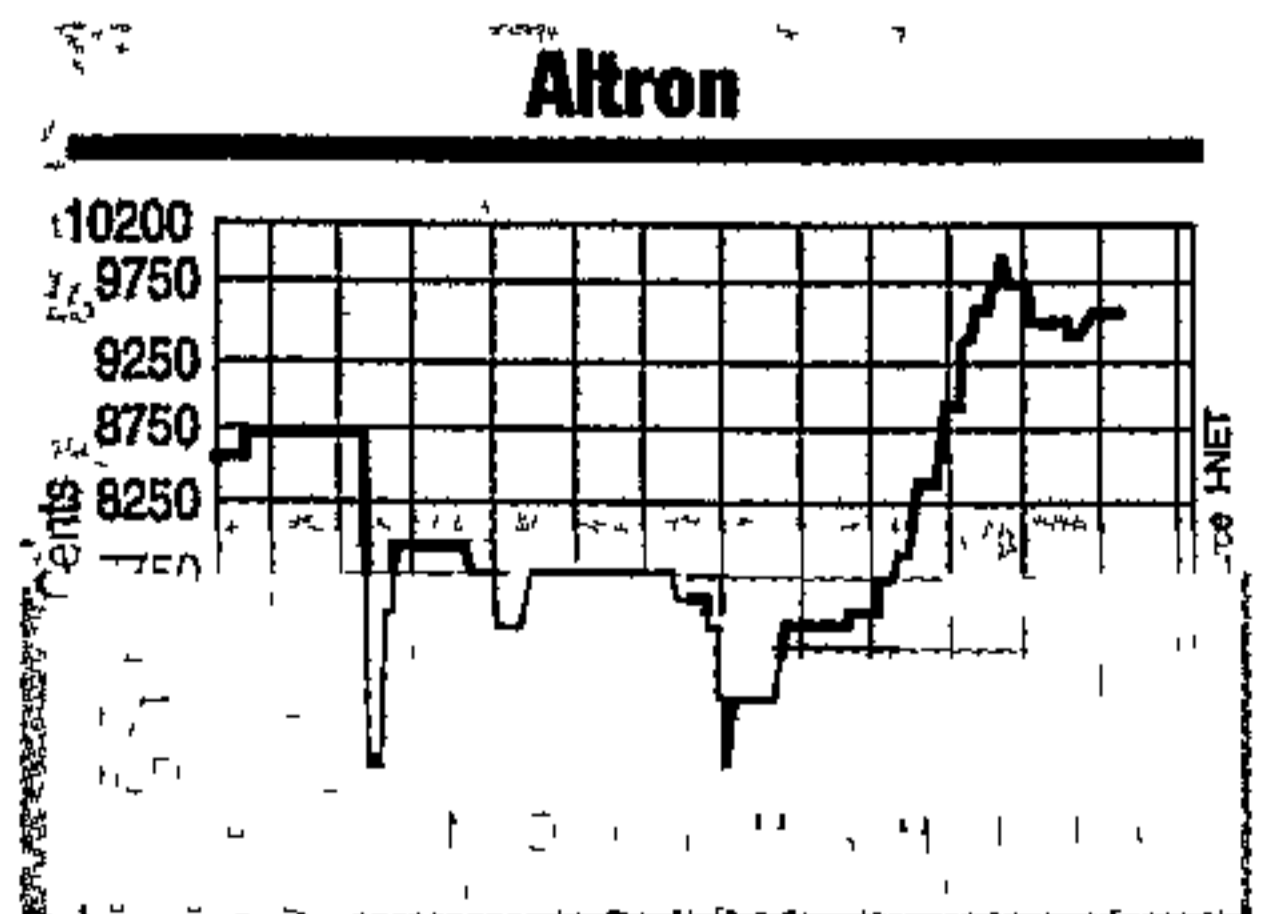


Altron's Venter ... looking for a good international investment

tech); finally, in the IT industry through Fintech. Of these, Altech probably has the highest public profile, but Powertech holds the largest selling base.

When I last wrote about Altech I highlighted the deal in which half its telecommunications interests (basically in STC) were sold to French giant Alcatel for R69,5m cash and 425 000 Alcatel shares. Effectively, therefore, Altech and — by extension — Altron is sitting on a pile of near cash in France which is neutralised for the time being.

This view incenses chairman Bill Venter. First, he says, the Alcatel deal is good for the group and SA (I agree), second, he is looking for a good international investment — these don't drop off trees; third, Altech has made good money out of its temporary investment in Alcatel because the share price has risen appreciably. None of which,



good reasons though they are, deflect my opinion that Altron's business is primarily to create wealth from its own efforts, not by investing in that of others.

Altron is a big business which has emerged from two tough years with a strengthened balance sheet. It is well able

to benefit from the economic recovery, the chances of improvement in earnings growth must now be particularly good.

At 9 650c, the counter is close to its 12-month high of R100, and is on an historical p/e 17,7. Venter will want the group to perform well this year, so I am looking for earnings growth of about 110c. That puts the share on a forward p/e of 14,8, cheap enough to make it attractive. *David Gleason*

RMB HOLDINGS

Fm 19/8/94

Still value to be had

The shares are expensive but they deserve to be

RMB Holdings chairman G T Ferreira is wearing a tie with a gambling motif playing cards and dice against a yellow background. It's probably not the sort of tie one would see on the director of a commercial bank, and it invites playful allusions to the fast world of merchant banking. Is this what sometimes happens in the dealing room at Rand Merchant Bank? Or does the tie represent the possibility that the bank will put together a consortium to finance a casino, as reported late last year?

"I shouldn't have worn this tie today," Ferreira says. It's all right — Rand Merchant Bank (RMB) does not have a gambling image in the corporate world, and there's been little gamble for investors in ultimate parent RMB Holdings.

Since listing in November 1992, the share price has trebled. In a sector dominated by Liberty, RMB Holdings is now one of the top-rated shares, on a price ratio of 32,5 and dividend yield of 1,2%.

One of the few shares with a higher price rating, 35,7, is subsidiary Momentum Life, partly because of its strong turnaround since it was taken over by RMB Holdings two years ago and because some analysts believe the reserves in its life fund and its investments are undervalued. Also, Momentum owns the merchant bank, which must have a strong influence on its price.

The high ratings also indicate investors are expecting a lot and they shouldn't be disappointed when full-year results are published next month. Analysts are expecting RMB Holdings to increase EPS by between 36%-42%, Momentum by 30%-36%. Growth of RMB's taxed profit is unlikely to be below the 22% compound average of the past nine years.

Just two years ago, RMB Holdings consisted of a merchant bank and some associated investments. Ferreira says the bank was well placed in mature markets, the group needed to diversify.

Assurance was the first foray into the broader financial services industry and Momentum presented the opportunity, not only for the life industry but also property and asset management. Specialised health insurance followed.

Big deals continued. Momentum acquired joint control of short-term insurer Aegis with NBS, then the 20% share swap between RMB Holdings and NBS opened the way into retail banking. Synergy between the two is still being developed,

though RMB Holdings is already making use of NBS's branch network. The enlarged client base offers benefits to both.

The next big thrust will probably be offshore, with RMB Holdings using subsidiary Australian Gilt Holdings to try and tap world financial markets, particularly in the East. Acquisitions have given RMB Holdings the muscle to move abroad, though a foreign partner is the favoured strategy.

RMB Holdings was expected to be a strong performer when it listed, but the share price performance over just 20 months has been remarkable.

When the group went for its listing, the usual reasons were given. But the key reason not stated in the pre-listing document was that Sage Group, then a 26% shareholder, was pushing for RMB Holdings to be floated.

"They didn't insist, but they argued that if we were quoted it would realise the value of their investment in us," Ferreira says. Also, with the acquisition of Momentum Life, RMB Holdings became open to influence from the market, placed as the holding company of a listed insurer which, in turn, had RMB as a full subsidiary.

RMB Holdings also didn't have much choice but to go for its present structure. When it bought control of Momentum from Rembrandt and Absa, it didn't have enough funds for the R181m price — the answer was to sell RMB to Momentum, 40% of the bank going to policyholders through the life fund, for R154m cash, and the remaining 60% to shareholders, settled by Momentum shares.

This has interesting, potentially valuable, implications for shareholders. "You can't dabble with policyholders' funds for strategic investments. So their interest is kept separate in the life fund, while the shareholders' 60% is used for these investments," Ferreira says.

That gives Momentum shareholders the benefit of 60% of RMB and nearly half of Aegis, jointly held by Momentum and NBS, with 47,5% each. Both are carried at cost — one reason analysts think Momentum's investments are undervalued.

Apart from the life office, with its subsidiaries in property, asset management and

health insurance, and the merchant bank, RMB Holdings holds a web of diversified interests spanning the financial services sector.

Associates Hollandia, one of the larger short-term reinsurers in SA, and recently merged Dewar Rand and Glenvaal, together one of the largest brokers, both had difficult years. Improvement is expected this year. But the real value of these holdings is strategic — they offer RMB Holdings an entry into one of the more specialised fields of the insurance industry.

Likewise, subsidiary Australian Gilt Securities (AGS), founded and developed by RMB MD Paul Harris in the late Eighties, is an important entrance point to international markets, in particular the East. This is where RMB Holdings will probably concentrate its international strategy. AGS has also increased profits over the past three years and is expected to post earnings growth again this year.

Locally, the most important investment is with NBS Holdings, after last year's 20% share swap between the Durban-based group and RMB Holdings. Again the alliance was precipitated by Sage Holdings. It needed capital to buy back its insurance interests from Absa, and was selling "non-core" investments. Barlows, which had a similar percentage holding in NBS, began its unbundling. "The timing was fortuitous, but we had a good relationship with NBS and discussions had been held on a more formal relationship," Ferreira says.

NBS has been one of the strongest performing shares in the banking sector and attracts top ratings, higher than the big four commercial banks, due to its superior growth. But RMB Holdings' 20%-interest in NBS also connects with the bank's vast shareholding network into the financial services industry, including Norwich Life, French Bank, Circle Risk Management, as well as NBS's own assurance, short-term insurance and property interests.

Combined networks of the RMB Holdings and NBS alliance must stretch to every corner of the financial industry in SA. It reaches Australia and, indirectly, Europe through NBS's partnership with Banque Indosuez, a shareholder with NBS in French Bank.

Ferreira says the relationship is working well. RMB Holdings originally aimed its diversification into insurance, but when the opportunity came along it saw NBS as a good way to get into retail banking.



Ferreira



Dippenaar

LEADING ARTICLES

The marriage offers benefits to both groups for referral of business and cross selling.

That's the top part of the structure. At the bottom lies RMB, the merchant bank Ferreira calls the "creative core — it's the seedbed for new ideas and opportunities for the bank, the group and our clients."

Founded by Johann Rupert in 1979, RMB has consistently grown profits over 15 years. At about the same time, Ferreira, Harris, Laurie Dippenaar (now chairman of Momentum Life and a director of RMB) and Jan Kitshoff (on the board of RMB and RMB Holdings) founded Rand Consolidated Investments.

In 1985, the two companies merged — since then, the average compound growth rate in taxed profits after contingency reserve transfers has been 22%. In financial 1993 taxed profits grew 24% to R44m — at the interim they were up 22% to R18,5m. RMB makes a lot of money, but exactly how has been difficult to analyse. The listing raised hopes that RMB's disclosure would improve. But disclosure was not much better.

Harris contends enough financial information is disclosed. "All we haven't shown is what we've tucked away," he says. Analysts would love to get their calculators around that, but there's little chance. They would also like to know bad debt provisions and capital adequacy ratios, which will be provided in the next annual report, Harris says.

RMB is not the biggest merchant bank in terms of net income. Leading the field is probably Investec, declaring a taxed profit of R73,2m in its latest annual report. FirstCorp, UAL and SMB all made bigger taxed profits than RMB's R44m in 1993.

However Harris believes it's RMB's consistent, sustained profits over the long term which are important. Return on equity has been consistently high, between 28%-30% over five years.

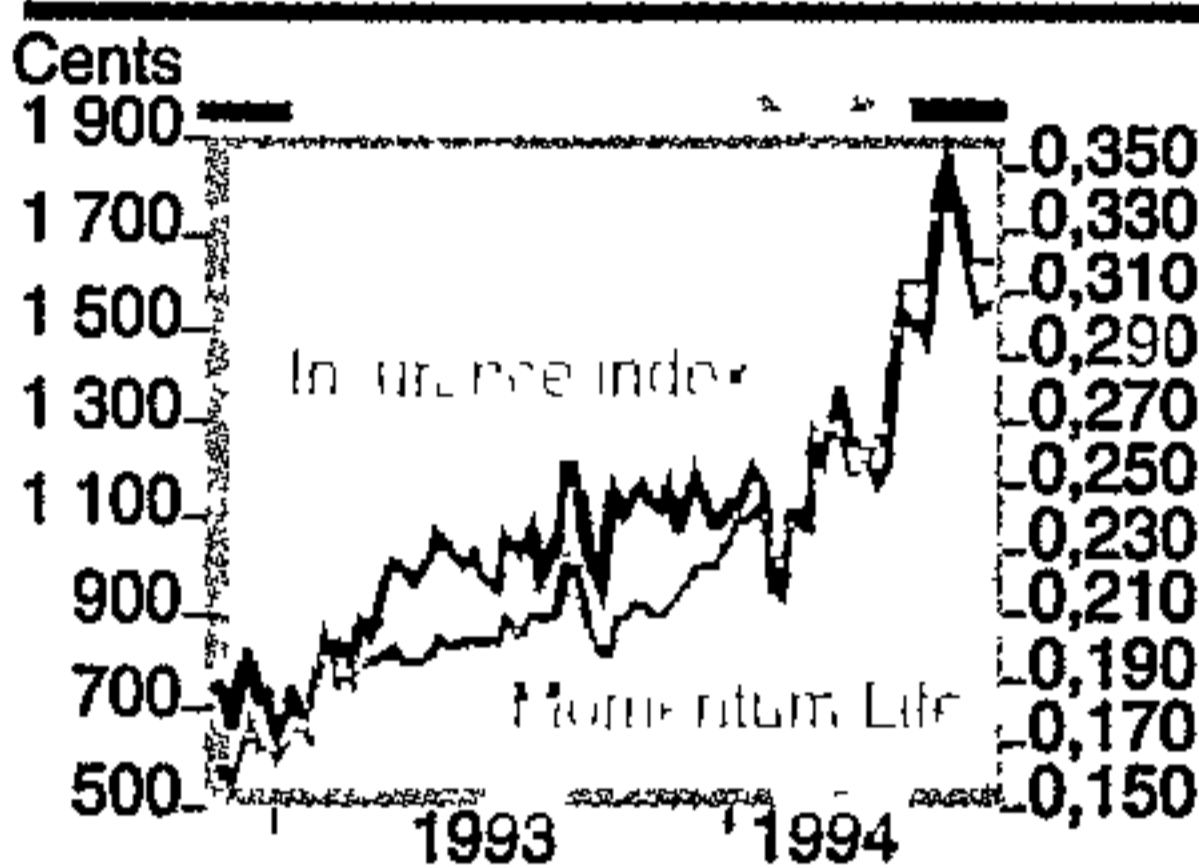
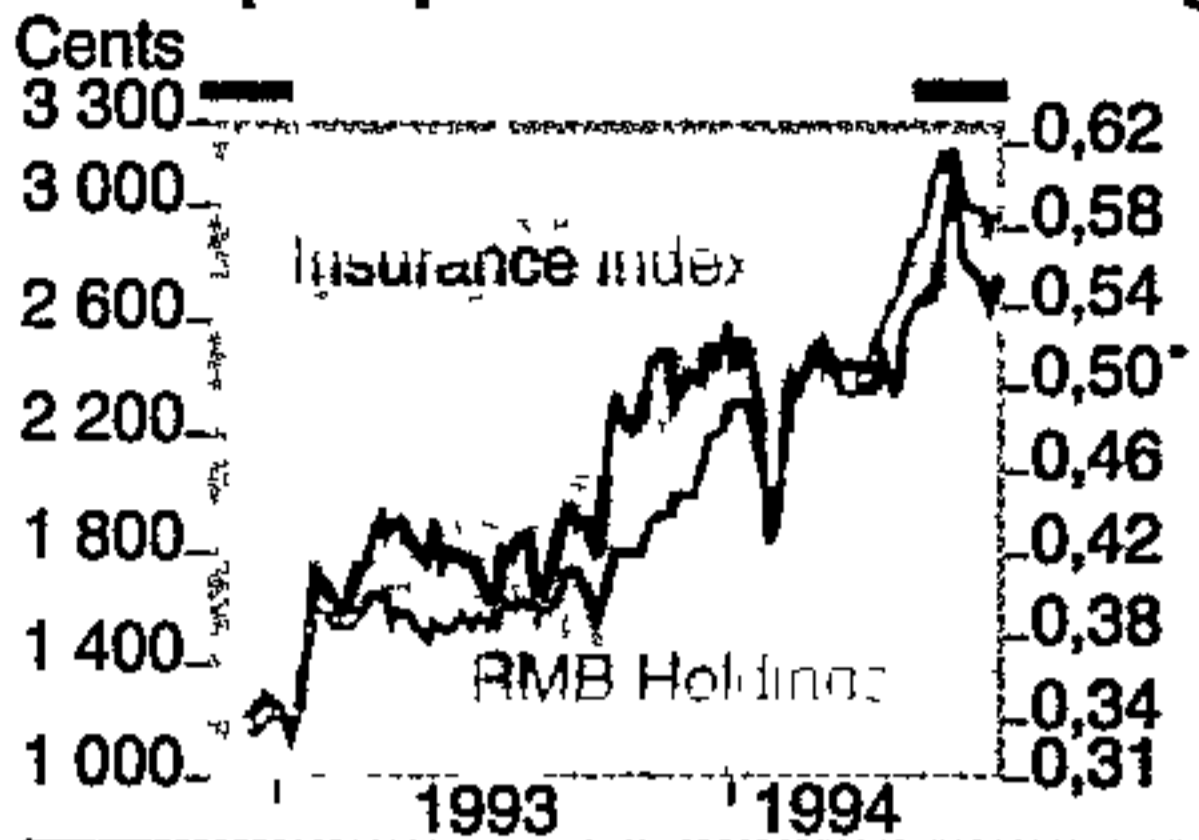
Harris also emphasises strong risk management and credit criteria as strengths. "We are re-engineering our back office, keeping them up to date with developments in technology. Too often a bank does well, only to lose money on the administrative side," he says.

RMB is also looking towards the future, placing itself to benefit from new developments in SA and abroad. Harris believes a business is at its greatest risk of complacency when it is successful. "Our people are vital, so we emphasise hiring the best talent, and training."

A recent example of recruiting talent for the future is Neil Morrison (*People* August 12), formerly the ANC's adviser on financial services and now working for RMB. Morrison has a useful high profile overseas, but as a solid leftwinger he could prove particularly useful to the bank with his knowledge of government's Reconstruction & Development Programme, parts

BEATING A TOUGH SECTOR

Share price performance since listing



Source: I-NET

of which he drafted

Harris also says the strong emphasis on training will fit in well with RMB's affirmative action programme. "We want to try and get away from the headhunting that goes on in this industry. We can develop our own home-grown talent."

Positioning itself for the future is important, but one would like to know how RMB makes its money now. It's known that banking, the traditional treasury activities, is the bread and butter that pays the overheads. It's also suspected that RMB's trading operations, in which it plays a dominant role in the futures market, had a good year. (232)

Harris says that on average, over five or more years, RMB gets a roughly equal contribution from banking, trading and structured finance, though the performance of departments within those three divisions tends to fluctuate.

Dippenaar, who has run Momentum Life since the takeover, is more forthcoming with his figures. Of Momentum's R53m attributable income at year-end in June last year, R26m came from RMB (that is, the 60% of taxed profits which go to shareholders), R24m was contributed by life assurance, R4m by the joint holding (with NBS) in Aegis, R1,5m from RMB Asset Management, reduced to R53m by losses of about R2,5m from RMB Properties and Momentum Health.

Dippenaar cautions, however, that the earnings mix could look different when results are released next month. "RMB Asset Management will probably have the biggest jump in profits. Funds under management by the property company have increased, and it's growing, particularly on

the property development side."

When RMB Holdings took over Momentum the assurer was still getting over the acquisition of the far larger Lifegro in 1989. Dippenaar says, perhaps generously, that most of the post-merger indigestion was over, but he took charge of a group with administration problems, a lack of focus and strategic planning, and with indifferent returns on investment.

What RMB Holdings did in effect was to break the company up, separating the underperformers, like property and merging them with their own interests. Dippenaar also introduced the profit centre philosophy which has worked so well for the merchant bank and narrowed its focus mainly to the A-income group. "We are now selling twice as many policies with 20% fewer people," he says. As soon as the market saw evidence of a turnaround — first interims after the merger recorded EPS growth of 21% — the share price climbed to new highs (see graph). RMB clearly influences its ratings, but Momentum now stands on a lower yield and higher p/e than a stalwart like Southern Life.

The emphasis is now overseas, where RMB Holdings is looking for possible new sources of business. It recently appointed Michael Brogan, a respected banker who has worked in Australia and Hong Kong, to head AGS and to be responsible for international planning for RMB Holdings. That points towards Asia and the Pacific Rim, regions in which Brogan has extensive experience.

Says Ferreira "We are looking overseas. But if you want to do business internationally, where the competition is intense, it's no good sending in your B-team. We need our A-team here in SA, so it might be most sensible to start up trading in partnership with an international group."

Next month's results should reflect the full benefits of earlier acquisitions and alliances. Momentum will show a full year of results from Aegis, rather than the three months in financial 1993, and RMB Holdings will include the first year of attributable earnings from NBS.

But apart from results, the market also attaches much importance to the less tangible quality of management. So far, the market has not reacted to news that Ferreira is withdrawing from the daily running of the business. He plans to spend more time on his farm at Stellenbosch — more, one suspects, to get away from Johannesburg than the business — but says he will be at the Sandton head office at least one day a week. He adds that he has been able to phase himself out, with Dippenaar taking over the running of Momentum and Harris replacing him at the helm of RMB.

Both shares are expensive, but it's felt there is still considerable value. Better disclosure would make that value more apparent, though investors seem happy to support the shares. The coming results should vindicate their views. *Shaun Harris*

RICHEMONT

Eun 19/8/94

Needs a long-term view

Activities: Tobacco, luxury goods, electronic media and direct retailing

Control: Rupert and Hertzog families

Chairman: N Senn, MD J Rupert

Capital structure: 5.2m "A" bearer shares and 5.2m "B" registered shares Market capitalisation R20,36bn

Share market: Price R39 Yields 0.8% on dividend, 4.6% on earnings, p/e ratio, 21.8, cover, 3.3 12-month high, R46.50, low, R36 Trading volume last quarter, 18m shares

Year to March 31	'91	'92	'93	'94
ST debt (£m)	297	468	523	391
LT debt (£m)	763	778	789	136
Turnover (£m)	2 988	3 108	3 443	3 665
Pre-tax profit (£m)	556	584	633	†476
Earnings (£/unit)	308.7	‡34.36	‡36.26	‡20.03
Dividends (£/unit)	50.63	‡5.63	‡5.89	‡6.15

† Includes restructuring and rationalisation costs
‡ Restated to show 10-for-1 subdivision of units

Negative sentiment towards tobacco seems to have dulled investors' appetites for shares in international group RicheMont. But there's probably more to the lacklustre performance of the share on the JSE. The counter had long been a strong performer, but over the past year has been left behind by the JSE Industrial index (see graph)

A favoured rand hedge stock among SA investors for years, RicheMont now seems to be affected by uncertainty about the financial rand and the possible ending of exchange control regulations. That's forcing investors to assess the share more closely on the strength of its operations. These, despite strong brands, are facing mature, and in some cases declining, traditional markets in Europe and in the UK.

RicheMont's management anticipated these problems some time ago. This was one reason for last year's restructuring and separation of tobacco and luxury goods interests into Rothmans International (listed in London and Amsterdam) and Vendôme, quoted in London and Luxembourg. Apart from giving the group a neater and more focused structure, MD Johann Rupert notes it has eliminated all cross-holdings between the tobacco and luxury goods businesses. That should make the respective shares more attractive overseas.

But what about local investors? Apart from possibly losing some of its foreign currency appeal, ongoing losses and development costs in the electronic media arm, largely from RicheMont's joint ownership of FilmNet, could be tempering investment decisions.

In financial 1994, RicheMont's share of FilmNet's losses grew from £7.3m to £25.7m. Investments in associates increased by nearly £16m to £130.7m, once again largely to develop FilmNet.

Coupled to this is RicheMont's recent acquisition of 25% of Italian pay television operation Telepiù for \$180m, which seems a rather hefty price for a business running at a loss.

The electronic media has clearly been earmarked by RicheMont as its new growth area. It may well be a sound long-term investment, just how long it will take to bear fruit remains unclear, but it will take time to develop.

Rupert cautions it may be some time before it contributes to group results. But he should give shareholders a clearer view of RicheMont's strategy in this area, indicating how much more cash could be absorbed by the television operations and when they are expected to start paying.

Still, this is a relatively small part of RicheMont's business. Tobacco remains the core, and here RicheMont is facing the anti-smoking lobby, mature markets in western Europe, and strong competition which forced the group to embark on a severe rationalisation exercise.

To some extent exchange rate movements flattered profits from Rothmans — though 3% growth in turnover, to £2.49bn, against a worldwide decline of 8% in volumes is not a bad performance.

It also came with a lot of pain,



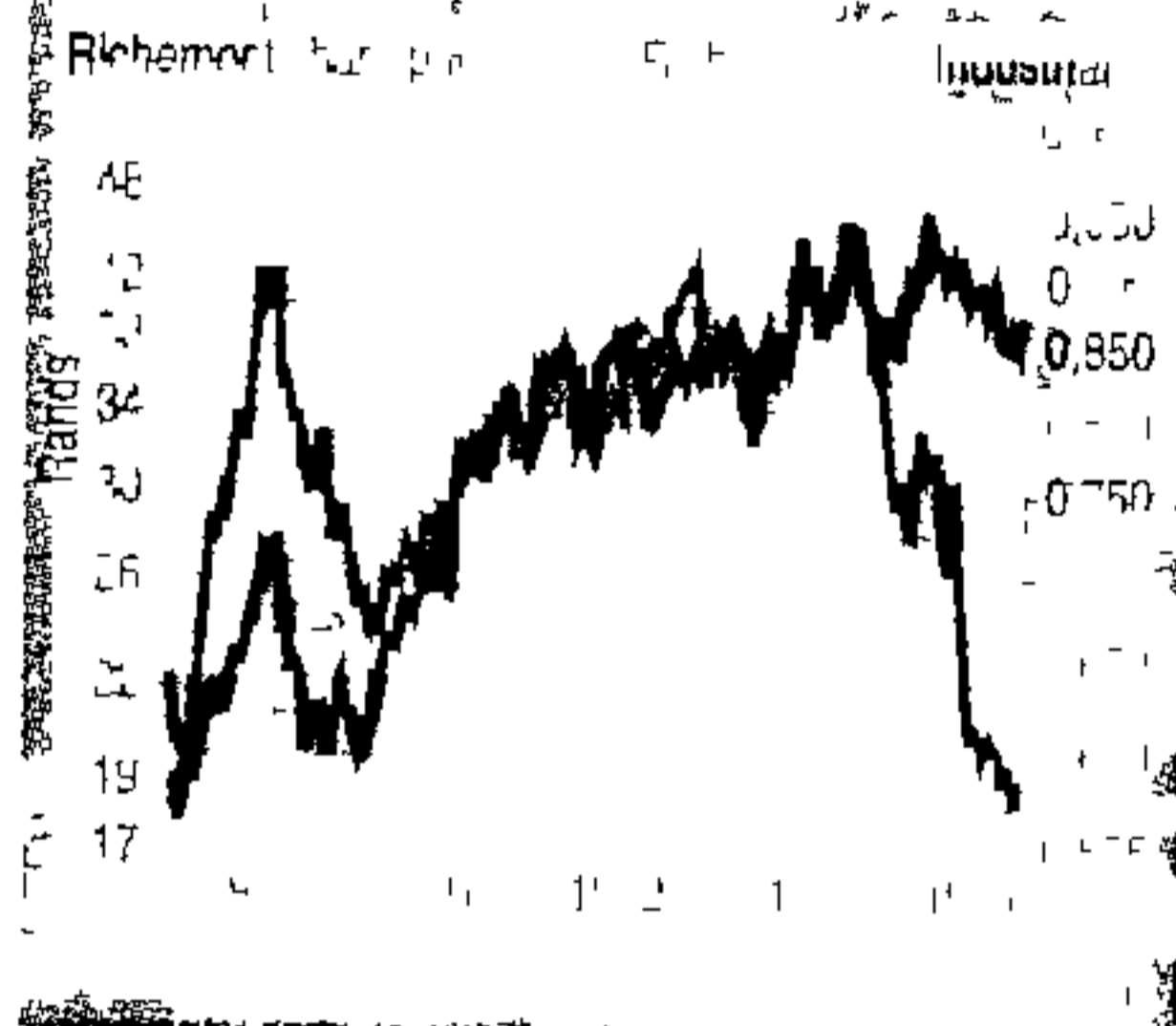
RicheMont's Rupert
cost savings after rationalisation

RicheMont paying £36.7m at the attributable level for its share of Rothmans's rationalisation costs. With £50.4m paid for

the restructuring of the group, results were severely affected. Restated figures, excluding the costs, show earnings per unit down

Lagging the market

RicheMont Securities



nearly 3%

Efficiencies in Europe should improve — Rupert expects cost savings of more than £30m a year after tax — but ultimately RicheMont needs to exploit new and developing markets for its tobacco products. It's looking increasingly towards Asia and eastern Europe to do this.

Vendôme is a stable performer, though sales of luxury goods are closely tied to the level of economic activity in western Europe. Rupert says that with the exception of the UK, major European markets showed little or no growth.

Like tobacco, there appears to be growth prospects for these products in the East, particularly, Rupert says, with the strengthening yen encouraging Japanese tourism to the region.

Vendôme benefited greatly from exchange rates, its 5.4% increase in turnover and 8.2% rise in operating profit translating to 14.5% (£1.18bn) and 17.5% (£194m) respectively when converted from the Swiss franc to sterling.

RicheMont appears to have positioned itself as well as possible for changing market conditions. Luxury goods will benefit when world economies recover. Prospects for tobacco are less clear — new markets offer growth, but there will be strong competition and negative perceptions to counter. And it will take some time before the value, or otherwise, of media investments become clear.

That makes the share even more of a long-term investment, and one that carries more risk than in the past. With the anticipated demise of the financial rand

taking some shine off the counter, investors will need faith in Richemont's management and the strength of the group's brands

However, Richemont remains a highly rated share, despite the price remaining static over the year. One analyst calculates that, based on its underlying components, the share is worth R49. That could attract long-term investors with a view on world markets, though there are several heavy-weight industrials which seem to offer a lot more value

Shaun Harris

Genbel seeks first prize

STI News (Buss)

SHARE prices on the JSE will strengthen by at least 20% over the next 12 months in line with expected corporate earnings growth, says Genbel, South Africa's leading investment trust

Since its unbundling from the Gencor group in November last year, Genbel has increased the exposure of its R5-billion portfolio to financial and industrial equities, shifting from a focus on natural resources counters.

"We now see ourselves as the first South African share that local and foreign investors should buy," says Genbel executive director Peter Cronshaw.

In the 12 months to end-June the value of the group's investments rose sharply, to R5,08-billion from R3,39-billion.

However, this excludes treasury liabilities of R936-million representing the bulk of the R1-billion loan raised at the time of the unbundling to expand the group's portfolio

The dividend was dropped by 42% to 21c from 36c a share

By SVEN LUNSCHE

A more realistic assessment of Genbel's performance is the 50% rise in its share price to 875c and a 53% increase in net asset value to R10,50 between November and mid-August

Attributable earnings for the 12 months dropped by about 50% to R297-million, but the comparable figure in 1992/3 included a R352-million gain from asset sales prior to the unbundling

The net investment gain in 1993/4 totalled R366-million, comprising R258-million from share transactions and R108-million from derivatives trading

Mr Cronshaw explains that Genbel earlier this year was bullish in the futures market and that it was one of the beneficiaries of Sechold's futures disaster.

Turning to its R5,08-billion share portfolio, he says that Genbel had not yet sold significant portions of its commodity shares

"We expect the commodity cycle to reach its peak over the next 12 to

24 months at which stage we would be ready to sell." The funds earned from the sale will, in part, be used to pay off the R1-billion loan.

Assessing the exact timing of the sale is difficult though, he says, as the export earnings of commodity producers will improve with the lifting of foreign exchange controls and the subsequent devaluation of the rand.

Over the last few months Genbel's commodity portfolio has also benefited from a more positive sentiment towards some of its natural resources shares, particularly Sappi and Impala ~~2118 194~~

Together with Engen, these three former Gencor subsidiaries still account for about a third of Genbel's investment portfolio

Genbel also raised its exposure to three "development assets" — Alusaf, Randex and Oryx. Following the improvement in the aluminium price, Genbel invested R45-million in Alusaf during the year and plans a further R25-million investment in December

It has provided a R40-million

bridging loan to Oryx, lifting its total exposure to the gold mine to R233-million

Its extraordinary provisions against the development assets were maintained at R80-million, although these are now solely devoted to a possible diminution of its Oryx investment.

Altogether its commodity portfolio at the end of June was valued at R2,96-billion

The financial and industrial portfolio of R2,3-billion included new investments of R110-million in Servgro and R258-million in Riche-mont as well as a significant increase in its Murray & Roberts holdings

Mr Cronshaw expects these shares to record strong earnings growth in the 12 months ahead in line with the economic upswing

He warns, however, that economic growth prospects will depend on strong capital inflows

"This will be more readily achieved if there is major progress towards removing exchange controls in the near future," he says

Genbel's net asset value up 53% after unbundling

MICHAEL URQUHART

INVESTMENT trust Genbel has announced a 21% rise in net asset value (NAV) to 950c for the year to June.

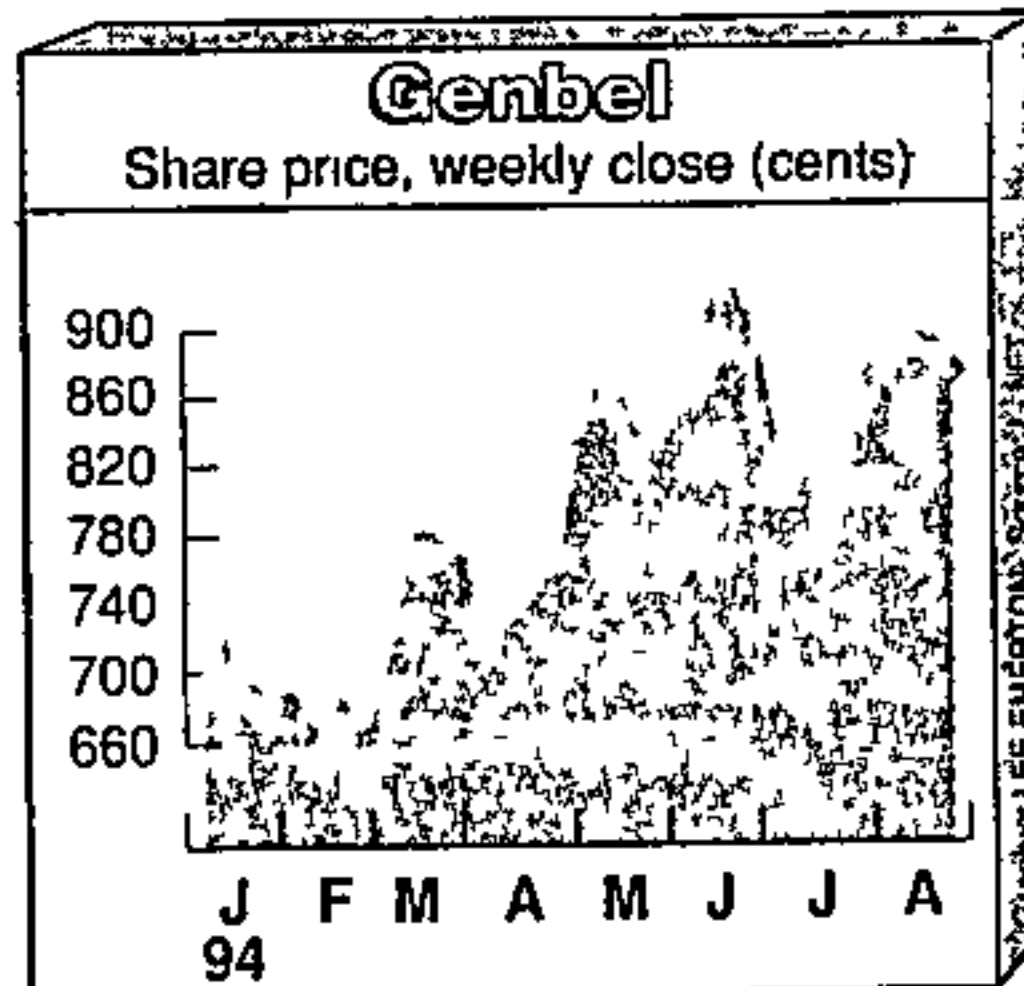
Combined with a 21c dividend for the year, the return to investors had been 33%, compared to a 35% return from the JSE all share index, the company said.

Total assets — which included stakes in aluminum scheme Alusaf and Gengold's troubled gold mine, Oryx — stood at R5bn, with debt at R930m.

The company, which unbundled from Gencor in November, said its performance had improved greatly since then. Its NAV had risen 53% while its share price had climbed 50%. The all share index rose 45% during the same period.

At June 30 the share price was 815c, meaning a discount to NAV of 14%. The shares closed at 875c on Friday, which, with a NAV of R10,66, meaning an 18% discount to NAV.

The 21c dividend — down from 36c in 1993 — was declared in line with a



new policy of linking the dividend to the yield on the all share index.

Genbel has transformed itself from Gencor's holding company into an independent investment trust. The share moved from the mining holding sector of the JSE to the investment trusts sector in March.

However, it still has a large exposure to commodities, inherited from its days with Gencor.

Genbel director Peter Cronshaw said changing the make-up of the portfolio would take a number of years.

Genbel felt it was not the right time to reduce its exposure to commodities and had instead relied on gearing to change the profile of its portfolio. But Genbel had occasionally experienced problems with the liquidity of the market and had been unable to purchase certain quality industrials, he said.

Genbel's core investments, which performed well during 1994, were Sappi and Impala.

Cronshaw said investors had expressed concern about the level of gearing — which stood at 18% — but said that this level was the norm internationally.

Genbel MD Anton Botha was bullish about prospects for the market, saying commodity-based businesses should benefit from higher international prices and the depreciation of the rand.

Financial and industrial shares could expect growth in earnings in line with the economic upswing, he said. He called for the removal of exchange controls to facilitate investment by foreigners.



Kersaf rakes in earnings despite violence, unrest

AMANDA VERMEULEN

LEISURE and entertainment group Kersaf lifted earnings nearly 9% to R179m in the year to June despite unrest in the former Bophuthatswana and SA during the run-up to the elections

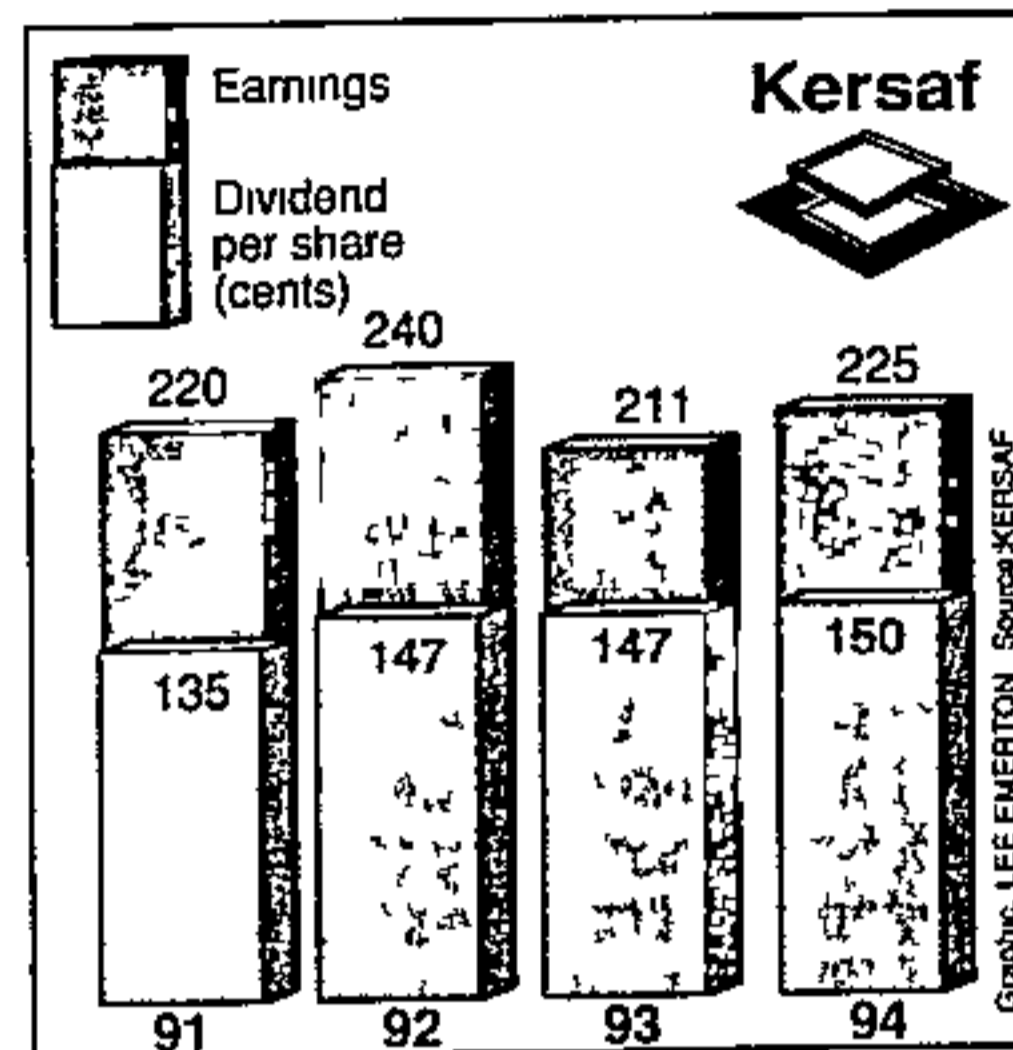
Earnings a share increased by 6,6% to 225c and a final dividend of 81c was unchanged from 1993, bringing to 150c (147c) the total dividend for the year. Turnover increased by 8% to R2,2bn and operating profit by 7% at R574,2m

Pre-tax profits grew 5,6% to R541,7m. Taxation increased to R98,3m (R85,4m), with after tax profit up 3,7% to R443,4m

Chairman Buddy Hawton said adverse conditions resulting from violence had seriously affected the group's performance, resulting in second half earnings increasing only moderately compared with 15% growth in the first six months

Hawton said Sun International, the group's largest contributor to earnings and turnover, was hit by unsettled trading conditions in the second half of the year, with SunBop and Sun City most affected

Revenues for the year were 11%



higher, which included Lost City results for the full year compared with only seven months the previous year, and attributable earnings were 9% higher than 1993

The hotel industry experienced a resurgence in occupancy levels as the year progressed but this was mainly restricted to lower graded hotels

Resort hotels continued to be adversely affected by difficult economic conditions and unrest. Sun International resorts reported an average occupancy rate of 56% for the year, compared with 60% last year

While the future of the gaming industry was still under consideration

by local and national government, the group's resorts would be permitted to continue operating after re-incorporation into SA. Hawton added the estimated 2 000 illegal casinos in the country would continue to have a detrimental effect

The harmonisation of the tax systems of SA and the former TBVC states would be undertaken by Inland Revenue in phases, commencing in the coming year

Interleisure, in which Kersaf has a 37% holding, traded satisfactorily despite being negatively affected by unrest and elections. (292)

A 6% increase in earnings was due mainly to a strong performance from Ster-Kinekor, the reduction in net interest costs and a lower tax rate which offset earnings declines in Cinemark and Computicket. (232)

The group acquired a 44% stake in City Lodge from January 1 for R163m. City Lodge reported a 36% increase in earnings for the 11 months to June — a change in its financial year to bring it in line with the Kersaf year end

Hawton said trading conditions for the year were expected to show some improvement as the economic upturn gained momentum, and from higher levels of commodity exports

Impressive finish for T&N after tough ride

Biday 23/8/94

MUNGO SOGGOT

INDUSTRIAL holding group T&N Holdings fought off tough trading conditions to hoist attributable earnings for the six months to June 44% to R10,8m

The Durban-based group — which mainly produces automotive components — lifted turnover 16% to R270,4m. Earnings a share were 46,8c (32,5c) and a dividend of 12c (11c) a share was declared.

CE Ted Waldburger said low selling prices, increased competition from exports and the number of public holidays had been among the challenges faced by the group.

The current (labour) disruptions were "not the end of the world" for T&N,

which had a positive outlook, he said. But he warned that margins would remain under severe pressure.

T&N was concerned about the effect of the Board on Tariffs and Trade's rejection of the Motor Industry Task Group's tariff recommendations for the SA motor industry. The board has called for a gradual cut in vehicle import tariffs to 30% by 2003.

T&N would be able to shrug off disruptions and changes to the industry because of its buoyant export activities and its low reliance on the original equipment market.

Exports had increased 27% during 1993 and represented 17% of group turnover, Waldburger said.

Tax changes announced in the Budget had pushed the group's average tax rate to 30% (21%).

The new pilot plant at FHE Automotive Technologies would be running by the end of September. Full volume production would begin in 1995.

Asseng Automotive had reaped the benefits of greater volumes, particularly in exports, but T&N's chemical, industrial and mining operations had been trading in competitive markets.

The group would consider selling its food acidulants operation as it did not fit in with the rest of its operations.

The rationalisation of the fluid-sealing division's production had stabilised its operating performance. Lower costs and bigger volumes had boosted the industrial products division's profitability.



Rapid deregulation of liquor industry 'could cause chaos'

232
CLIVE SAWYER
Political Correspondent

ARC 23/8/94

RAPID deregulation of the liquor industry could cause chaos similar to that in the taxi industry, says liquor board chairman Danie Botha

Speaking today to the parliamentary select committee on trade and industry, Mr Botha said the liquor industry was mainly in the hands of small businessmen, and deregulation could mean many would lose their jobs "overnight".

Theo Alant (NP) said the liquor industry was over-regulated

It had been proved that liquor usage was not influenced by legislation.

Ken Andrew (DP) said there should be deregulation of the industry.

He rejected a statement by Mr Botha that national guidelines were

needed, or differing liquor laws would lead to "unfair competition" between towns and districts

Asked by John Copeland (ANC) whether beer could be sold in supermarkets, Mr Botha said from 50 to 70 percent of liquor stores' turnover was from beer sales.

Selling beer in supermarkets would put liquor stores out of business.

Asked whether selling beer in supermarkets would promote under-age drinking, Mr Botha said his board had had "lots" of complaints about wine being sold in supermarkets to under-18s.

The board had previously banned the sale of flavoured wines in supermarkets because it had been sold to children, he said.

Assurance on state assets

232

CT 23/8/94

Political Staff

THE privatisation of public enterprises was firmly ruled out yesterday by Minister without Portfolio Mr Jay Naidoo, saying this could result in "sacrificing long-term assets for a short-term benefit"

The public enterprises were playing, and would continue to play, a vital role in the RDP by providing efficient and affordable services and infrastructure, he said in Parliament

"Privatisation would not make them more efficient and could result in more expensive electricity, phone calls, water and transport

"We should continue our efforts to ensure our public enterprises become even more efficient and more responsive to the

Naidoo rules out private control

needs of the people through the RDP," he said

But Mr Naidoo said the government owned assets which were not properly used, including property Departments and all tiers of government "should review their assets with a view to selling those which are not effectively used"

He also indicated it could be

some time before people experience the effects of the RDP

Mr Naidoo said "lead projects" which had been approved by the cabinet would be subject to a detailed business plan This would include a breakdown of work, cost breakdowns, quality programmes, an audit trail, job creation, affirmative action, training programmes and community involvement

They would also be subject to an analysis of their carry-over costs and recurrent expenditure which were being assessed by the Central Economic Advisory Services and Department of State Expenditure so as to ensure the costs could be accommodated in the 1995/6 and 1996/7 budgets

Once these steps had been taken, a performance agreement would be drawn up between the community, relevant government authority and RDP department

Midwits lifts earnings by 4% to R66,6m

S. De Vries
MICHAEL URQUHART

ANGLOVAAL's mining financial arm Middle Witwatersrand (Western Areas) today announced a 4% increase in attributable earnings to R66,6m for the year to June, largely due to a R64,5m royalty from De Beers' Venetia diamond mine. *25/8/94*

Profit before tax was up 39% to R105m, but a near doubling of the tax bill from R16m to R31,4m meant after-tax profit was up only 24% at R73,6m

Despite the increase in earnings a share of only 4% to 20,7c, the company paid out a final dividend of 7,8c. The total dividend for the year to 10c, 28% higher than the previous year.

An Anglovaal spokesman said the company based its dividend on earnings a share before exploration, which increased 30% to 25,9c (~~23,2~~) (*232*)

A royalty of R64,5m from De Beers' Venetia diamond mine was received by Midwits subsidiary Saturn Mining, which holds the mineral rights on Venetia

A portion of the royalty went to Anglovaal and also to Industrial Commercial Holdings, the listed company which owns a 12,5% stake in Saturn. At present Saturn only receives 12,5% of Venetia's earnings after capex. Saturn would net 50% of Venetia's earnings once De Beers had recouped the R1,1bn it spent on Venetia

Perasetel ties up with Acer

Star 25/8/94

■ BY CHARLOTTE
MATHEWS

A joint venture company with potentially R300 million turnover in its first year and its eyes on a JSE listing has been set up by local computer group Perasetel Holdings and Taiwanese computer manufacturer Acer

Perasetel chairman and CE Roux Marnitz said yesterday Acer would manufacture its computer products in SA for distribution throughout Africa.

It would incorporate the business and operations of Perasetel subsidiary Technology Systems Distribution (TSD), which has been the sole SA distributor of Acer products since 1990

"This is a most significant opportunity for SA because it will lead to job

creation, export opportunities and attract foreign exchange," Marnitz said

"In the short term, export sales will approximate local sales. It will not be long before Acer becomes the number one PC brand name in SA and Africa."

Marnitz said a deal had been signed which would make Acer the preferred brand for government purchases of PCs (232) (PT)

Acer Africa would aim at a JSE listing within three years, in line with Acer Group's global strategy to quote joint venture subsidiaries in order to create value and allow local participation

"We fully support this strategy and are confident we can bring the

company to the JSE within three or four years with turnover of R600 million a year," Marnitz said.

Acer has manufacturing sites in Taiwan, Malaysia, the US and Europe, and 15 assembly sites worldwide.

TSD MD Rob Matthews said negotiations on premises for the new plant in SA were well advanced and production was scheduled to begin next January

The formation of Acer Africa was in line with Perasetel Holdings' strategy, announced at its formation early in August, of actively seeking alliances with major international players, Marnitz said

Perasetel, formerly Perasetech, will be listed on October 6

BONNITA *Fun 26/8/94*
Liquidity constraints

Timing is everything, or so it should be, and this may explain the dearth of listings during the recession. Though six companies have listed so far this year, it is of little surprise that none is in the food industry since January, the Food sector has significantly underperformed the Industrial index. ~~(183)~~ (232)

But there are unusual aspects to the listing later this week of Bonnita, Premier's 53%-held dairy subsidiary, which is one of the biggest listings for some time (total assets of R484m). MD Louis du Plessis says the purpose is not to raise capital but to enhance market awareness of the group and its brands. Bonnita has 210m shares in issue (300m authorised), of these, Premier has 111m shares (at a cost of R208m), farmers and staff 95m (45%) and the Cape Dairy Co-operative 4m (2%).

Premier MD and Bonnita chairman Gordon Utian is aware of obvious constraints to the share's liquidity and says other options were considered, including a reduction in Premier's shareholding and possible rights issue. However, Du Plessis believes the sale of shares by employees and farmers over the next few months (estimated at around 40m) will suffice.

The market has little experience with this industry and examples on which it can draw are not comforting. Tiger Oats's investment in fruit and vegetable canning co-operative Langeberg Holdings brought years of restructuring and losses before it proved highly profitable. ICS's dairy division has underperformed for several years.

Utian concedes that Bonnita will have to earn its stripes."

Bonnita has 22% of the estimated R4bn local processed dairy products market. It handles 22% of SA's milk production, makes 30% of SA's Gouda and Cheddar cheese and produces more than 50% of ultrapasteurised milk.

Fun 26/8/94
ultrapasteurised milk.

Exports total 6% of turnover, though this could be 20% within five years, perhaps helped by the international operations of Metcash, Premier's wholesaling subsidiary. Over the past nine years turnover grew at a compound annual rate of 41%, reaching R754m in financial 1994.

Du Plessis says focus in coming years will be on value-added products which, he says, will see operating margins, now 7%, at 9% over the next two years. Gearing has



Bonnita's Utian ... stripes will have to be earned

fallen from 270% to 12%, thanks to the cash injection from Premier; interest cover is a high 18 times. Return on shareholders' funds has averaged 14% over the past three years. Financial objectives include a real 5% growth in EPS and dividends three times covered.

Premier effectively paid 187c per share (NAV of 155c) for its interest in SA's second largest dairy concern. Assuming EPS of 14,52c and a p.e of 16,7 (the sector average excluding Cadswep) its listing price, at a 10% discount, would be 218c. For Premier, that's a handsome paper profit of R34m. ~~(183)~~ (232)

With 40m shares expected to trade in the next few months, institutional buyers may wait until the price settles before increasing exposure to the food sector. *Marylou Greig*

Anglo, SAB buy Zambian brewery stake

JOHN DLUDLU

ANGLO American and SA Breweries had bought a major chunk of state-owned Zambian Breweries in a \$13.8m deal, the mining house said yesterday. *Biday*

The acquisition of the company's Lusaka division was made through Anglo's principal Zambian holding company, Zamanglo Industrial Corporation (Zamic), and SAB subsidiary Indol International BV.

Zamic and Indol would each hold 45% of the company, and the public the rest, an Anglo spokesman said.

Zambian Breweries, one of Zambia's

leading industrial companies, has operations in Lusaka and Ndola, with average annual beer production of more than 700 000 hectolitres. *2018/19*

Zamic chairman Andy Mazoka said an additional \$7m would be spent in the next few years to complete a refurbishment programme SAB would provide management for the operation — a move which would "revitalise the clear beer industry in Zambia", Mazoka said. *(232) (180)*



W&A shake-up helps trim losses

BIDay 26/8/94

BEATRIX PAYNE

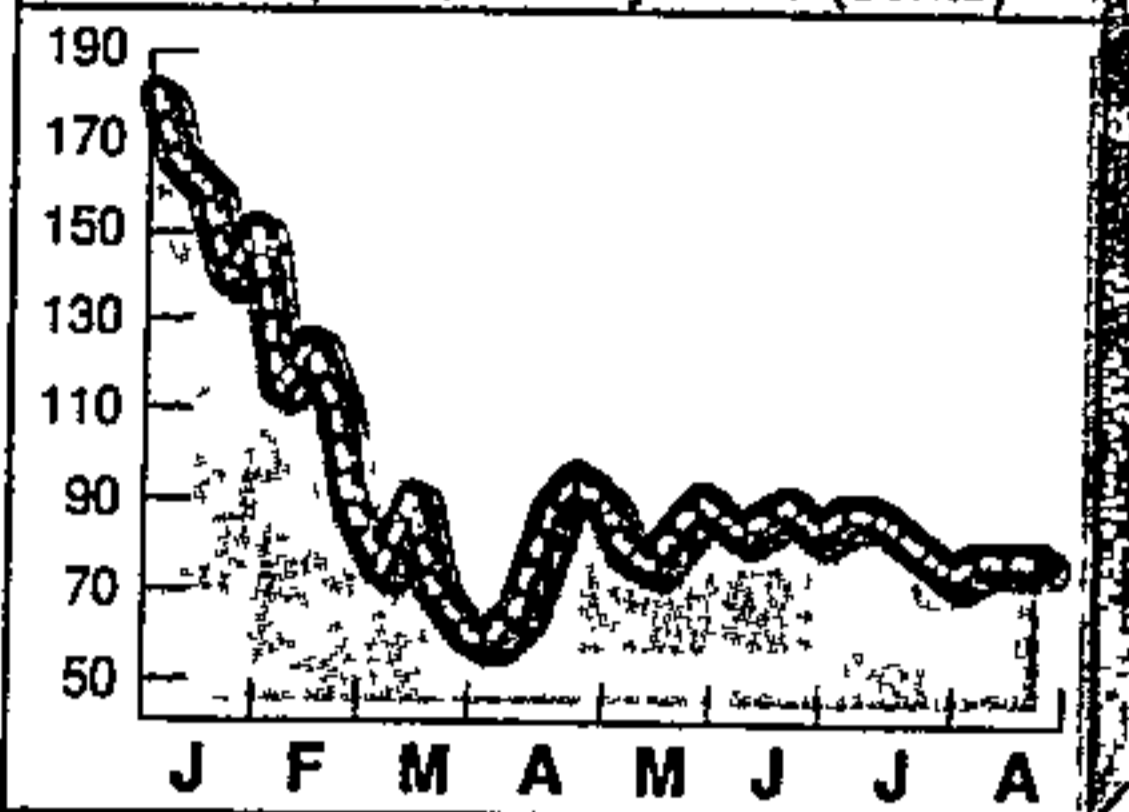
STRUGGLING investment holding group W&A Corporation has posted attributable losses of R39,6m for the six months to June, from a restated loss of R117,2m in the same period last year, signalling that its rehabilitation efforts are bearing fruit.

The group, which in February shook up senior management and began a hasty disposal programme, managed to slice R490m from its R1bn debt burden, executive chairman Raymond Hasson said yesterday. The company should approach operating break-even in the second half. It had "gone a long way toward the completion of the first phase of our recovery plan", but gearing, at 125,9%, was still too high. This would be attended to in the next phase, he said. (232)

Market sources said this pointed to an imminent rights issue.

The group, which Hasson said would focus on rebuilding core businesses, reported a fall in turnover to R1,5bn (R1,6bn restated), but despite lost trading days during the election period, operating profit of R54,9m (R53,5m) was "slightly ahead of budget and marginally better than last

W & A Investment Corporation
Share price, weekly close (cents)



year's figures

Interest paid fell 38% to R77,8m. This included a R19m payout for interest on the group's convertible debentures.

The group reported a pre-tax loss of R22,9m (R73m). The tax bill rose 61% to R6,9m, which translated into an after-tax loss of R29,9m (R77,3m).

Outside shareholders received R9,7m (R19,3m). An extraordinary profit of R12,1m (R19,5m loss), which included a R28,6m profit from the sale of Housewares

□ To Page 2

W & A

BIDay 26/8/94

□ From Page 1

and a R10m loss on the sale of Waco shares, left the total loss at R27,5m (R136,7m). The attributable loss of R39,6m did not include the results of UK group AAF Industries.

No dividend was declared.

Performance from businesses in the group's portfolio was "generally satisfactory", Hasson said, adding that "there were significant adverse variances in the coal mining operation, the property division and Badger shoes".

Companies which were not wholly owned — excluding Varex — achieved R11m more than budgeted. (232)

An emphasis on "prudent cash and asset management" produced an operational cash flow of R67m, which was R31m better

than budgeted. This was before interest, after capital expenditure and excluding the proceeds from disposals over the period. The group had disposed of its holdings in the JD Group and Housewares in June. This had reduced gearing to 107%.

"The only other notable asset which will remain on the disposal list is the coal mine," Hasson said.

The group was still examining issues surrounding the resignation of former executive chairman Jeffrey Liebesman and Nevile Cohen. Shareholders would be informed of the outcome.

It was previously reported that the group was attempting to recover R12m from Liebesman.

Nail ponders 20% stake for Cosatu

NEW Africa Investment Limited (Nail), the black business conglomerate to be listed on Monday, was discussing selling Cosatu up to 20% of its equity, executive chairman Nthato Motlana said yesterday.

Motlana said a deal had not yet been finalised. However, the move would be an important step in broadening black ownership of the company, he said.

Cosatu was likely to obtain the shares from Corporate Africa, which currently holds 51% of Nail, and from 20% owner Sankorp.

The union organisation had previously asked for 51% of Nail, but this was turned down, Motlana said. Instead negotiations were centred on a 10%-20% stake, which would cost between R30m and R60m.

He said Nail, which controlled R7bn in assets, was talking to unions to attract their pension and provident funds and so extend black holding of the company.

SA's second largest labour movement, the National Council of Trade Unions (Nactu) already has a 14% stake in Nail. (232) (SS)

There were no details on what

Biday
YURI THUMBRAN

board representation Cosatu would be entitled to, but Nactu's 14% stake had given it the right to two seats on the Nail board. 26/8/94

Sankorp CE Attie du Plessis said it was important to have Cosatu as a partner in the venture, as it was a major force in SA.

Sankorp's 20% stake could be sold within five years to Corporate Africa to expand black ownership. Du Plessis said he hoped that a deal with Cosatu would be clinched soon.

Nail said it would also spread equity to 1 000 entrepreneurs in Corporate Africa and through Nail to a further 250 000 individual shareholders.

Motlana was quick to reassure investors on the role of unions in the company, saying Nail would not enter disputes between management and the workforce.

The company's major investments are stakes in Metlife, the Sowetan newspaper and the MTN cellular network, though it has made it clear it plans to expand its media interests

Earlier this week, it forecast a 19% rise in pro forma attributable income for the year to September to R19,9m on turnover at R80,3m (R71,5m)

NEWS Economic empowerment history

Black company to get JSE listing

By Mzimkulu Malunga

HISTORY will be made on the Johannesburg Stock Exchange on Monday when the largest ever black-controlled company hits the market New Africa Investments, with assets worth R7 billion, will be listed on the JSE

"If black economic empowerment is to mean anything at all we would argue that business should be based on linkages between blacks and whites," said the company's chairman Dr Nthato Motlana

The engine behind NAI was propelled by black business, supported by black trade unions under the banner of the National Council of Trade Unions, local big business and international

■ **CRITICAL MASS:** New Africa

Investments' assets worth R7 billion:

investors, he said.

The company's key assets are Metropolitan Life, the seventh largest life insurer in the country, Cellular network provider MTN, and *Sowetan*

Although in the meantime the main source of the company's income was expected to come from its 30 percent stake in Metropolitan Life, it is anticipated that in future the *Sowetan* and MTN will come to the fore.

Short term projections estimate that Metlife will contribute 84 percent of the NAI's income while MTN

and *Sowetan* will contribute nine and seven percent respectively.

Initial valuation of the company's share price was R1,53, but market trends could change this once the listing takes place. (232)

Motlana said the company hoped to acquire some unbundled companies as huge conglomerates downsized themselves in the future

"NAI has the critical mass to attract future investments. The focus is on black led partnerships with leaders of industry," said Motlana

NEW REPUBLIC BANK

For 26/8/94
Earnings dilution

(232)

Activities: Retail and corporate banking

Control: Merhold Investment Corp 42%

Chairman: Y M Paruk MD M Mia

Capital structure: 24,7m ords Market capitalisation R112m

Share market: Price 450c Yields 2,7% on dividend, 12,2% on earnings, p/e ratio, 8,2, cover, 2,9 12-month high, 525c, low, 375c Trading volume last quarter, 72 000 shares

Year to March 31

	'93	'94
Total assets (Rm)	503	1 154
Deposits (Rm)	457	1 050
Advances (Rm)	408	983
Pre-tax income (Rm)	6,9	14,8
Attributable (Rm)	3,5	11,6
Return on equity (%)	19,3	16,4
Return on assets (%)	0,8	1,2
Earnings (c)	61,1	54,9
Dividends (c)	19	19
Tangible NAV (c)	313	341

Maiden results since listing in February are heavily influenced by New Republic Bank

FINANCIAL MAIL • AUGUST • 26 • 1994 • 101

COMPANIES

(NRB)'s acquisition last year of Merchant Trade Finance (MTF) from major shareholder Merhold.

Assets grew 129%, mainly from the increase in advances represented by the acquisition. Some 42% of advances are represented by trade, factoring and working capital finance from the MTF business. Similarly, specific and general debt provisions increased 47% to R6,6m from the increased advances represented by MTF.

Net interest income also more than doubled to R47m from MTF. And since the acquisition was settled by the issue of 14,2m new NRB shares (as well as a R17,5m rights issue last year), the 229% increase in attributable earnings was diluted to a 10% decrease in EPS. The dividend was maintained on cover which reduced from 3,2 to 2,9 times.

Incidentally, another spin-off of the MTF deal was that Merhold paid its chairman Christopher Seabrooke a R2m restraint-of-trade. Now Seabrooke is also deputy chairman of NRB. It's odd that he received a R2m restraint-of-trade for selling a business to a bank which he effectively helps oversee and is effectively controlled by Merhold. Did anyone really think he was going to act in competition to his own interests? It looks remarkably like someone paying himself not to interfere in his own business.

Returning to NRB, the inclusion of MTF in financial 1994's results obviously skews year-on-year comparisons. Return on average shareholders' equity, regarded as one of the more important ratios for small banks

and merchant banks, has declined, but return on assets is up. And the balance sheet looks sound, with cash holdings of R95,6m (R50,1m) and a capital adequacy ratio of 10,7%, comfortably ahead of the 8% which will ultimately be required.

Yet the market has not warmed to the shares since they were listed. First trading set a high of 525c — since then they have drifted steadily down. It would be unfair to expect the sort of returns from

NRB that one sees in the larger merchant banks, but even a similar organisation like Fidelity Bank is getting a 2% return on assets, compared to NRB's 1,2%.

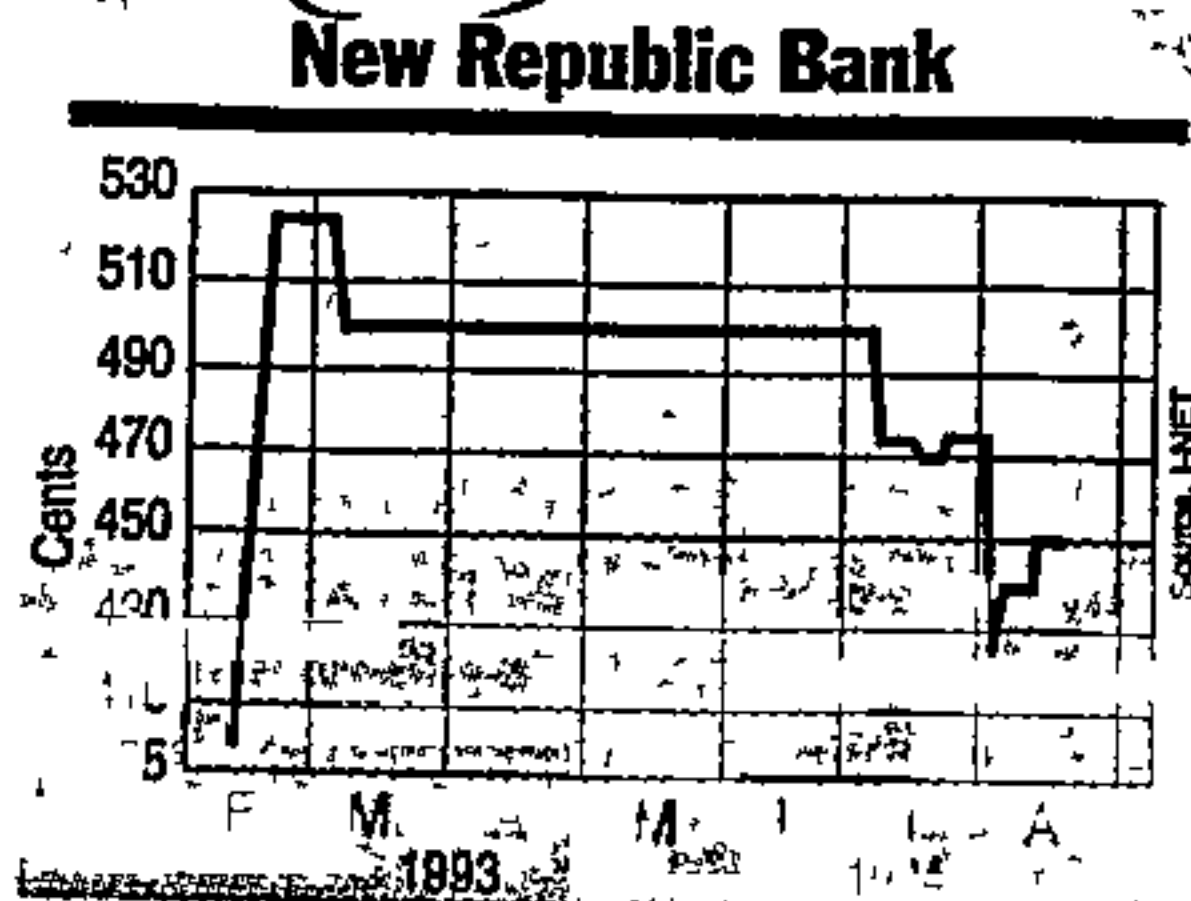
It's also likely that NRB's ratings are influenced by Merhold, listed in the same sector. Since reviewing Merhold's annual report in May, its share price has declined from R4 to R3,20. Its p/e of 5,4 is one of the lowest in the sector.

MD Mac Mia believes the possible influence is irrelevant, pointing out NRB is not a subsidiary of Merhold. That's true, but a link between share price performance is discernible among other listed groups with a smaller shareholding.

NRB believes it is positioned to take advantage of its market niches, mainly asset financing for small- to medium-sized business and the professional market and improve returns over the next few years. Directors caution, though, that expected growth in attributable income may be affected by the increased shares in issue.

Mia says benefits of the acquisition should start to be seen in the next 12-18 months.

It would be encouraging to view this as a possible growth stock, but investors may need a longer track record which shows bottom-line growth and improved ratios before considering the shares. *Shawn Harris*



Fin 26/8/94

Recovery bedded down

A good start, but quality earnings must be seen to be sustainable

This company is characterised by conjecture and market caution. Few JSE analysts cover the furniture sector and those who do seem to concentrate on the perceived leaders — retailer Ellerine and manufacturer Afcol.

Nevertheless, the Furniture, Household & Allied index has almost trebled over the past 12 months (much of this outperforming the Industrial index) to 1 176, as investors discount cyclical earnings growth. JD's share price has doubled during this period but lagged the index — and it may be undervalued in terms of its earnings potential.

JD Group, which last year emerged from the skirts of embattled W&A and then went on to rescue the banks and take control of Rusfurn — making it the Goliath in the sector when measured by size of operations, though not by market cap — is examined from a distance and with a certain

cynicism

(133) (232)
 "We are waiting for the results," is a common response. And while informed market sources say that the results for the 18 months to June, due to be released early next month, are "very good, better than expected," there remains widespread belief that CE David Sussman may have overreached himself. "He seems a lot more interested in establishing furniture chains in

Mexico and the UK," says a disbelieving analyst.

Scepticism is a hallmark of the furniture sector, generally seen to be unusually risky and highly dependent on a management "trust" factor. And it is a business dependent not merely on consumer good humour, but on the propensity of buyers to borrow — and their ability to repay. One consequence is that the size of the debtors' book carried by furniture companies often takes on scary proportions (despite at-

tempts to scale these down by taking them off the balance sheet).

This is one reason for the popularity of Ellerine and the esteem in which its founder/CE is held — Eric Ellerine is a man who has stuck to his last over four decades and is universally respected. Sussman's task is to reproduce in JD Group that same culture of reliability and conservatism. He has certainly made an impressive start. Rusfurn's debt, for example, has been reduced from a stunning R600m at the time of the transaction to a comparatively insignificant R55m. Extensive cleaning up of Rusfurn's book on a very conservative basis, under the previous management of Laurie Korsten, suggests that JD may benefit from being able to recover some of the generous provisions.

Another factor which scares investors and analysts is the high drama associated with the group last year. JD Group was hampered by its association with a group rightly seen to be in serious trouble. Rusfurn, on the other hand, was known to be struggling under indifferent management and to be



Strauss

A.F.O.



RANDGOLD

Anatomy of a rout

Fun 26/8/94

It's a timely reminder that shareholders, not managers, own companies

After two weeks of brinkmanship, mining house Randgold — all that is left of the once proud Corner House — has been taken over by its shareholders. If that sounds strange, it is because shareholders, by and large, are a dispossessed constituency in SA: the overthrow of Randgold's managers last week was nothing less than a revolution staged by a species known better for its sheep-like docility than for any preparedness to take command.

The signal sent by disaffected shareholders encapsulates a philosophy long embraced by the *FM*: it is that shareholders actually do own their companies, not managers; that major companies are not personal fiefdoms, operated at the pleasure of powerful executives; they are the essential building blocks of the economy and instruments for the creation of wealth and employment. The overthrow — that is what it was — of Randgold's controlling executive contains messages of profound import for all companies and managers.

Randgold is the gold mining and exploration rump of Rand Mines. It was formed in September 1992 out of a decision by holding company Barlow Rand. The break-up was preceded by the sale of Barplats, the group's disastrous venture into platinum mining through the acquisition of the Lefkochrysos mine. Once that was sold off (to Gencor's Impala), the way was opened for a mini-unbundling which had the effect of unlocking value in the remaining holdings — gold, coal, property and exploration.

Randgold was left with four deep-level gold mines — ERPM, Durban Deep, Blyvooruitzicht and Harmony — all of which display the characteristics associated with extreme mining age, falling grades, uneconomic distances from shafts, heat problems, diminishing reserves.

They are what analysts love to call "marginals" — mines which swiftly fall prey to falling bullion prices but which, conversely, react remarkably when gold moves in the other direction.

Marginals also have considerable gearing. It is this idiosyncrasy which makes them favourites among a vast number of gold "bugs" — investors around the world who share a common belief in the ultimate supremacy of gold over other financial instruments.

Randgold's listing in February 1993 was undertaken by the use of a dividend in specie. Barlow Rand shareholders received scrip in Randgold rather than the normal rights offer associated with a new listing. And it is evident the route was chosen because Barlow Rand executives clearly

appreciated that a standard-type listing probably wouldn't have been well received.

And it is a typical SA mining house, with relatively small holdings in the mines it manages and an overwhelming reliance on the management fees it earns. These fees are themselves the subject of growing controversy: a long-established tradition in the industry is that the houses tie their mines into long-term agreements, probably not fewer than 10 years and sometimes of a rolling nature, and in a manner which makes them almost impossible to break.

These agreements enable mining houses to draw fees from management (often based on turnover), from buying services (perhaps 2.5% on everything purchased), from capital projects (engineering and design fees)

recalcitrance by Randgold's managers.

This is where the story takes an interesting turn. Some years ago, control of listed Rand Leases, an independent gold producer on the West Rand, was acquired by the Kebble family. Previously, the mine was managed by Anglovaal and then by the Severins. Director Brett Kebble (jnr) saw synergies in a tie-up between Rand Leases and neighbour Durban Deep, MD Roger Kebble's (snr) approaches were rejected by Randgold. However, the Kebbles weren't to be so easily deflected. Over a period of months Kebble jnr contacted nearly all Randgold's major shareholders and struck an alliance with Adam Fleming, the SA MD of prestigious UK merchant banker Robert Fleming.

When Randgold announced it would suspend and then close underground operations at Durban Deep, Fleming and Kebble were waiting. Baring was persuaded that the need for action to unlock wealth in Randgold-managed mines had never been so urgent. With Mercury's substantial shareholding tied in with other concerned investors, all that was needed was an alliance to provide adequate management.

That was achieved when Baring and Fraser Alexander chairman Peter Flack struck an arrangement which in-

involved the purchase by Randgold of First West Gold, a mining operation on the site of the old West Rand Consolidated gold mine. Ironically, it was this deal which so nearly decapitated the entire process.

With a strong leadership in place, Baring sat back to await developments. Flack, now aided by Kebble jnr, Fleming and Rand Merchant Bank's Nigel Brunette, called on Randgold to convene a meeting of members for the purpose of electing 11 new directors and to purchase First West Gold for nearly R70m. The election of so many new directors would give board control to Flack; paying for First West with 8m Randgold shares (plus R10m in cash) would give Flack's consortium 20% of the house's equity, in effect its own power base.

The meeting was called and, for a few days at least, Flack's team and Randgold's managers played an attenuated if awkward form of footsie. Before long, however,



Randgold's Sealey, Turner, shareholder

only way to go

and to recover direct costs. It can certainly add up: in the case of Blyvoor, for example, the mine paid fees of R4.6m in financial 1993, compared with an after-tax profit of R14.4m. In another case, Rustenburg Platinum, mining house JCI drew fees in financial 1993 of R92.7m compared with after-tax profit of R285.5m.

In the UK, Julian Baring (of London merchant banker S G Warburg's investment arm, Mercury Asset Management) took the view that Randgold was underpriced and offered good value. Considering the size of the mining funds under management — approaching £1bn — his investment in Randgold was minuscule. But Baring, which accumulated scrip from as low as R3 a share, soon ran up to nearly 29% (currently 25%) of Randgold's issued equity. And Baring is canny with cash: he was happy when the price went to R8 a share, not so happy when he heard stories of

Randgold CE John Turner decided to fight back. His defence seemed to be well orchestrated, as it concentrated on the three fronts which he and his advisers saw as being Flack's weakest points

The first of these was First West Randgold employed high-powered managers and then took the project apart. If anything, they did it too thoroughly. While the financial community was prepared to concede that Flack's value of R70m was probably slightly too high, they weren't about to be persuaded that its ultimate liabilities actually exceed its value.

Turner's team played what could have been a good hand badly. The truth is shareholders were prepared to pay that price to put strong, effective management in place.

The second Randgold thrust was to associate alleged radiation dangers from dumps with high uranium content with the First West project.

That brought the National Union of Mineworkers (NUM) into the fray but, in the event, NUM's intervention, led by unit co-ordinator Kate Philip, was both too late and too evidently lacking in technical expertise.

The prevailing consensus is that the NUM allowed itself to be used in what was a shareholder fight.

As their third effort, Randgold's managers rested on the law. First, they appealed against the Securities Regulation Panel

FM 26/8/94
ruling that the election of so many new directors was not an "affected" transaction (that is, a change of control). When they lost that, they urgently sought an interdict in the Supreme Court to suspend the extraordinary general meeting of shareholders. When they lost that, the game was up at the EGM the next day, Flack was able to marshal 15m votes to the 5m of the managers. It was a rout.

This incident raises pertinent issues for SA shareholders and executives. The first is the extent to which managers can use company money to thwart owners' wishes. The *FM* learns that Randgold owes its advisers in the region of R600 000. Not surprisingly, new Randgold executive chairman Flack is sitting on his hands — and the cheque book.

The second is what this may presage for the mining houses, both in the way they are structured and in their exercise of control over managed mines. The matter of fees already excites criticism, which is bound to increase as shareholders exercise their rights of ownership. For decades, SA business has sought to invest abroad; now foreigners are looking to invest here. They will add their voices and wallets to growing



Philip

demands for change in corporate governance.

Of course, Baring's and Flack's achievement is the easy part of this story. Making Randgold work better will be more difficult. Flack has already made it clear he intends a thorough review of every aspect of the company's business; it's unlikely that will be completed before the year-end. That will be followed by swift action. The *FM*'s guess is that Randgold's management agreements will be sold back to the mines for more equity, a small, highly concentrated team will be assembled at the

centre to provide technical management; and, where possible, synergies will be exploited — the most obvious is probably the merger in some form of Durban Deep and Rand Leases.

The burning issue at the end of the day is whether it will be successful. No-one knows, least of all Flack. But investors can take comfort from the company's discount to its underlying NAV, depending on how the sums are done, this is as much as 50% and, subject always to the way bullion and the new managers perform, Randgold may well present an inviting investment opportunity.

David Gleason

DIAGONAL STREET

By Julie Walker



M&R builds on its optimism



ANDRE VAN DER COLFF

uncertainties more finite

ANDRE van der Colff, chief executive at Murray & Roberts, notes a real improvement in the group's business climate.

A year ago, Murray & Roberts correctly predicted another 12 months of low growth but managed to outmanoeuvre the prevailing economic wind with an adequate year's performance.

The engineering and industrial giant, capitalised at R5,8-billion on the JSE, raised earnings a share by 2% to 54c and the dividend by 5% to 210c in the year to June 1994.

The cash dividend is an alternative to a more tax-effective capitalisation issue of shares, terms to be announced.

The uncertainty of that period — Will there be peace? Will there be a new government? Is there any

hope? — has been replaced by clouds of a new kind. When will the reconstruction and development programme get going?

"It is a more finite uncertainty and one which is largely in our own hands," says Mr van der Colff.

In spite of almost every project being placed on hold in the run-up to the April elections, Murray & Roberts achieved an extra billion rand's worth of turnover to reach R7,7-billion. This includes a full year of its owning another 38% of Standard Engineering and two months' contribution from AWI, the alloy wheels business bought from the W&A group.

Mr van der Colff says the group's performance at the earnings before interest and tax level is the focal point: it rose 12% to R530-million in an environment of gross domestic

fixed investment growth of barely 1%. Although the operating margin was down a shade at 7,6% it is still the third-best in eight years.

Group cash flow was half as good again as in 1993 at 1 007c a share before discretionary capital investments and was a factor in reducing gearing from 26% to 19%.

A breakdown of the contributions to consolidated earnings reflects the point in the economic cycle accurately. The biggest jumps came from materials and transport, the largest drops from properties and engineering. Construction and supplies are little changed.

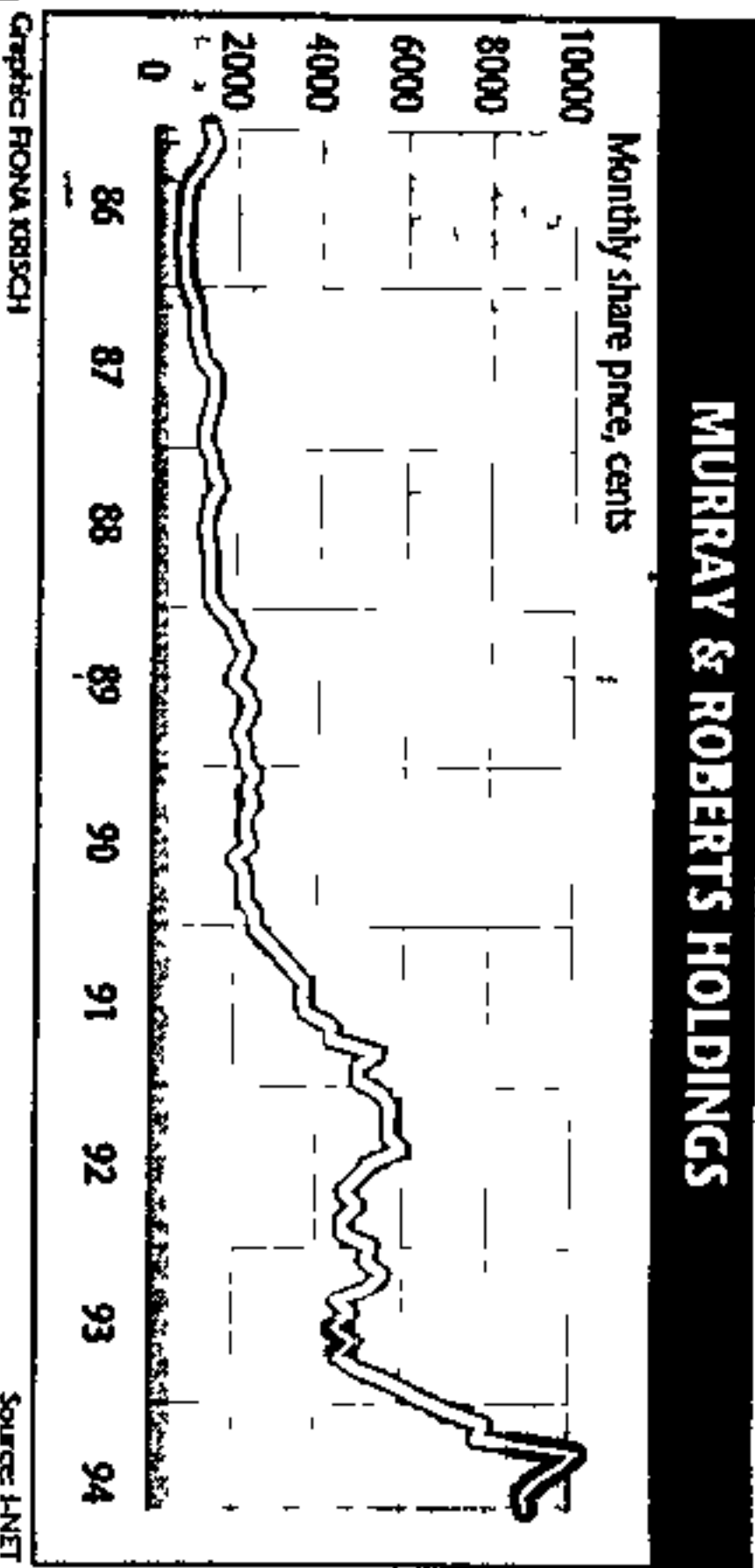
Mr van der Colff concurs that these are signals of an upturn and already notes a shortage of some materials such as bricks. After the low point of December 1993, the construction division now employs

25% more people at 15 600 and the whole group nearly 50 000 — 4 400 more than it did at the end of 1993.

The more positive mood is tempered by several trends such as labour unrest, worker expectations unable to be met and potential government intervention. For these reasons a strong recovery and RDP activity will likely be delayed until the second half of Murray & Roberts' financial year.

Nevertheless the group's order books are markedly improved, on 1993's and Mr van der Colff conditionally expects earnings to grow modestly above the rate of inflation during the current 12 months.

Shareholders have already enjoyed impressive returns, especially those on board since 1986, when it was well below R10. It is now R92,50.



Privatisation on hold

wm (BM) 29/7-4/8/94 (232)

●From PAGE B1

necessary preparations, there is a danger that we might lose the benefits of the whole exercise. First, there has to be extensive consultations with all stakeholders, the trade unions, management, shareholders and the disadvantaged communities.

"Secondly, if you privatise tomorrow you have to first make provisions for ordinary people to raise the funds to buy the shares. And finally, we have to make sure that privatisation is not against the disadvantaged. Eskom is fairly tied up in a major electrification programme. The company is involved in other programmes which are contributing to the RDP. Could we be able to get a similar commitment from a fully private company?"

Sigcau says her department has already had discussion with a major Japanese financial services multinational, Nomura Securities, which has promised to send someone to give further advice. Other qualified overseas investors will be brought in to contribute.

For now the ministry's emphasis will be on commercialisation and ensuring full transparency and accountability in the governance of the public enterprises. Affirmative action is another major drive and Sigcau will be making new appointments to the boards of the parastatals under her supervision in a major policy statement next month.

She stresses commercialisation and the study of privatisation will not continue "till eternity".

"We know that there are certain things that have to be privatised. Maybe we can start with the physical assets of some of the former homeland governments which are not in use now that provincial governments have taken over."

Sigcau's final word is that each country is different. "Just as



Stella Sigcau . Not opposed in principle

PHOTO RUTH MOTAU

Malaysia shaped a privatisation programme to suit its own conditions, South Africa must come up with its own unique version," she says.

While privatisation has increased rapidly around the world, the results in many countries have fallen short of initial expectations, particularly of those who imagined instant riches or a fiscal panacea.

This is the finding of two International Monetary Fund economists in a paper entitled *Privatisation Expectations, Trade-Offs, and Results*.

The authors say often an initial wave of unconditional enthusiasm generated by those who touted privatisation as a cure for all economic ills has given way to a more realistic view that not only identifies the economic benefits, but also recognises the trade-offs and compromises that have to be made to obtain particular benefits.

They say evidence suggests that

productivity gains (in state-owned enterprises) will only materialise if privatisation is accompanied by extensive industrial restructuring. Just privatising is not enough. Entire industries have to be restructured to ensure competitiveness if productivity gains are to emerge. Since this is costly, productivity gains may only be achieved at the expense of net proceeds from privatisation.

The implication for South Africa, as Bureau for Economic Research economist Nils de Jager says, is that government should be careful not to just emphasise the proceeds that it can generate from privatisation.

"If government were to overplay its hand on fiscal policy by stimulating demand through privatisation, the end result would be rising inflation. The process will have to be accompanied by higher productivity, output and employment in the privatised industries to avoid this outcome," he says.

Privatisation on hold

(232)

WM(BM) 29/7-4/8/94

Privatisation of large parastatals is not yet on the cards, says Stella Sigcau, but it hasn't been ruled out.

Duma Gqubule spoke to her about this vital issue

NOWADAYS, hardly a week passes by without a captain of industry or economist making a statement encouraging the government to start privatising state-owned enterprises to raise funds for the Reconstruction and Development Programme

Public Enterprises Minister Princess Stella Sigcau explains the parastatals under the supervision of her ministry are Eskom, Transnet, Denel, Alexcor, Safcol, Sun Air, Transkei Airways and the Aventura resort group

Other large parastatals, or companies wholly owned by the state, are accountable to other ministries. For example, Telkom is answerable to the minister of posts and telecommunications and Abacor to the minister of agriculture

Although Sigcau's ministry supervises huge parastatals with assets worth more than R100-billion and employing about 210 000 people, the ministry itself is one of the smallest in the new government. It employs just 21 people and received an allocation of about R8-million from the Budget last month. The new boss' public profile matches the size of her department

There is not much in Sigcau's ministry that can raise significant funds for the RDP, with the exception of Transnet. For various reasons, not the least of which is its role in extending electricity to poor areas, Eskom would be difficult to privatise now. The government might object to Denel's privatisation because of the company's strategic importance

Sigcau says her ministry is not opposed to privatisation, whatever the perception

"What I said last month was that in this country's unique context, share ownership may be transferred to an exclusive group without granting the nation as a whole an affordable and informed opportunity of benefiting from the privatisation process. We are studying with interest ways in which privatisation can empower those who were in the past excluded from full participation in the economic wealth of the country"

Sigcau says she is impressed with the way Malaysia used privatisation to help empower the disadvantaged ethnic Malays, or Bumiputras, by devising innovative measures such as reserved share entitlement schemes and affirmative action unit trusts

"We are studying cases where it is claimed that privatisation was a success story. It is a complicated exercise. If we rush the process without doing the

■To PAGE B4



Striving for success. Careful market research in townships was done to see which goods should be carried by micro-enterprises
PHOTO RUTH MOTAU

Help for mini-entrepreneurs

(232)

WM 29/7-4/8/94

Reg Rumney reports on a small business initiative that works

AN innovative method of distributing products in the townships is paying off for the mini-entrepreneurs it is designed to help

It is the brainchild of Sam Alexander, ex of Liberty Life, who set up the Strive Foundation some years ago to train such entrepreneurs and provide them with goods to sell.

It is now providing a channel for products as different as pharmaceuticals and textiles — though the focus remains on selling basic goods such as paraffin, soaps and meat

The original idea was to establish community groups of 100 traders to distribute basic lines of goods into black areas, so that the people living in those communities benefited from the sale of those goods

Sitting down with the members of the groups to find out what they should trade in was instructive. Alexander asked, given only R2, what a poor black township dweller would buy first. The answer was not as Alexander had expected, maize meal or bread, but paraffin for heating and lighting, the next matches, and the next soap. Only then came food. By determining needs, the 32 lines were defined for the basic goods that sell well in poor communities. Alexander, seated in his mid-town



Sam Alexander Building up an entrepreneurial spirit

office amid piles of duvets, colourful African cloth and other bric a brac, has sunk his own money into the project, the golden handshake he received from Liberty Life when he left to set up the project. He worked at Liberty Life for 21 years and was divisional manager of manpower and development.

He conceived the Strive concept after a mission to the US in 1988 to advance black business met with only rhetoric. Liberty liked the idea

and encouraged him to register Strive as a separate company, after launching it in 1989. Alexander singles out Donny Gordon for his generosity in helping the company get off its feet.

The idea was to address several problems of black micro-business. One was the lack of market research and training in black business, another the lack of appropriate funding.

The intention was to create disposable income, to buy well to sell well, says Alexander

Strive set up eight community groups of 10 consortiums. Each consortium consists of 10 traders living within a radius of one to 3km, and those traders promote their own goods and the other goods of the consortium. Each consortium gets a loan of R5 000, or R500 for each trader, from the Small Business Development Corporation. The loan is paid back in a year.

R500 is not much to buy stock with, so after three months the traders' performances are reviewed. A trader can qualify for another R500 within four to six months, and 10 particularly good performers in the group get R5 000 or more. After a year, Strive looks for people who can accept up to R20 000 in capital.

Each consortium has a chairman, who comes to weekly meetings. All

■To PAGE B4

I&J hoists profit 11%

Star
Irvin & Johnson (I&J) has posted an 11 percent increase in earnings for the year to June to R62,3 million (R56,3 million previously). 2918194

Turnover rose eight percent, largely as a result of an improvement in international seafood prices, an increase in domestic retail sales volumes in key product categories and a chicken price increase

Incentive allowances and favourable prior year adjustments were the main contributors to the decrease in the effective tax rate

Taxed profit rose nine percent to R62,2 million (R57 million).

An increase in the share of associated companies' retained earnings resulted in the earnings advance of 11 percent to 216,7c a share

The dividend has been maintained at 86c a share. — Sapa.

~~(232)~~ (232)

R195-m for Reunert capex

Star 29/8/94

■ BY CLAIRE GEBHARDT

Reunert has announced capital expenditure projects of R195 million

The expansion is linked to supplying the needs of the RDP

Chairman Clive Parker says African Cables has approved capital expenditure in excess of R41 million for cablemaking plant

This is to upgrade some of the old plant on the Vereengang site and install capacity to meet the range of products needed for the RDP's electrification programme

African Cables should be able to supply a complete range of insulated electric power cables within twelve months

Consolidated Lamp Manufacturers (CLM) is acquiring two high-speed lamp making groups from Badalex of England and one Karbo high-speed glass bulb making plant from Phillips

They should serve the expected increased demand for lamps and bulbs resulting from the housing and electrification programmes

The plant, installed at the Elmosa factory in Port Elizabeth, will cost

R3 million.

Other plans include ■ Circuit Breaker Industries (CBI) will upgrade capacity at a cost of R25,7 million.

■ Reutech companies will spend R18,5 million on improving production efficiency and development capability.

■ In telecommunications, TMSA will spend R17,5 million and Reumech, the mechanical engineering division, R35 million.

■ The consumer and commercial electronics division will spend R7,3 million.

232

Dorbyl sells stake in Steel Pipe

DORBYL had sold 40% of its Steel Pipe Industries (SPI) operation to Tubemakers of Australia (TOA), the engineering group said yesterday.

Dorbyl pipe division MD Willem Barnard would not disclose the value of the transaction, but said it represented a "significant investment in the SA economy".

Analysts estimated that TOA, which already holds 10% of SPI, would have paid between R20m and R30m for the stake. One analyst said SPI had clocked up several large export orders last year.

Barnard said the transaction

MUNGO SOGGOT

would take effect on September 30

Dorbyl said the partners had committed R45m to a spiral pipe plant and corrosion protection system at Duncanville, Vereeniging. TOA's technology and management skills would "offer considerable benefits to both parties".

Dorbyl's earnings for the six months to March plummeted 98% to R504 000 on an unchanged turnover of R1,3bn, as the company struggled to close the door on last year's poor performance.

~~3018~~ 3018/94 (232)

A handsome reward for Nail investors

■ BY DEREK TOMMEY

The 8 500 black investors and the National Congress of Trade Unions (Nocsa) who bought shares in the black-controlled New African Investments Limited (Nail) last year were showing a handsome profit at the close of the first day's trading in the share on the Johannesburg Stock Exchange yesterday. *Star*

At the close of trading, the shares were 185c — which represents a profit of 62c, or 50,8 percent, on the 122c they originally paid for them.

Earlier in the day, the shares, which have a net asset value of 153c, reached a high of 190c before falling back.

Sponsoring broker Max Borkum of Davis Borkum Hare said the investment community had responded extraordinarily well to listing *30/8/94*

Almost 1,1 million shares were traded yesterday.

The closing prospective earnings yield of Nail shares was 2,9. This compares with 3,3 on Nail's major investment, Metlife ~~230~~ **232**

Union (232)
threat to
nationalise
Engen CT 30/8/94

JOHANNESBURG — Petrol giant Engen was threatened with nationalisation last night for its reported plans to close more than 300 service stations countrywide

The National Union of Metalworkers of South Africa (Numsa) said the National Economic Forum's Liquid Fuels Task Force had been informed that the company intended to close 300 to 350 service stations "at the cost of as many small businesses and over 2 000 jobs"

Numsa said that as the LFTF was still discussing a new dispensation for the liquid fuels industry, Numsa regarded Engen's proposed action as an act of bad faith "to crash the system"

Numsa claimed Engen had no respect for the National Economic Forum or the reconstruction and development programme

"Unless Engen can be brought to its senses Numsa will have to give consideration to calling for its nationalisation," the union said — Sapa

Gencor shrugs off investment plunge

BIDAY 3/18/94

MICHAEL URQUHART

GENCOR increased earnings 2,1% to R625m for the 10 months to June as a good operating performance was offset by a large fall in investment income.

A strong performance from Samancor, Gengold and the company's titanium mineral sands projects pushed operating income up 32,9% to R630m compared with the pro forma R474m for 1993.

Impala was the only operation which showed a serious decline, with the contribution from Gencor's platinum portfolio declining 24,2% to R75m. (210) (232)

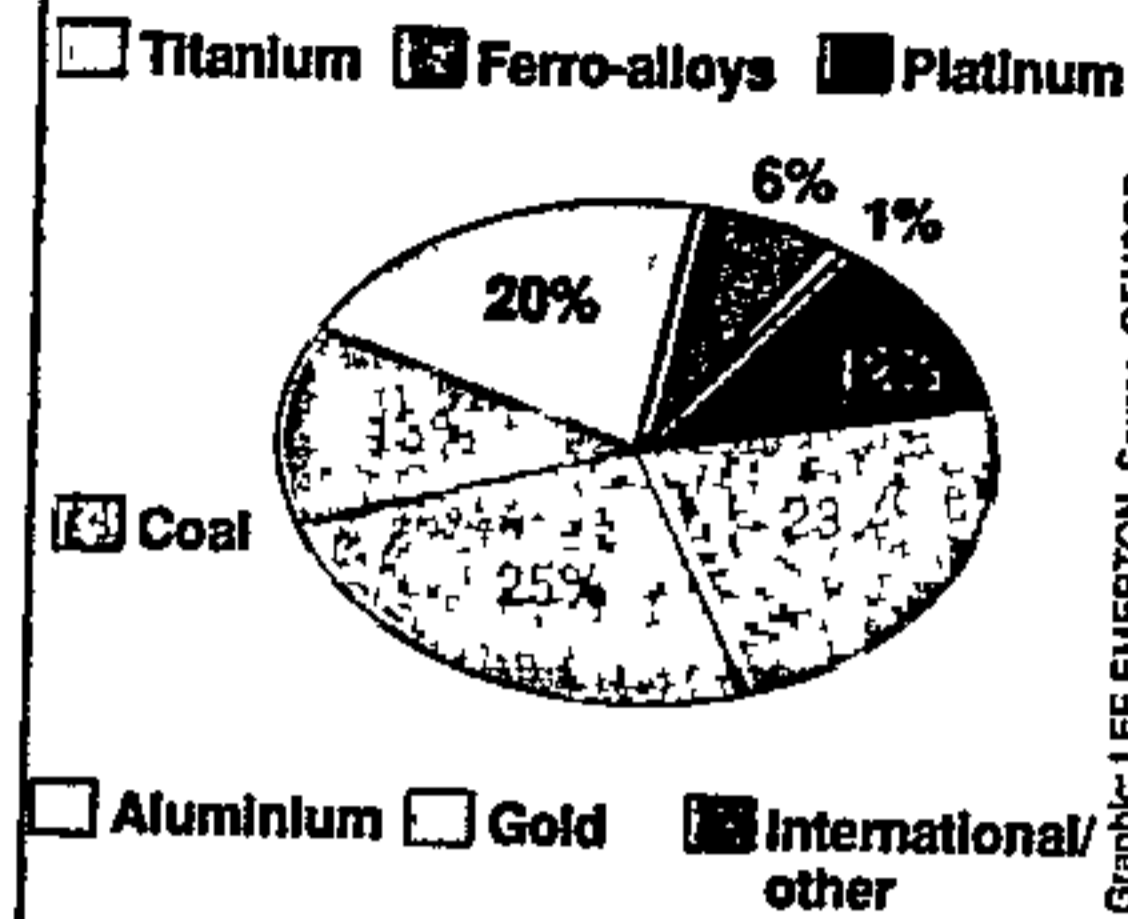
Investment income was down more than two-thirds to R77m due to lower interest rates and a R1bn reduction in cash balances from Gencor's funding requirements.

Chairman Brian Gilbertson said further funding would be required this year and investment income was likely to decline further. The group declared a final dividend of 10c, bringing the total dividend to 15c on earnings a share of 45,4c.

Gilbertson described the year as a remarkable period of growth, expansion and

Contribution to Gencor by product

Total operating earnings: R631m 1994



Graphic: LEE EMERTON Source: GENCOR

acquisition. The results had justified the decision to unbundle the group in November, with the share price rising 72% since then. The discount to net asset value had shrunk from 26% to about 3%.

The company had acquired the international mining assets of Billiton International, but these would be reflected only in

To Page 2

Gencor

BIDAY 3/18/94

From Page 1

the current year's results. It was difficult to predict future earnings due to the acquisition. Even if the results of Billiton remained stable, it should make a substantial contribution to the company's bottom line.

Major projects Columbus and Alusaf were both going well, with Columbus on target for completion and Alusaf to start production next year. (210) (232)

Operating earnings should surge in 1996.

Rand commodity prices looked set to improve as the Japanese and German

economies had joined the US in recovery, and the rand continued to depreciate.

But the current high domestic interest rates did not augur well for fixed investments, and the continuation of exchange control inhibited the development of normal capital markets, Gilbertson said.

Gencor mineral resources CE John Raubenheimer said Gencor was assessing a number of projects in southern Africa, West Africa, and South America. Most had shown promising results.



Merger creates new coal giant

Trans-Natal clinches deal for Randcoal

BIDay 31/8/94

GENCOR's coal arm Trans-Natal has emerged victorious in the bidding for Randcoal and the two companies are to merge to create the world's largest steam coal exporter valued by the market at R5,5bn.

Trans-Natal beat off several rival bids to secure the share swap deal.

The new company — with assets worth R4,3bn making it the world's third largest private coal business with annual sales of 57,5-million tons — would embark on overseas expansion, pursuing deposits in Australia, Indonesia and Colombia, Trans-Natal chairman Mick Davis said.

The combined company would also have far greater financial muscle to pursue overseas partnerships or acquisitions.

The deal — signed yesterday just before Gencor unveiled its year-end results — ended months of speculation about Randcoal's future.

In terms of the merger, Randcoal would take over Trans-Natal's operations in a share swap in which Trans-Natal shareholders would receive 108 Randcoal shares for every 100 Trans-Natal shares held.

Trans-Natal would become the largest individual shareholder in Randcoal with 49,1% of the equity, Rand Mines would hold a further 45,9% and minorities 5%. Trans-Natal intends offering minorities shares in itself for their Randcoal shares and could eventually own 54,1% of the merged firm.

MICHAEL URQUHART

Trans-Natal would have management control of the merged company, but Randcoal chairman John Hall would be its chairman. Other management changes have not been finalised.

Rand Mines, whose sole asset is its stake in Randcoal, would eventually unbundle and distribute its Randcoal shares to its shareholders, including Old Mutual, Liberty Life and Sanlam. (232)

Hall said some shares could be unbundled immediately, but others would have to wait three years or until new unbundling legislation was passed.

Davis said the deal would lead to a number of synergies between the two companies, and placed the new company — which has yet to be named — in a good position to take advantage of expected growth in the world steam coal market.

The immediate effect on Trans-Natal's earnings would be a 26% dilution, based on the two companies' earnings over the past 12 months.

The new company would have an allocation of 41,3% of the Richards Bay Coal Terminal's capacity. Combined exports would be about 23,5-million metric tons of steam coal annually, while 45% of its coal production would be sold to Eskom.

Davis said a number of head office em-

□ To Page 2

Trans-Natal BIDay 31/8/94 □ From Page 1

ployees would be retrenched, but he was unable to say how many. Other head office savings would be due to centralised buying and reduced stock holding.

Randcoal's Khutala reserves could be consolidated with Trans-Natal's Matla, while the two could be combined with Riet-spruit for optimal use of reserves and infrastructure. Other mergers would be Randcoal's Middelburg and Duvha with Trans-Natal's Optimum, and using Randcoal's Utrecht colliery's infrastructure to access Trans-Natal's Groenvlei reserves. JCI, which had hoped to merge its oper-

ations with Randcoal's, said it was surprised its offer had not been successful, and the merger was likely to affect its unbundling attractions to investors.

Other bidders are thought to have been Australian mining group BHP in collaboration with Swiss-based trader Marc Rich. Sasol and Anglovaal were also interested.

Randcoal's share price rose 150c yesterday to a new year high of R24, helping lift the coal index to a new peak of 7226,8. Trans-Natal closed unchanged at R32,40.

● See Page 8

Streamlining operations benefit Siltek's earnings

SELLO MOTLHABAKWE

ANGLOVAAL information technology group Siltek improved earnings 19% to 111c for the year to June, reflecting continued efforts at focused and streamlined group operations

Group turnover rose 26% to R1,4bn (R1,1bn). A 23% rise in operating profit to R79,1m (R64,2m) resulted mainly from efforts to cut overheads

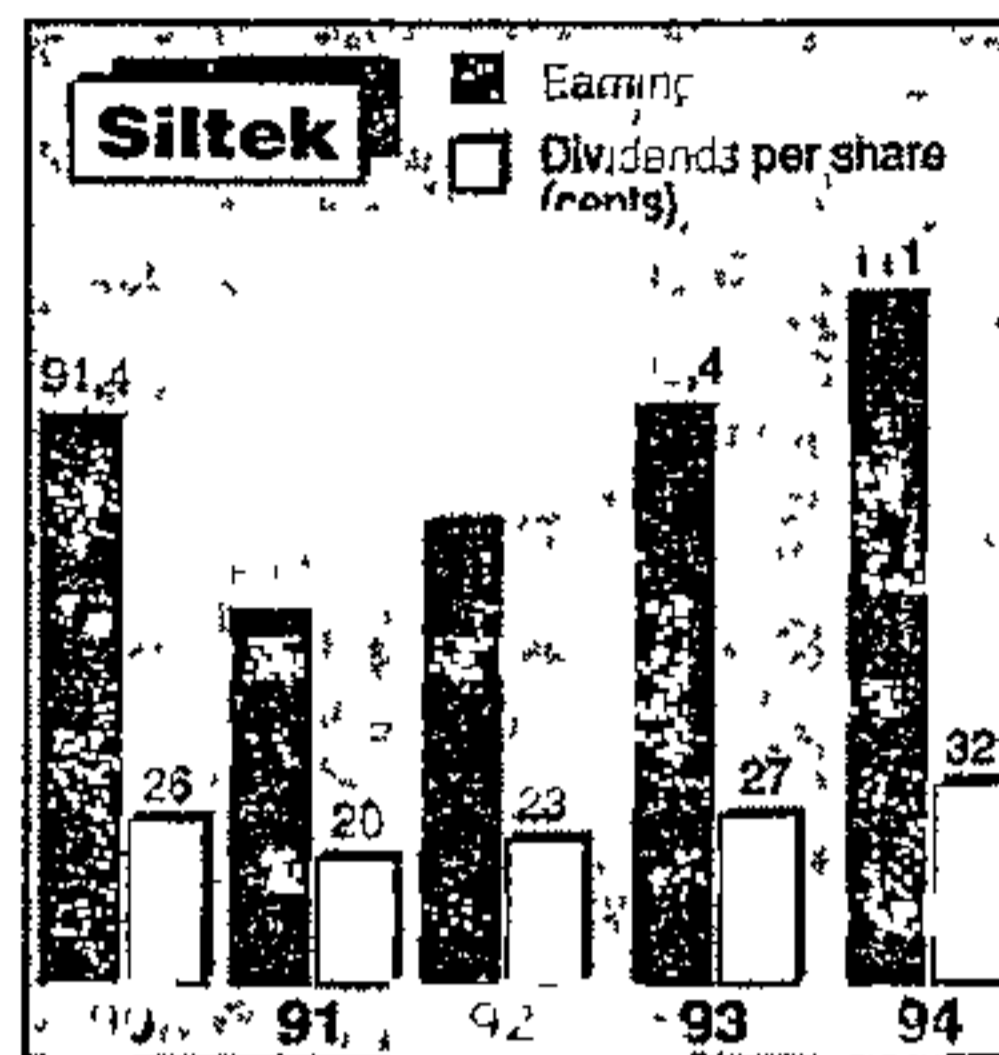
Final dividend was 19% higher at 21c a share, making a total of 32c (27c) for the year

Pre-tax profit rose 21% to R83,3m (R68,6m), with after-tax profit at R57,6m (R46,7m). An unspecified extraordinary item of R11,6m (R7,4m) was reported

MD Patrick Landey said the group's net cash stood at R44m, leaving the company with room to take advantage of any opportunities that might arise

Siltek no longer operated as a cluster of small independent companies. The past year had seen a trend towards synergetic operations

International competition would intensify and the company was preparing for continued changes within the dynamic IT industry



Movements in the international markets with regard to mergers and acquisitions as well as rapid technology advances had encouraged the company to merge networking operations and also to merge distribution companies

"Future strategy will focus on two key areas namely low cost distribution of commodity type IT products and the provision of value added services," he said

Landey said subsidiary companies HiPerformance Systems, Large Scale Systems, SoftSource and Ebus had performed well. The distribution systems which included HiPerfor-

mance Systems Distribution, M&PD and SoftSource had announced plans to merge operations. This was likely to create the largest hardware and software source in southern Africa

Group earnings a share would have been 0,9c lower at 110c had Centera's transactions, which included the merger of its networking companies, Grinaker network systems, Microsciences, Tecnetics and Tran been in effect throughout the past financial year. The company sold 50% of Centera to Q Data early this year

An analyst said the group had a few problems in Centera of which they sold 50% to Q Data early this year. "Q Data is better able to run Centera leaving Siltek to concentrate on its core business which is HiPerformance Systems." It could do better than this year's 19% improvement.

Landey said a new management team was in place following the sale of half of Centera and the acquisition of Q Data's networking arm Q Net. Centera was on track to become SA's leading networking company. Similarly increased volumes and infrastructural streamlining should ensure continuing profitability for the new distribution company being formed, Landey said

Scharrighuizen powers up

Star 31/8/94

■ BY CHARLOTTE
MATHEWS

Mining and engineering group Scharrighuizen Holdings (Scharig) lifted turnover 49 percent and bottom-line profits 25 percent in the six months to June, compared with the same period last year, on continued internal growth and excellent results from its industrial division

Turnover was R108,2 million from R72,5 million previously, translating into attributable income of R11,5 million (R9,2 million) ~~(R8,2 million)~~ (732)

On earnings of 37,9c (31,6c) a share, a dividend of 10,5c (9c) is being paid.

Scharrig Mining, 71 percent-held by Scharrighuizen Holdings, improved turnover 55 per-

cent to R93,9 million, despite loss of production caused by rain, public holidays and disruption over the election period

Earnings were 11,2c (9,3c) and a dividend of 4c (3c) is being paid.

The group expects to achieve its forecast 25 percent growth for the full year.

Scharrighuizen's industrial division has acquired four companies: 100 percent each of Hendor Mining Supplies and Westonaria Engineering, and 70 percent each of Phoenix Steel and Cyclop Engineering.

The group will continue to expand the earnings base through acquisitions. To facilitate this, the listing of industrial interests will take place in the second half of the current year.

Gencor still finding its feet

BY DEREK TOMMEY

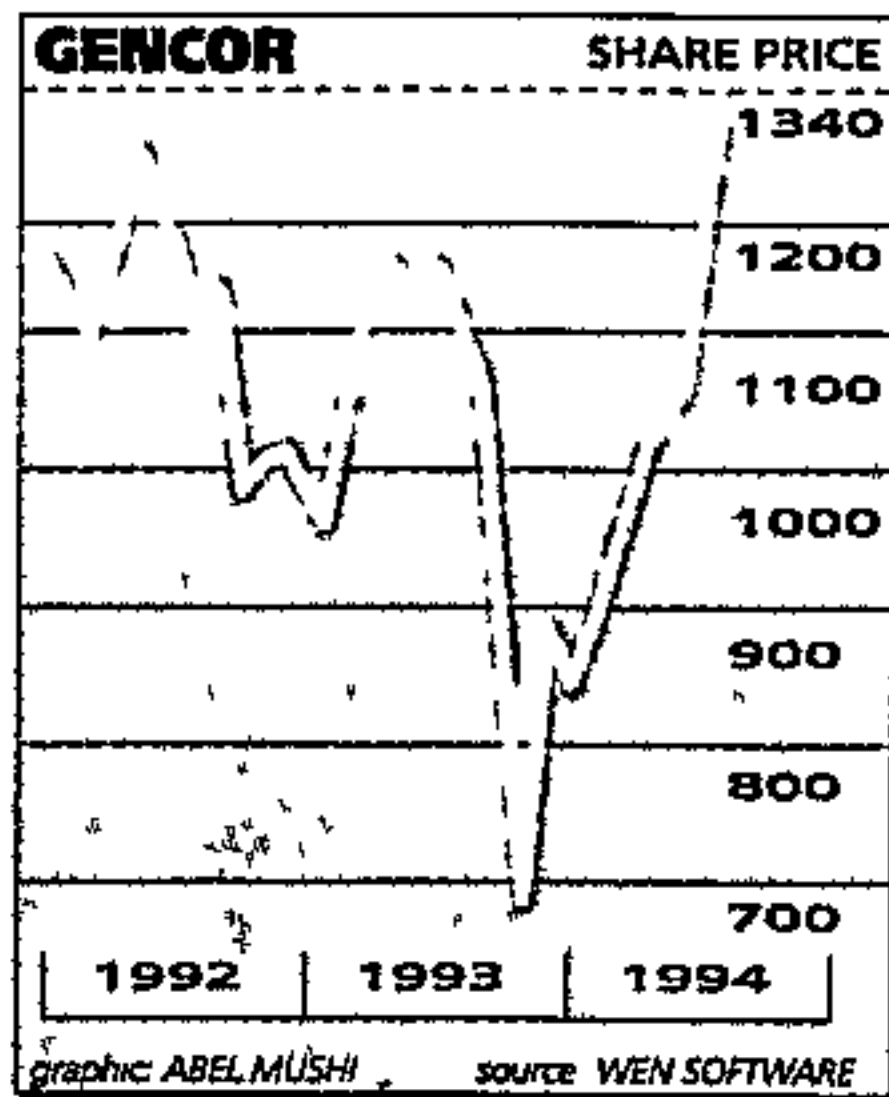
With mining house Gencor still in a transitional stage, too much should not be made of current profit figures

Gencor unbundled last year, disposing of shares in many investments with the intention of concentrating on becoming one of the world's foremost natural resource companies

As a result, earnings for the 10 months to June were affected by the loss of dividend income from the unbundled investments

At the same time the results do not yet include income from new investments major overseas resources company Billiton and, since this week, Randcoal

Against this background, attributable income for the 10



months of R625 million, which was 2,1 percent more than the R612 million earned in the preceding 12 months, seems highly creditable

Earnings a share were equal to 45,4c (pro forma 44,5c) and a final dividend of 10c has been declared, making 15c for

Star 31/8/94
the year Before unbundling, it paid a final dividend of 29c

Encouraging is the fact that income from operations rose 32,9 percent from R474 million to R630 million, despite lower earnings from platinum

Investment and corporate income dropped 67,5 percent from R237 million to R77 million owing to the sale of R700 million of investments and only 10 months of interest

Chairman Brian Gilbertson says that current projects and acquisitions will not begin to deliver real value for at least a year The investment portfolio will decline again as it is used to fund major projects and cause a further decline in investment income

Nevertheless, at the operating level attributable income in

1995 will reflect a healthy improvement over 1994

Commodity prices appear to have bottomed out and may have entered the first phase of a cyclical upturn However, there are still market weaknesses

Investment income will decline again, but earnings should improve in 1995 And in 1996, based on current expectations of the commodity cycle and new projects in production mode, shareholders can expect strong improvements in both operating and total income

The current dividend is covered twice by earnings in order to fund investment But in the future Gencor plans to pay a dividend one-and-a-half times covered by maintainable cash earnings



Manuel punts the golden ⁽²³²⁾ mean ^{ET 1/9/94}

JOHANNESBURG — The government should steer a "middle route" between intervention and non-interference in the economy, the Minister of Trade and Industry, Trevor Manuel, said yesterday.

However, the government would have to put forward its own position when decisions on the "hard issues" had to be taken, he said at the Business Day "Businessman of the Year Award" at a Johannesburg hotel.

"We are unambiguous about the fact that protection on demand has gone the route of the dodo. Furthermore, we have sufficient experience of bureaucratic failure to vest discretion in the State.

"This is the South African policy conundrum.

"We must therefore seek a middle route. Such middle route must be through a coalition of forces, which the National Economic Forum (or soon-to-be National Economic, Labour and Development Council) represents.

"This coalition, however, must take decisions on the hard issues."

● Donald Ncube, chairman of African Life and of Real Africa Investments, received the award for his significant contribution in mobilising the funds of ordinary people to take back control of African Life Assurance Co.

JCI denies plans to scupper Trans-Natal/Randcoal deal

JCI has dismissed market reports that it would seek to scupper Trans-Natal's merger with Randcoal, saying yesterday that the share swap deal had left it no fixed target at which to aim another, higher, bid

Gold division chairman Kennedy Maxwell said he was disappointed but JCI would not be tabling a higher bid in a last-ditch effort to acquire Randcoal.

He said any counter-bid would have to be made against a "moving target", as Trans-Natal had not made a cash offer to minorities which could fix the bid's price

Under the terms of the deal, Randcoal would give Trans-Natal shareholders 108 Randcoal shares for every 100 Trans-Natal shares owned. The offer, if taken up by minorities, would leave Gencor with a majority stake in and management control

Maxwell said JCI had put in a similar bid for a merger but had underwritten the bid with a cash offer to minorities

If JCI had gained control of Randcoal it would have been merged with Tavistock

Biday 11/9/94

MICHAEL URQUHART

and would have been treated as a separate coal division of JCI.

Old Mutual investment manager Izak Mostert said Old Mutual would not entertain another bid unless the current deal fell through. The deal still has to receive approval from the JSE and is subject to a due diligence exercise by the parties

Liberty Life, which owns a stake in Rand Mines, said the first it had heard of the Trans-Natal bid being accepted was on Tuesday night after the media conference.

Roy McAlpine of Liberty said as Liberty Life did not own shares directly in Randcoal, he would not comment on the takeover. But he added that a number of questions about the takeover still had to be answered (232) (SES)

Analysts agreed the chances of a competitive bid were slim, saying that with the deal having the backing of Old Mutual, it was pretty much tied up.

Major merger planned by Gencor and Randcoal

MINING giant Gencor said on Tuesday it will effectively gain control of Randcoal on October 1 by becoming the largest shareholder in a new merger company incorporating the operations of Randcoal and Trans-Natal.

The merged company with a market capitalisation at current values of R5,5 billion and assets of R4,3 billion would have a turnover of R3,4 billion and sales of 58 million tons

Randcoal would be the financial vehicle for the merger, acquiring the operating business of Trans-Natal at a ratio

of 108 Randcoal shares for 100 Trans-Natal shares.

The merged company, temporarily called "MergCo", would become the largest exporter of steam coal and the third largest privately controlled hard coal producer in the world.

"MergCo" would create a powerful vehicle by which Gencor could benefit from the future growth of the world coal market and a subsequent rise in the coal price

The demand for coal is expected to rise to over 300 million tons before the

turn of the century.

Executive Director of Gencor finance and coal Mick Davis said the merger would create many growth opportunities both locally and off-shore.

A total of 23,5 million tons of coal a year would be available for export, comprising 41 percent of total coal supply

"One needs to be a world player if one wants to be successful in the world market," Davis said.

Gilbertson said Rand Mines Chairman John Hall has agreed to be the new Chairman of MergCo.

Sow etem

119194

(232) (219)

Star 1/9/94

Tiger Wheels goes roaring ahead

■ BY CHARLOTTE MATHEWS

The expansion of its manufacturing operations, increased overseas earnings and the success of its niche stores pushed up profits from Tiger Wheels by 72 percent to R9,4 million in the year to June

Turnover was 50 percent up at R155,9 million and income before interest 94 percent better at R13,3 million

Although interest paid was lower, the tax rate payable was 27 percent from 5 percent previously. On a slightly in-

creased number of shares, earnings a share were 26c (15,6c).

Capitalisation shares in the ratio of 3 for every 100 held, or a cash dividend of 10c (6c), have been declared.

Tiger Wheels Holdings, which owns 73,7 percent of Tiger Wheels's shares, made earnings of 20,8c a share from 1993's 12,3c.

Tiger Wheels chief executive and joint chairman Eddie Keizan says the group is budgeting for higher sales and earnings in all divisions in the year ahead.

232

MORKELS *FM 2/19/94* Still offers value

(232)

Activities: Retailer of furniture, household appliances and sportswear

Control: C E Daun

Chairman: C E Daun, MD M D Brand

Capital structure: 42m ords Market capitalisation R101m

Share market: Price 240c Yields 3,3% on dividend, 8,3% on earnings, p/e ratio, 12,1, cover, 2,5 12-month high, 250c, low, 70c. Trading volume last quarter, 234 000 shares

Year to March 31	'91	'92	'93	'94
ST debt (Rm)	65,4	95,8	75,9	70,1
LT debt (Rm)	1,8	*13,0	*12,0	13,7
Debt:equity ratio	1,12	†167	†1,2	1,1
Shareholders' interest	0,29†	0,25	0,30	0,33
Int & leasing cover	1,74	1,35	1,78	2,0
Return on cap (%)	13,5	8,3	11,0	9,6
Turnover (Rm)	268	308	319	317
Pre-int profit (Rm)	28,4	21,2	26,7	22,4
Pre-int margin (%)	10,6	6,9	8,4	7,1
Earnings (c)	23,7	10,2	23,3	19,9
Dividends (c)	10	4	6	8
Tangible NAV (c)	151	156	174	187

* Lease liabilities on fixed assets † Includes lease liabilities

Morkels' performance over the past six years has been disappointing. Turnover has risen by a compound 12,5% a year, barely ahead of inflation. Operating profit has increased by a compound 4,5% and EPS only 0,9%.

Even so, earlier this year (*For* June 3), the *FM* commented: "At 125c and on a p/e of 6,3 and a dividend yield of 6,4%, Morkels looks one of the few remaining real relative value opportunities on the market" The share is now at 240c and seems set to challenge its recent high of 250c Does it still represent good value?

In financial 1994, respectable sales growth did not materialise. Sales in the Morkels division, by far the largest of the two and the one that encompasses furniture and household appliances, declined 2,9% while the market grew by 6,9%. Market share was lost. The Totalsports chain fared slightly better. Its sales rose 11,5% in a market estimated to have grown 10,8%.

Over the past two years, the group has undergone internal restructuring. Benefits show in the latest results. At the outset, management decided to lose market share rather than face the profit decline that would probably follow a sales chase

Financial director Terry Simon explains

COMPANIES

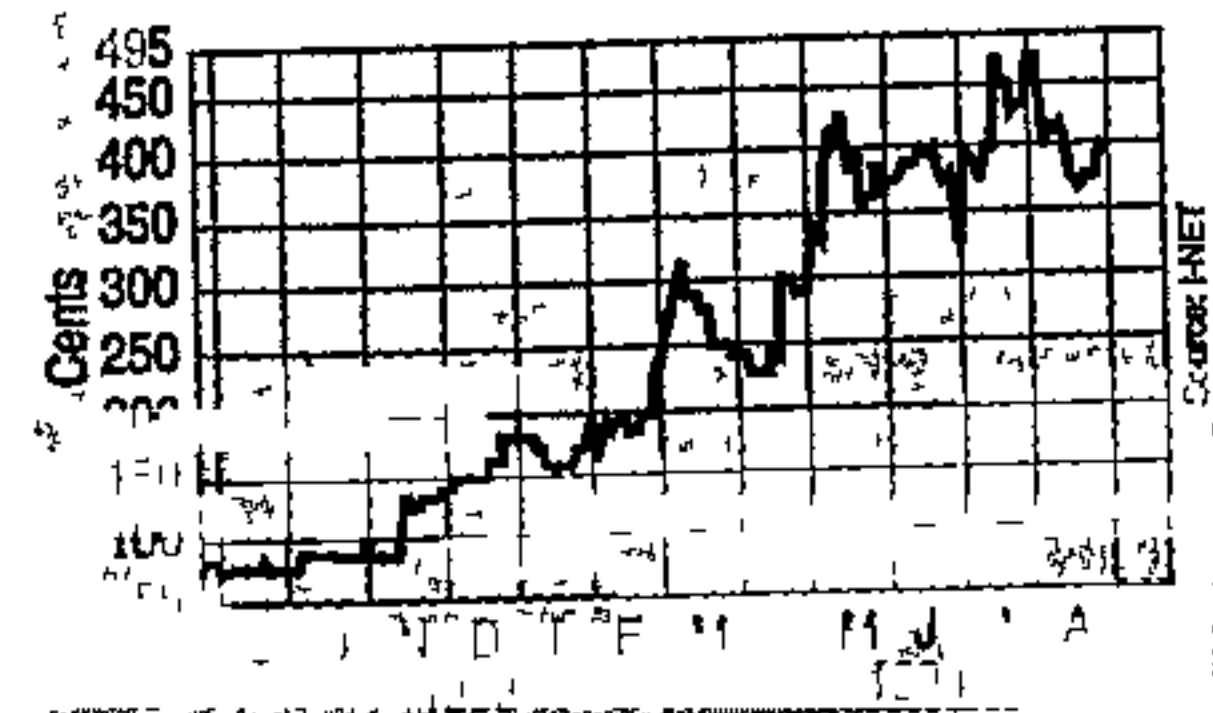
FM 2/19/94

the margin weakened because of a change in accounting treatment of the chain's customer protection scheme. Premiums which were reflected in operating income are now shown as after-tax dividends If the insurance scheme figures are excluded from both years, the group operating margin improved, he says *(232)*

The Morkels chain management has concentrated on control of working capital, enhancement of the merchandise range, upgrading stores, increased stockturn and staff training New store openings were curtailed and the number of Morkels outlets declined by two, taking the total to 92 at year-end Totalsports now has 48 outlets, including four new stores, and its merchandise selection has been refined to cope with the reintroduction of major international sports footwear.

Management objectives for 1995 are realistic. These include a turnover increase of 11% and a rise in after-tax profit of 20%. Recently appointed chairman Claus Daun

Stocks & Stocks Ltd



and MD Dods Brand say if the current consumer demand is sustainable, these projections could prove to be conservative

With favourable trading, the debtors' book will grow faster than retained profit It will require additional capital. Morkels has already announced it intends to hold a rights issue to reduce debt, fund additional debtors and cut interest payments — which would help offset the earnings dilution of the additional capital.

Even if GDP growth is confined to 2,5% for the year, Morkels should see much higher sales of household and electrical goods If EPS rise by 25% in 1995 — and there is every chance they will — the prospective p/e is undemanding at about 10 It represents sound value. But I would like to see some good results before I can feel confident there will be sustainable real earnings growth justifying a long-term investment

Gerald Hirshon

Premier Group expects healthy rise in earnings

B/Dot 2/9/94

BEATRIX PAYNE

PREMIER Group expected its restructuring and an uptick in consumer spending to fuel earnings growth this year, chairman Peter Wrighton said in his annual review.

The restructuring of the food division would be "expensive" in the short term, but was expected to save the company R40m a year, he said.

But the group intended to reduce the division's contribution to group earnings 4% to 40%, MD Gordon Utian said.

Instead, pharmaceuticals — which currently contributed 24% to earnings — would contribute 25%, and wholesaling would increase its share to 20% of earnings (18%). Retail and entertainment's contribution to earnings would rise 1% to 15%, Utian said.

The group reported a 11% rise in attributable earnings to R259,1m on sales of R14,4bn for the year to April.

Premier Foods had become a "cost-ineffective" operation. "A fundamental change in food price inflation, diminishing margins in milling and baking necessitated a dynamic new structure."

Utian said the group intended to increase its brands and range of products to "develop more value-added products aimed at the mass consumer market".

Premier planned to restructure its pharmaceutical wholesaling division, United Pharmaceutical Distributors.

Previous reports said the group was in financial difficulty and Premier director and chartered accountant Leon Schonknect was recently appointed CE, replacing Norman Knight. Under Schonknect UPD would concentrate on becoming a "major least-cost distributor of pharmaceutical products", Utian said.

Premier Pharmaceuticals intended to increase its factory capacities to cope with demand and would focus on over-the-counter products, generics and branded generics, he said.

Wholesaler Metro would focus on strategies to increase sales and market share and planned to upgrade its southern African interests and pursue international opportunities. The retail and leisure division would benefit from a rise in discretionary spending, the group said.

Premier was well positioned to expand in a growing SA and assist with the reconstruction and development programme, Utian said, and was also seeking alliances in SA and abroad.

Millers Diamond deal in Botswana

RMB

BIDay 2/9/94 □ From Page 1

international merchant banks charged far higher fees than their local counterparts, making SA banks more competitive.

As far as trading was concerned even the largest competitor was a client and new players could only add to the size and liquidity of the market. The group would be taking stock of its international strategy and was looking to the Far East, London and possibly the US. (53) (232)

Ferreira was satisfied that for the first time the bank had covered operating expenditure of R75,73m (R69,17m) with its

net interest income after provisions for bad debts.

While return on equity had fallen short of expectations of between 28% and 30%, this was because of an increase in primary capital of 58% flowing from new disclosure requirements, he said.

The bank had postponed a dividend declaration because of adverse tax consequences. As a wholly owned subsidiary of Momentum Life this had no material impact on RMB or its holding company.

Rand Merchant Bank lifts income

BIDay 2/9/94

SAMANTHA SHARPE

RAND Merchant Bank (RMB) lifted attributable income 25% to R55,1m for the year to June, in spite of doubling its bad debt provisions.

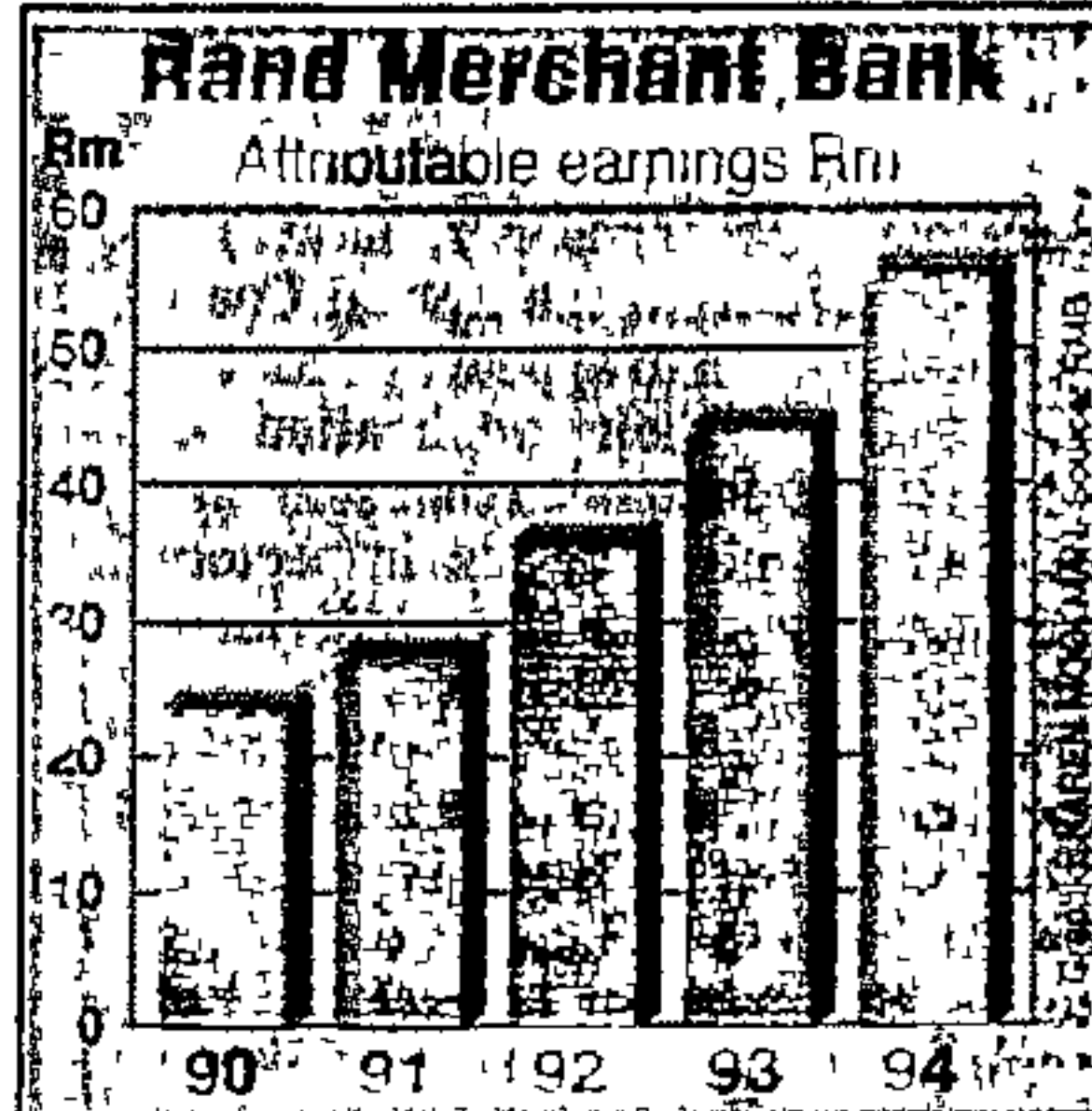
The Momentum Life subsidiary — going for full disclosure for the first time — said the bad debt figure of R24,44m showed its highly conservative view, representing more than 1,5% of total advances. RMB's bad debt write-off had averaged R1,8m a year for the past seven years.

The increase in bad debt provisions far outstripped the bank's growth in bank advances, which suffered in a climate of depressed demand. Its corporate clients were relatively cash flush so lending opportunities were scarce.

Growth was sourced from a 41% surge in net interest income to R100,56m and an increase in investment and other income to R81,33m (R65,57m). (53) (232)

RMB MD Paul Harris said the bank had traditionally sourced one third of profit from banking activities, another third from trading and the rest from structured finance activities and fee income, with this trend set to continue.

Corporate finance had performed well



and was set to show strong advances next year because of involvement in the First Wesgold takeover of Randgold, the Rand-coal/Trans-Natal merger and the formation and listing of New Africa Investments

RMB Holdings chairman G T Ferreira said RMB as a merchant bank had to acknowledge the threat of international competition, which would come as foreign banks entered SA.

But in terms of corporate finance the

□ To Page 2

FM 2/9/94 (232)

Activities: Franchisor of Spur, Panarottis and Hard Rock Eateries.

Control: Spur Holdings 64%

Chairman: A J Ambor, MD G Topat

Capital structure: 15,8m ords. Market capitalisation R198m

Share market: Price 1 250c Yields 3,3% on dividend, 4,8% on earnings, p/e ratio, 20,7, cover, 1,5 12-month high, 1 450c, low, 900c Trading volume last quarter, 328 000 shares

Year to February 28	'91	'92	'93	'94
ST debt (Rm)	0,2	0,1	1,4	2,1
LT debt (Rm)	0,8	1,9	—	—
Debt equity ratio	0,09	0,30	0,19	0,06
Shareholders' interest	0,6	0,5	0,4	0,5
Return on cap (%)	57	52	59	58
Turnover (Rm)	17,7	26,6	36,1	35,1
Pre-int profit (Rm)	6,8	8,8	13,2	16,7
Pre-int margin (%)	38	33	36	48
Earnings (c)	22,0	31,0	43,7	60,2
Dividends (c)	17,0	23,0	31,0	48
Tangible NAV (c)	44	53	63	82

then be about 81c That puts the share on a prospective p/e of 15, which is probably fair value given the growth record

Gerald Hirshon

only achieved this but Spur has again shown it can sustain a compound EPS growth rate as high as 40% a year.

In the 1994 year, a 23% increase in turnover was translated into a 39% rise in EPS This was in the worst year of the recession, when disposable income was at its lowest. Efficiencies were improved while Spur menu prices were held constant for 18 months until April, two months into the current financial year (232)

Over the past seven years, turnover has grown by a compound 38%, pre-tax profit by 44%, EPS by 41% and dividends by 33% Return on equity is 73%, fractionally higher than a year ago (though shareholders' funds in this business are intrinsically low) Tangible net worth jumped by 31% to 82c. Borrowings are negligible and cash flow remains high

During the year, the Spur chain opened 26 franchised outlets, about one every two weeks, indicating it still sees healthy demand for franchises. Ambor says 18-20 new outlets are planned for this year but adds that there may be more It depends, he says, on the economy.

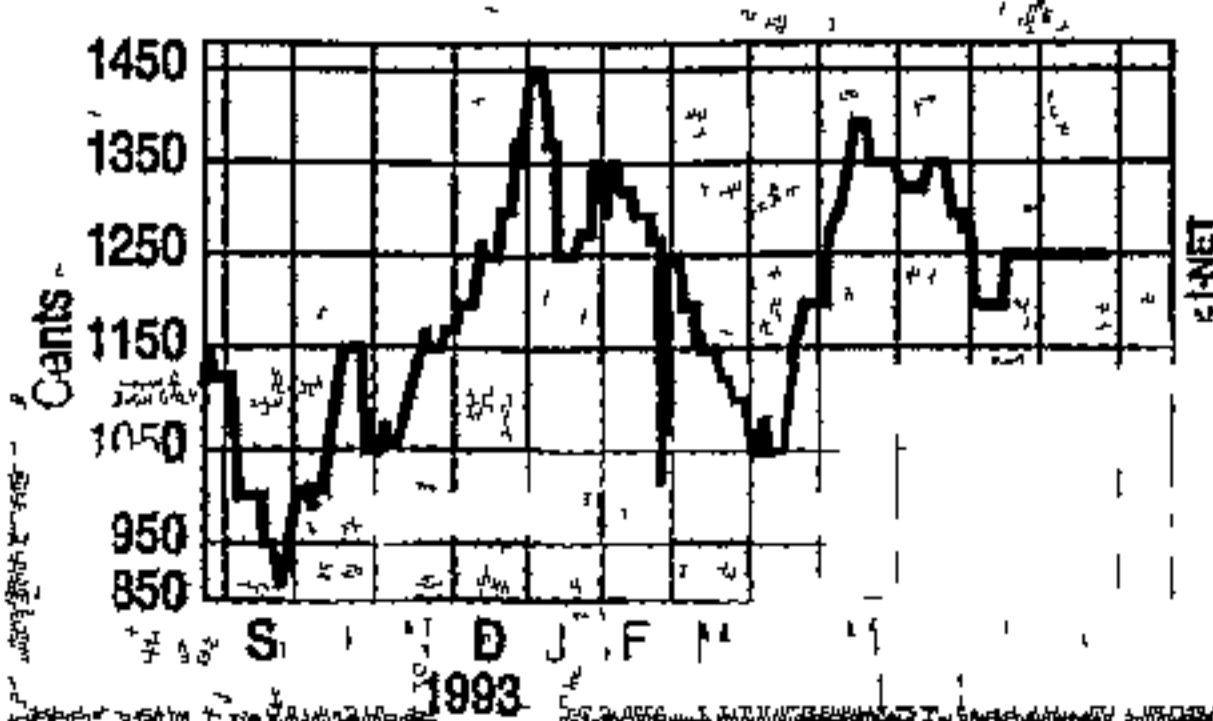
Ambor is diffident about forecasting results for 1995 but says he is optimistic that the rate of increase can be maintained He hopes that infrastructural expenditure will underpin demand for Spur restaurants and the growing, 15-store Panarottis Pizza/Pasta franchise Simply put, he believes the earnings record of the past seven years will be kept up.

At R12,50, the p/e is 20,7 and the dividend yield 3,3% — hardly unreasonable for a company that could achieve EPS growth around 35% EPS for 1995 would

SPUR STEAK RANCH
FM 2/9/94
Keeping the pace

If anyone had told Spur Steak Ranches chairman and founder Allen Ambor 10 years ago his chain of restaurants would be among the top profit performers on the JSE, he would have been surprised He has not

Spur Steak Ranches



STOCKS & STOCKS LTD
FM 2/9/94
Diversifying profit base

Stocks & Stocks Ltd (SSL) now stands on a p/e of 11,4, indicating a steep and favourable rerating since the interims were released in October, when the p/e was 3,3. The price is now at a hefty premium to NAV; a year ago it was at a discount. The change has resulted from investor appreciation of SSL's diversified activities and the potential earnings growth resulting from low-cost housing programmes. *(232)*

But the impressive 47% increase in

FM 2/9/94
 earnings, from R18,9m to R27,8m, did not come from benefits of improved business confidence and increased activity. Work on hand improved only marginally to R1,5bn; the industry has received no major investment injection yet. *(232)*
 Rather, says chairman Reg Edwards, the

DIVISIONAL MIX (%)

	Turnover		Income	
	'93	'94	'93	'94
Construction	74	68	49	51
Property	13	21	37	39
Leisure	3	3	11	8
Steel reinforcing & trading	5	5	7	5
Info technology	5	5	2	(3)
Total	100	100	100	100

Activities: General building, residential construction and development, civil engineering construction, property, resorts, hotel and timeshare, steel reinforcing and trading and information technology
Control: Stocks & Stocks Holding 65%
Chairman: R A Edwards, MD A H Dorrestein
Capital structure: 80,4m ords Market capitalisation: R313,6m

Share market: Price 390c Yields 2,3% on dividend, 9,0% on earnings, p/e ratio, 11,1, cover, 3,9 12-month high, 475c, low, 77c. Trading volume last quarter, 3,69m shares

Year to April 30	'91	'92	'93	'94
ST debt (Rm)	56,0	25,6	61,5	56,4
LT debt (Rm)	17,9	18,3	35,8	36,4
Debt/equity ratio	0,38	0,18	0,20	0,11
Shareholders' interest	0,29	0,29	0,31	0,29
Int & leasing cover	3,6	4,4	2,5	3,8
Return on cap (%)	7,5	6,7	6,6	6,7
Turnover (Rm)	1 347	1 439	1 104	1 334
Pre-int profit (Rm)	44,6	53,1	38,9	48,9
Pre-int margin (%)	3,3	3,7	3,5	3,7
Earnings (c)	31	25	24	35
Dividends (c)	10	10	7	9
Tangible NAV (c)	189	203	216	249

restructuring started several years ago, and the reduced reliance on local construction activities as the main source of income, are behind the earnings boost. Though construction regained its position as the principal income contributor, Edwards says this division's importance will be diminished by good growth in contributions from leisure and property development.

Previously, the leisure division comprised only timeshare management and sales. Development of a fully fledged hotel owning and management operation has been swift. The hotel arm is to open four new facilities by the end of calendar 1995. Edwards says locations chosen are Cape Town, Sandton, Windhoek and Swakopmund. Management is pinning its hopes on tourism growing into one of SA's largest industries and has positioned itself accordingly.

A revival in demand for office and industrial space, prompted by economic upturn, should benefit SSL's property development activities. The formation of a vehicle, possibly to be listed, to hold strategic income-earning properties indicates the optimistic outlook in this area.

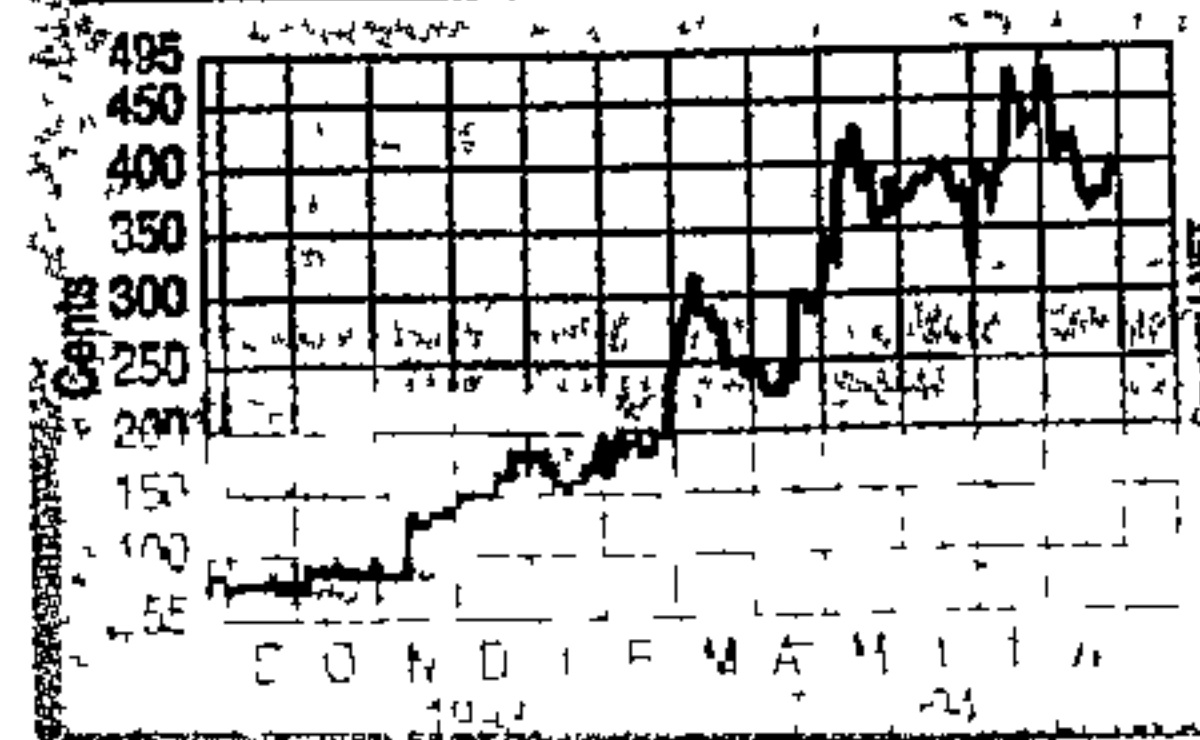
Turnover increased a creditable 21% to R1,33bn; operating income rose 26% to R48,9m, the margin widening from 3,5% to 3,7%.

The group has emerged from the recession with its balance sheet in good shape. At end-April it had R69m cash,

COMPANIES

FM 2/9/94
 partly accounting for the R91m rise in current assets to R501m. The 45% stock increase to R17,2m is perhaps excessive, though this is influenced by the timing of contracts. Net contract receivables and work in progress increased 11% to R156m. Borrowings fell and year-end gearing was conservative at 0,11. With benefits of the RDP only expected to be felt on SSL's bottom line next year, the share looks high enough for now. *(232)*

Stocks & Stocks Ltd



21/9/94

A new King Coal

232

Gilbertson's Gencor is radiating urgency and vigour

In a dramatic move this week, mining house Gencor took control of Randcoal, SA's largest coal exporter, through a reverse takeover. The assets of Trans-Natal, Gencor's listed coal mining and marketing arm, will be folded into Randcoal for shares in Trans-Natal, which will become a pyramid holding company.

The company created by this merger — as yet unnamed, though suggestions include

Trans-Rand and Rand-Natal — will be the world's third largest coal producer measured by sales (see table). With estimated sales of 57,5 Mt a year, Trans-Rand (as we shall call it for now) will rank just below US companies Cyprus/Amox (59,8 Mt) and Peabody which, with annual sales of 91 Mt, outranks everyone. Its market capitalisation is likely to be about R5,5bn. Randcoal is currently capitalised at R2,9bn and Trans-

Natal at R2,6bn.

More important is that Trans-Rand will be the world's biggest exporter of steam coal, with annual sales abroad of 23,5 Mt. Of this, 12,6 Mt goes to Europe, with 9,6 Mt for the Far East and the balance of 1,3 Mt split between South America and African countries.

Gencor's coup comes in the face of stiff competition from international and local

LEADING ARTICLES

It is widely rumoured that Australian giant BHP and the UK's Rio Tinto brandished fistsful of financial rands. Local bidding came from JCI, anxious to enlarge its coal division ahead of Anglo's announced unbundling, and Sasol.

Mick Davis, the recently recruited Gencor financial director and Trans-Natal chairman, was largely responsible for masterminding Gencor's hand through a long and tortuous negotiation. He says success hinged largely on two issues.

First, Trans-Natal's bid was pitched on the basis of an issue of paper — in this case, 100 Trans-Natal shares for every 108 Randcoal held. Over time, as the price of coal shares escalated dramatically on the JSE, the paper nature of the Trans-Natal bid nullified any downside for Randcoal shareholders.



Gilbertson

Second, the share issue concept means that Old Mutual, Randcoal's principal holder, can perpetuate what it clearly considers a strategic stake in a major company. In itself, of course, this highlights a strange dichotomy in Old Mutual's approach. Last year, it agreed to unbundle Barlow Rand, in which it was the dominant shareholder. That left it with a 30% stake in Rand Mines, whose biggest asset is a 77% stake in Randcoal.

Old Mutual appointed UAL Merchant Bank to advise on the potential sale of its equity in Rand Mines. This was seen by the market as an invitation to tender for the underlying coal asset and that's what it turned out to be. So Old Mutual's intention to remain invested is surprising, if entirely sensible.

Two other factors will now come into play. First, and certainly the most important, is that Gencor has been transformed — for the second time in a month. Six weeks ago, Gencor could be described as a truncated and parochial SA mining house, mauled by a savage unbundling process and left concentrated on gold, platinum, coal, manganese and chrome, with an important (one-third) stake in the Columbus stainless steel project. It focused almost exclusively on SA.

Four weeks ago, that was suddenly and dramatically changed when chairman Brian Gilbertson pulled off what some observers considered unlikely given the attenuated time span — the purchase of international base metals and minerals producer Billiton from oil major Royal Dutch Shell, with heavy reliance on European bankers who surprisingly are prepared to lend against Billiton's assets without ultimate recourse to Gencor. That turned Gencor into an SA mining house with a heavy emphasis on the international aluminium business.

This week Gencor's profile changes again and just as dramatically. Now it can justifiably be called a global player with interests in aluminium, steam coal exports and traditional SA precious metals businesses.

What becomes clear from this metamorphosis is that Gilbertson has set about altering the shape of his company. He stuck with the problems associated with the Billiton deal long after others would have walked away. Even the fact that he persisted was questioned. Now he has pulled off what many will consider is the ultimate three-card trick. It is certainly evidence that



Davis

Gilbertson has emerged from predecessor Derek Keys's long shadow with far-reaching plans for Gencor's transformation into an important global mining company.

Initially, at any rate, the impact of the Randcoal deal on Gencor will be minimal. Gilbertson and Davis agree that some analysts will conclude Gencor has paid too high a premium. "That is a view," says Davis, "which ignores the benefits which we intend to extract from the synergies which the merger offers. And it doesn't take into account the growth of the export market for steam coal or overseas growth opportunities."

Nevertheless, the point at issue now is that 108 Randcoal shares with a value (at close on Monday, August 29) of R2 430 will buy 100 Trans-Natal shares with a value of R3 240. That premium of a third is a high price by any standards.

By prior agreement, Rand Mines won't accept the offer. This means Mutual's effective 32% holding in Rand Mines will translate into 15%. Eventually, the intention is that the company will be unbundled. The

other big player, Trans-Natal aside, will be Liberty with about 10%. Unbundling Rand Mines is likely to be carried out in stages because of timing issues.

Driving factors in the deal for Gencor are the expected growth of the world's demand for steam coal, expected to expand by 50% over the next decade to 300 Mt/year, and the possibilities for mining development overseas. There is some scepticism in the market about this growth equation. In the early Eighties, similar expectations were given a wide airing and came to nothing as world economic growth slowed. Now, however, estimates of power demand in the Pacific Rim indicate the need for 40 000 MW of new capacity (that is 11 power stations the size of Kendal, Eskom's biggest) over the next 10 years. This growth estimate excludes the huge demands expected from China and India.

Davis says other factors now come into play. One is the ending of coal mining across Europe, especially in Germany, and replacement of these tonnages with imports. Another — perhaps most important — is the pervasive fear of nuclear waste disposal. Chernobyl-type meltdowns can be contained and handled. Inadequate waste disposal remains apparently insoluble. As long as it does, the chances are that new thermal power stations will be powered by steam coal.

Gilbertson reveals that the Randcoal/Trans-Natal merger has opened new international prospects. Discussions are already in progress with major trading houses relating to their equity involvement in Trans-Natal, in exchange for guaranteed coal deliveries over a specified period at market-related prices, coupled with access to finance overseas for new mine development. This is concentrated in South America and Gilbertson confirms the project under investigation is on the Atlantic seaboard. He won't be drawn further. Nor will he admit that the financing discussions are with Japanese companies. "It is certainly true the Japanese are showing considerable interest but they aren't the only players, you know."

None of this should be taken to suggest the deal will be without difficulties. Randcoal's last annual results were disappointing with EPS slashed to 87c from 1992's 168c. Much of this is ascribed to falling spot coal prices over that year, a feature which directly attacked Randcoal's policy of reducing its contractual sales. Since then, of course, spot prices have firmed substantially and Gencor's managers will want to apply their policy of contractual sales with limited spot sales.

Davis says he believes a major synergy can be achieved from merging the head offices — he expects as much as R30m a year to flow from that. "And we've undertaken to apply the principle of the best man for the job," he says, in a direct reference to the selection criteria to be applied in the winnowing process. Refining

THE LARGEST COAL PRODUCERS

COMPANY	ANNUAL SALES (million tons per year)
PEABODY	90,8
CYPRUS/AMAX	59,8
TRANS-RAND	57,5
RUHRKOHL	54,7
CONS COAL	52,0
AMCOAL	42,4
SASOL	40,1
ATL RICHFIELD	39,8

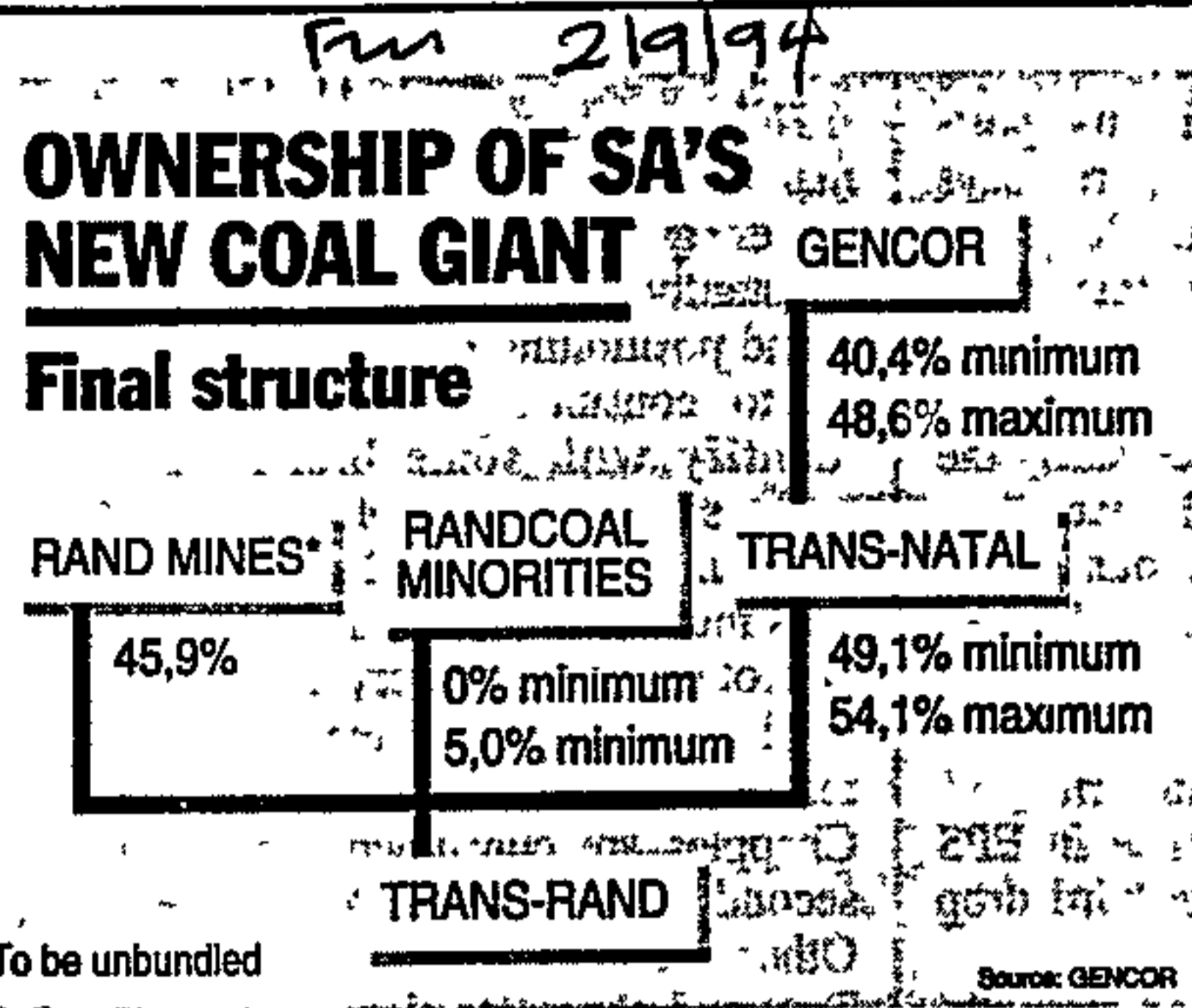
Source: GENCOR

P.T.O.

the head office staff and functions, coupled with benefits in other areas such as buying, stores and so on, could achieve savings of about R50m a year. Gilbertson has announced that Randcoal chairman John Hall will be chairman of the merged company.

Coupling Trans-Natal's reserves with those of Randcoal could provide the solution to Randcoal's Majuba colliery embarrassment. Not many investors will have forgotten that Randcoal was obliged to close Majuba after spending R350m on opening it, then discovering the coal it thought was there was not really there. Closure involved some remarkable sleight of hand. Coal for the first three generating sets at Majuba power station was to be sourced from Khutala colliery (which supplies Eskom's Kendal station). The idea was to rail the coal along the line to Ermelo and then build a new 70 km-long spur to Majuba. This would cost R300m, which was expected to be borne by Eskom and Spoornet. Now Davis says the solution is at hand and it lies in adding Trans-Natal's reserves in the area to the pile. This will make it possible to supply all Majuba's eventual six sets in addition to meeting demand from the Kendal and Matla power stations.

Other areas of synergy relate to blending intentions for the expanded group's Duvha, Middelburg and Optimum collieries; this



could create an excellent product for export, says Davis. Down the line are plans to retain a foothold in the Natal market. And there is a possibility that the Camden power station may be reopened because of burgeoning power demands. The difficulties of recommissioning mothballed power stations aside, if Camden is brought back on stream, the impact on Trans-Rand will be significant. (232)

Another issue is that Trans-Rand will be the single largest shareholder of Richards Bay Coal Terminal (RBCT), the private company which owns and manages the country's massive coal exporting facility on the Natal north coast. In the past, this has

been a fiefdom dominated largely by Amcoal, Anglo American's coal producer. While the change in effective control is unlikely to affect RBCT's operating policies, it is impossible to believe there will be no perceptible movements in approach over time.

In the end, of course, the greatest impact of the entire deal will be felt on Gencor itself, not least because of the transformation which the move will encourage in market perceptions about the group as an emerging min-

ing house dynamo.

Gilbertson has never shrunk from his publicly stated intention to turn Gencor into an international player. What is startling is the speed with which this now appears to be taking place and the momentum which has developed.

Some of this may be an accident of timing. The Billiton deal, for example, should have been consummated months earlier. Nevertheless, the impression of urgent growth is now indelible.

It is said that fortune favours the brave. Gilbertson and his new-look Gencor certainly cannot be said to be timid.

David Gleason

ket (Cadbury's Tempo bar in its post-launch phase exceeded this figure, says Bester) Now Mars products aren't as apparent on retailers' shelves as they were during the launch.

But Mars has a global reputation and as Bester remarks "This is not necessarily the end of the matter. Mars could launch a second attack. We have taken account of the potential threat and kept our financial house in order"

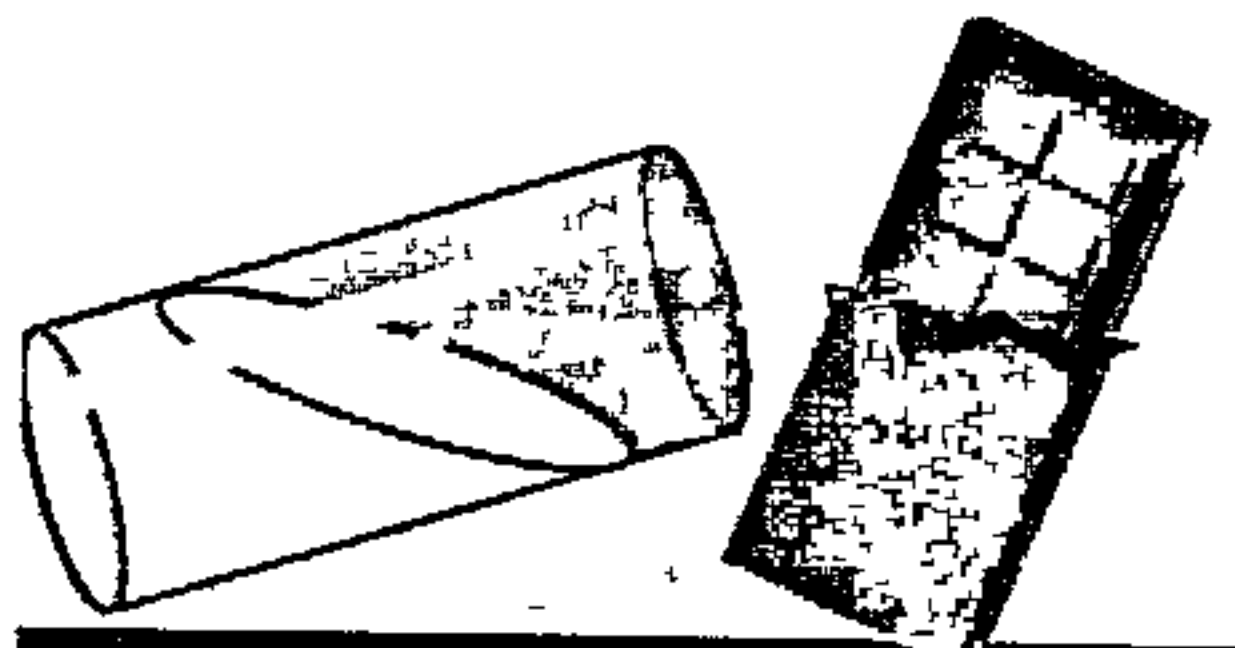
Indeed, when 1994 interim results were published last month, operating margins were steady but the 16% advance in EPS was derived largely from a one-third drop in financing costs.

The June 18 balance sheet had strengthened, with long-term liabilities down from R34,8m to less than R13m Lower average borrowings and interest rates brought down the finance costs and lifted interest cover. This was achieved despite production losses before the general election in April

Associate ABI hasn't escaped increased competition as lightly Pepsi entered the SA market last year and the emergence of cheaper retail brands placed pressure on margins, turnover rose 4% and EPS 9% ABI's shelf space was also subsequently restricted

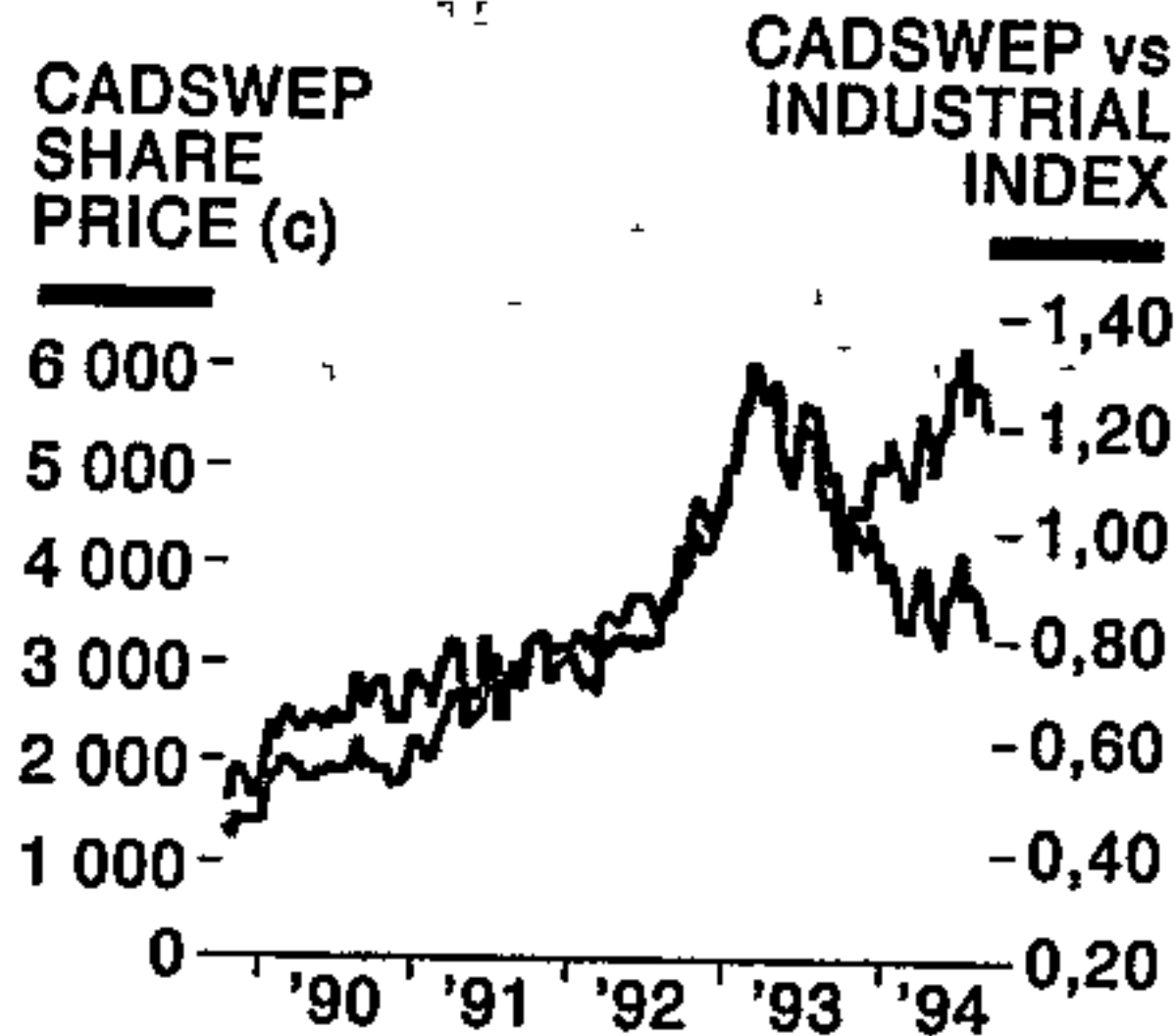
At year-end 1993, soft drinks contributed 30% to sales and 41% to operating profit — both down a couple of percentage points on 1992's figures.

A more detailed breakdown of these profit contributions and those of confectionery into individual products is not disclosed Competitors Nestlé and Beacon are unlisted so little is known about their respective margins and profits.



FALLING BEHIND THE INDUSTRIAL INDEX

CADSWEP SCHWEPES



Source: I-NET

However, as competitors and markets change, so do consumer needs Cadswep must constantly adapt to ensure that brand positioning remains suited to consumers Customers identify with some brands, such as Chappies bubble gum, from an early age (Chappies sells more individual units than any other confectionery product in SA and it is interesting that more than 100 units of Chappies are consumed every second of the working day.) Other products, such as Milk



Bester

Tray and chocolate slabs, appeal to mature chocoholics while teenagers seek out what the trade calls countline bars such as Crunchies, Flakes or Lunch Bars

Cadswep sees this broad customer base, which is also evident in rural and urban areas, as one of its main strengths

Its product portfolio includes seasonal items Soft drink sales peak during summer; chocolate sales peak during winter. And, during recession, squashes and cordials are popular while carbonated drinks sell better in more prosperous times.

In the long run, though, Cadswep depends on literally millions of repeat purchases every week This requires a high level of consumer trust and effective and persistent marketing, as well as expenditure on research for new products and advertising Bester says annual marketing spending invariably exceeds investment in capital assets

In 1993, as much as 13,9% of sales — or R114m — was spent on marketing This includes TV, radio and print media advertising, as well as instore promotions.

In 1991 and 1992, capital expenditure exceeded R100m, in 1993 it was R30m. In 1992, about R51m was spent in Cadbury on property, plant and equipment in manufacturing reconfiguration and expansion The number of factory sites was reduced from five to three.

Internal funding

Machinery and equipment were upgraded to provide the business with an efficient and flexible manufacturing base especially for new products.

Bester says capex will be high — about R50m — again this year This is to be funded internally and the balance sheet is strong enough to cope with this spending, gearing was 20% at the 1993 year-end It is perhaps ironic that the very considerable asset represented by brands does not appear on the financial statements

Though by definition brands are intangible, they are the group's main commercial asset

Cadbury now holds more than half the slab market and nearly 40% of the chocolate bar market in SA Dairy Milk, Whole Nut, Fruit and Nut, Crunchie, Lunch Bar and Flake are firmly among the top 20

selling chocolate products on the market

Until 1938 these products were imported from Bourneville, England, by Cadbury-Fry (Africa), which operated from a depot in Cape Town. Because of the company's growth in SA, it was decided to start manufacturing in the country. Though Cadswep is wholly self-sufficient in technical capability, and some locally created brands have been introduced internationally by associate companies,

it can still turn to its parent for support (It was through that parent that Cadswep SA bid for, and signed, a Russian export account.)

The international Cadswep Group is a major global competitor in confectionery and soft drinks, with factories in more than 20 countries Brands are bought in more than 170 countries; and the group's earliest roots are in two of these, Switzerland and Great Britain

Jacob Schweppe perfected his process for manufacturing mineral water in Geneva in 1783 John Cadbury first started selling tea and coffee in 1824 in Birmingham, within a few years cocoa and chocolate became his main business

The two companies — Cadbury and Schweppes — merged in the UK in 1969 Since then there has been a continuous expansion worldwide

In SA the two merged in 1970 In 1976 the soft drink bottling operations were combined with the Coca-Cola bottling business, to form Amalgamated Beverage Industries (ABI) in which Cadswep has a 19% shareholding. Its most recent acquisitions were Bromor foods in 1986 and Chapelat Humphries in 1989 Brands which have become household names, manufactured and marketed by Bromor, include Brooke's Lemos, Brooke's Oros, Moir's baking aids and desserts, and SodaStream and Mixadrink.

Brooke's Lemos is SA's oldest registered trademark while Brooke's Oros still remains the clear leader in the concentrated soft drink market

Confirmation that products are steeped in tradition is evident in the international presentation and positioning of the Rose's trademark The distinctively embossed bottle has been essentially unchanged since it was introduced.

Cadswep's earnings grew in real terms during recession and any uptick in spending should ensure the almost flawless growth pattern will continue There will be no fireworks and, on a p e of 24,8, the stock is rather expensive at R54 But the strong brand names, large market shares and hefty investment in marketing and promotion should help ensure the counter remains a steady growth stock which is well worth holding

Kate Rushton

Still plenty of bite

~~232~~ 232

Changing markets means more exports — and more competition

Cadswep's earnings capacity remains wrapped up in the strength and reputation of its brands, some of which go back to the founding of the business more than 200 years ago. The share was listed in 1926 and for many years five-year compound EPS growth has hardly wavered below 20%. Yet during the past 18 months its share price has lost a tenth, to stand at R54.

Though earnings grew steadily through the recession, Cadswep is not immune from depressed markets. It makes and distributes confectionery and soft drinks (including Coca-Cola through its 19% stake in ABI), so sales are strongly linked to consumers' discretionary income.

Turnover growth has recently been nominal, at around 6%-7%.

To keep profits rising, management has turned to stringent cost control, plant closures, new products and acquisitions — and a continuing heavy investment in marketing in various forms.

However, there are limits to the gains that can be derived from all these measures without recovery in consumer spending. This has helped persuade some investors to

avoid the share; other factors probably include the current vogue for cyclical stocks and Cadswep's already-high p.e rating.

CE Peter Bester concedes markets have been depressed in recent years and, he adds, there is still no clear evidence that consumer spending has picked up. But he is convinced that "above average growth can be achieved in the medium term." He contends that job creation, rising disposable incomes and lifestyle trends should expand demand for confectionery and soft drinks over time.

Bester says gains in Cadswep's market share in 1993 "are an important indicator of the long-term strength and vitality of the group and its brands." Focused promotion of core brands has resulted in market share gains across several segments, most of which have reached all-time highs. Two new drink products — Energade, a sports drink, and Cedar, a fruit concentrate — were launched last year into market areas where the group was not represented.

However, markets are changing because of political transition, an important consequence of which has been the opening of

international trade. Cadswep now stands to benefit materially from growth in exports. "Already we have seen growth in traditional foreign markets and opportunities to develop new markets," says Bester. In particular, exports of chocolate lines to Russia have helped boost volumes and enabled the group to add capacity and streamline production.

The opening of foreign arenas has also allowed Cadswep to take on the sales and distribution of Wrigley's chewing gum range (Wrigley is the global leader in chewing gum).

But international trade has also brought increased competition. The apartheid years protected Cadswep — and its main local competitors, Nestlé and Tiger Oats' Beacon — from the likes of, for example, Mars. The entry of Mars a couple of years ago and its threat to market share, says Bester, was initially taken seriously.

From Mars' point of view, it must have been a disappointing entry. At its peak, according to Integrated Business Information Services' statistics, Mars captured 1.9% of SA's chocolate confectionery mar-

P.T.O.

IMPALA PLATINUM

Marching on the spot

Fun 2/9/94

(232)

Activities: Mines, beneficiates and markets platinum group metals, nickel and copper

Control: Gencor 46,5%

Executive Chairman: J M McMahon

Capital structure: 62,2m ords Market capitalisation R6,1bn

Share market: Price 9 800c Yields 1,4% on dividend, 2,8% on earnings, p e ratio, 35,9, cover, 1,95 12-month high, 10 400c, low, 4 450c Trading volume last quarter, 2,7m shares

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	399,5	487,2	78,0	4,1
LT debt (Rm)	28,7	235,7	328,1	302,7
Debt equity ratio	0,21	0,30	0,16	0,12
Turnover (Rm)	2 269	2 264	2 214	2 184
Cost of sales (Rm)	1 429	1 671	1 838	1 824
Attributable profit (Rm)	309	256	201	170
Earnings (c)	504	411	323	273
Dividends (c)	275	170	140	140
Tangible NAV (c)	3 386	3 871	4 111	4 287



Impala's McMahon refining is capex priority

The kindest remark — and therefore probably the cruellest cut — is that Impala is biding its time. For investors scanning the essential statistics, this company, probably the second biggest producer of platinum group metals in the world, presents a picture of marching on the spot.

An extraordinary 1992 excepted, borrowings, at R307m, are now at a low for some years and the debt equity ratio is at a comfortable and conservative 0,12. A straightforward balance sheet indicates adequate inherent strength to handle most events — though not, it should be noted, massive capital expenditures without taking strain. Impala is now net cash positive, a good indication of careful husbandry, though this position was helped by the sale of Ayrton Metals for R62m.

It is in earnings and dividends that Impala attracts investor criticism. The high point was in 1991, when EPS were 504c and the dividend was 275c. Since then, it has been downhill with EPS now at a low 273c and the dividend a modest 140c. There are sound reasons for this, few of which inspire confidence where it matters — in the bank.

An interesting, though depressing, feature of calendar 1993 was the extent to which platinum demand and supply were out of balance. Impala chairman Michael McMahon says demand was 4,44m oz against supply of 4,81m oz, leaving a net surplus of 365 000 oz. For calendar 1994, he predicts a substantial increase in demand and a

small increase in supply, resulting in a net surplus of only 80 000 oz.

SA producers — by far the world's largest and most important — have complained consistently about Russian destocking in recent years. In 1993, though, autocatalyst demand for platinum rose 16% and jewellery demand rose 7%, a total increase of 365 000 oz. SA producers rushed to the rescue with increased production of 465 000 oz — the kind of sensible planning which leaves investors with unanswered questions.

Impala has managed to contain costs. At the best of times, it is difficult to control efficiencies and money used in large-scale mining. That the company was able to

contain the cost increase of its platinum group metals production in matte to only 4% speaks volumes of a determined technical management. Part of the price paid for this excellent result is that the company has reduced its workforce steadily. Since 1991, Impala has shed about

16 000 employees, nearly a third of its labour complement. The big issue over the next few years will be its capital expenditure programme, which McMahon has clearly directed first at the refining process and then at the

mining end of the business. Curiously, McMahon doesn't deal with this important aspect compositely. Instead, references to future expenditure are dotted about his annual statement. He has targeted refining as his priority because Impala is at a disadvantage with competitor Rustenburg in this area, R425m will be spent over the next four years to bring the refinery to what McMahon calls "world class standards".

While that is happening, Impala will begin sinking a major shaft into the Deeps in financial 1997. Major expenditure will begin to be incurred in 1998. This is part of a programme to ensure a production profile of 1,2m oz of platinum a year.

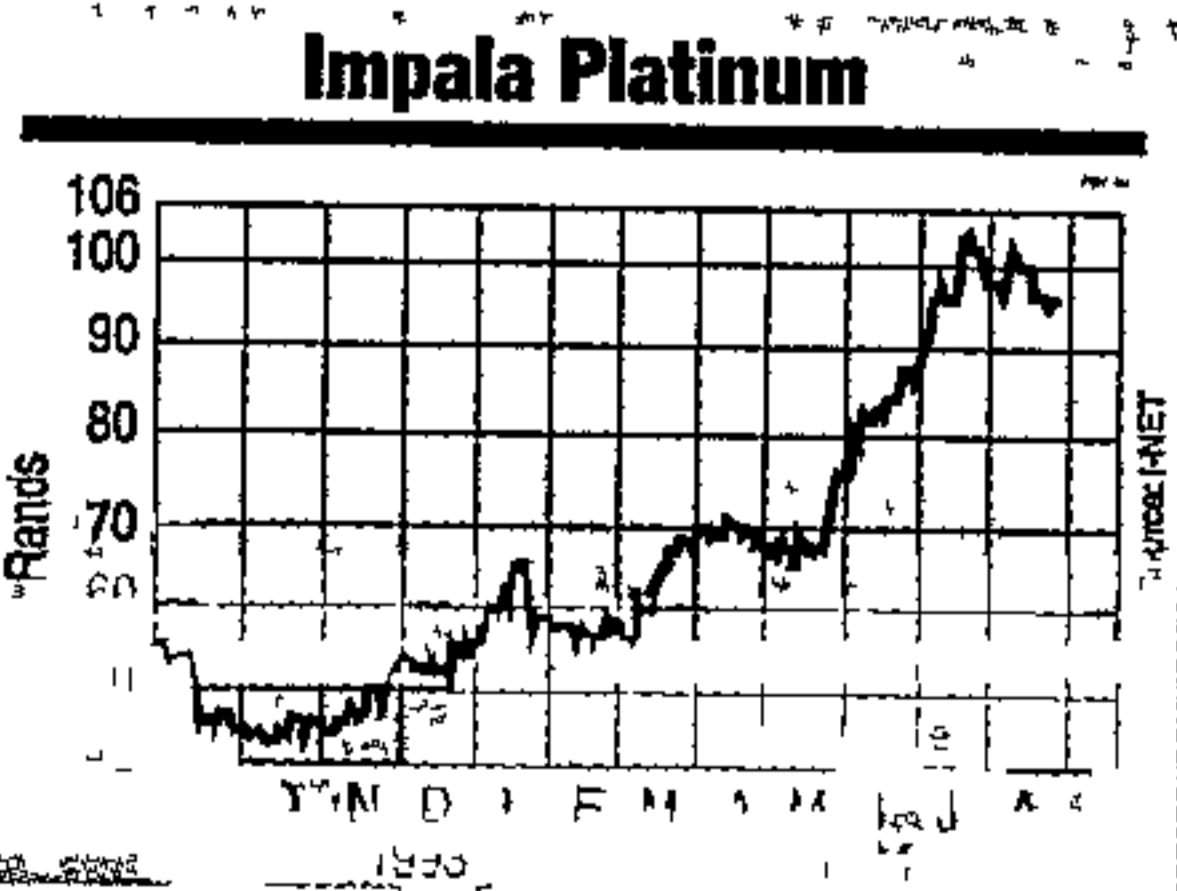
Three matters remain to be discussed. The first is the unsatisfactory state of Impala's relations with the Bafokeng tribe, on whose land much of its mining is conducted. Unfortunately for Impala, it has been in the centre of a pull-push confrontation between the tribe and the former Bophuthatswana administration and president Lucas Mangope.

In the process, Chief Edward Molotlegi went into exile breathing opposition. Acting chief George Molotlegi has since resigned. Now Impala and Chief Edward, who has returned victorious, are locked in negotiations superintended by independent mediation. It is a classic example of private enterprise being dragged helplessly into convoluted political machinations beyond its control.

The second is that Impala and McMahon make much of the company's accession to important aspects of the UK's Cadbury Report on Corporate Governance, the principles of which, says McMahon, Impala endorsed last year. It sounds impressive. But a key feature of Cadbury was its insistence that the roles of chairman and CE must be separated. This has not been applied at Impala.

Lastly, there is Impala's growing participation in autocatalyst salvage in the US. A privately owned US company, A1, is linked to Impala by arm's-length supply contracts and will soon move into the European market. The business operates on low margins — probably 2% — but it is stable and risk-free. For Impala, the potential could be as much as R40m a year down the line and its involvement is an enterprising move.

Impala is a world player in its business. But its immediate capital expenditure programme will take some swallowing. Unless there is a dramatic and sustained increase in the price of its products, helped no doubt by the continued depreciation of the rand, I cannot see how it can be valued at a p e



Fun 2/9/94

of 36 The valuation looks like wishful thinking but then that seems to apply to the industry (232) (232)

David Gleason



PERSETEL & ACER

Assembling locally for Africa

For 2/19/94

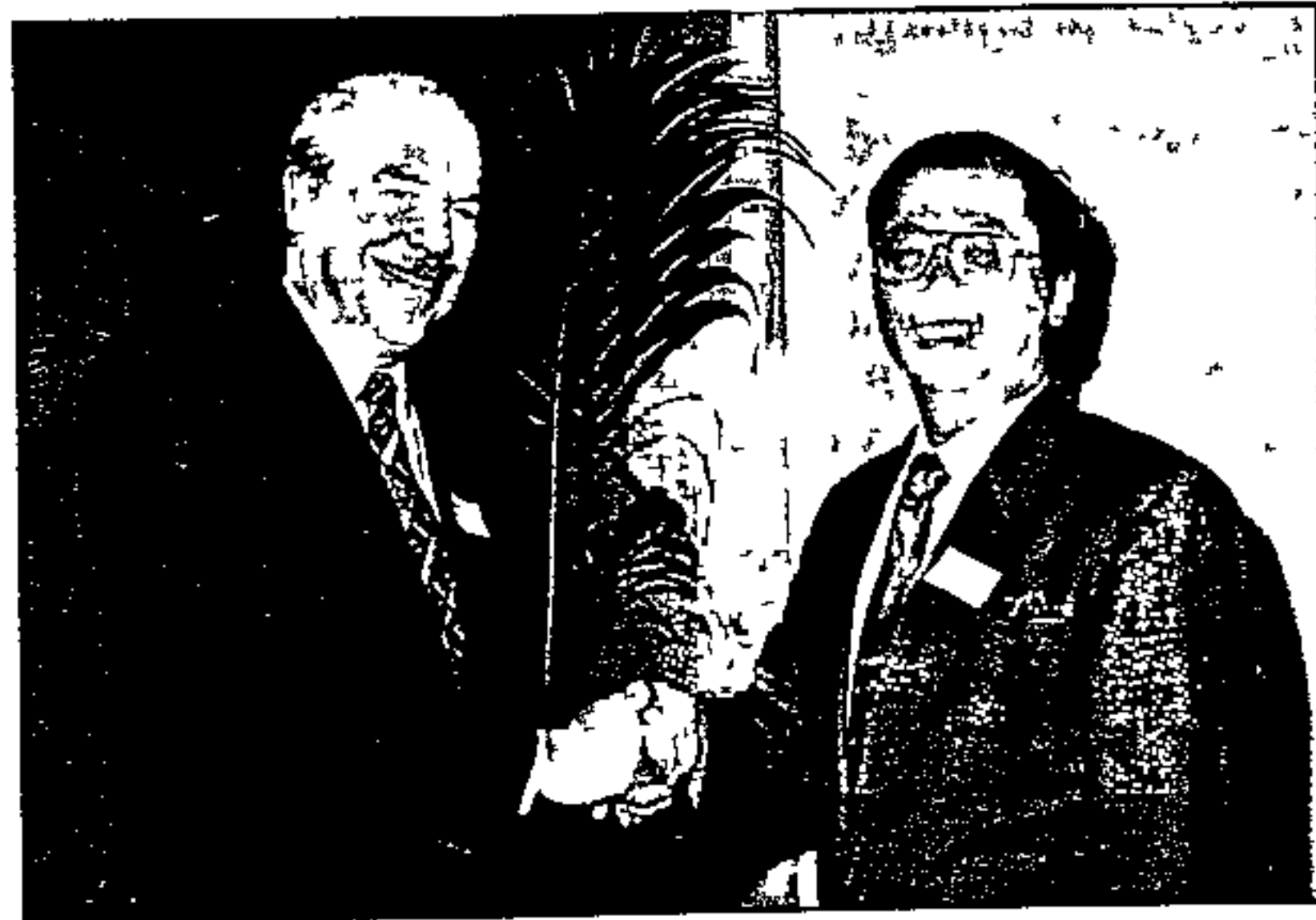
232

It has not taken Roux Marnitz and his team long to refocus the computer group they founded in 1979 and attract major overseas investment

Soon-to-be-listed Persetel Holdings, created from the recent restructuring of Persetech, last week announced a joint venture with Taiwan-based PC giant Acer to assemble computers in SA for distribution throughout Africa

The new jointly owned company, Acer Africa, is expected to have a turnover of around R300m in its first year. It will be listed on the JSE within four years, by which time its turnover is expected to top R600m. Though Marnitz will not disclose the size of the investment in money terms, he says the deal is a significant manifestation of foreign investor confidence in SA.

Marnitz, who returned to head up Persetech earlier this year after an absence of two and a half years, has revitalised the information technology group by turning it into a leaner, more focused operation



Marnitz and Lu joint PC venture for SA

Leading a consortium of investors, he bought a 29% stake in Persetech from Barlows, which retains 29% Persetel Holdings — Persetech minus its loss makers and non-performers — was formed in July and will be listed on October 6 (*Fox* August 12)

Marnitz says the formation of Acer Africa is in line with the group's strategy of seeking alliances with major international players. A global company, the Acer Group's sales in 1993 reached US\$1.9bn. Revenues for 1994 are estimated at \$2.8bn

Once a single vertically orientated unit run from Taiwan, it now comprises a cluster of semi-autonomous local companies (wholly or partly owned subsidiaries, joint ventures and affiliates), organised along geographic and product line divisions

Last year, market researcher IDC rated Acer the world's 13th largest PC manufacturer and sixth largest monitor manufacturer. Acer is the second biggest selling branded PC in SA. It is the top Taiwanese brand-name exporter and the largest PC brand in south-east Asia. Many of its products are re-badged by other companies.

The group has 7 200 employees in 25 countries and research and development facilities in Taiwan, Malaysia and the US. It has 15 strategic assembly sites around the world.

Each year, its manufacturing and assembly facilities supply more than 2m quality computing products ranging from high-end PC systems to notebook computers and monitors.

Its newest assembly plant in SA will be run by Acer Africa. The plant will incorporate the business and operations of Persetel's subsidiary Technology Systems Distribution (better known as TSD), which has held sole distribution rights for Acer

since 1990. TSD also distributes Microsoft software and Citizen and C Itoh printers throughout Africa.

"This is the first venture of its kind between a manufacturer of branded PCs and a local company," says TSD's Rob Matthews, who becomes MD of Acer Africa. He says negotiations for premises for an assembly plant in Midrand are well advanced and production is set to begin in January 1995. The plant will initially employ between 30 and 50 people.

Local manufacture does not seem viable in the short term.

Says Matthews "SA does not have the economies of scale to make components. The largest part of our local content will be labour." But he does not rule out using locally manufactured casings. He says the duty difference between importing fully assembled PCs and knocked down versions is negligible. "Acer's reason for a joint assembly plant is not to save import duties but to gain a foothold in Africa. The intention is to move large quantities and reduce time to market."

William Lu, president of Acer Computer International, an Acer group subsidiary, says local assembly will improve customer service. "We will not only inject financial resources into Acer Africa, but also leading edge technology. We will also send out four people to support the local management." Lu, who will be based in Singapore, is Acer

Africa's deputy chairman. His vision for the year to 2 000 is to have 21 listed companies operating globally through worldwide partnerships.

Persetel, meanwhile, continues to search for overseas alliances. It recently secured a three-year exclusive distribution agreement for Sequent midrange computers. These high performance systems are marketed by Siltek subsidiary Pinnacle, whose contract expires at the end of the year.

TELECOMMUNICATIONS

Forum points the way

Minister of Posts, Telecommunications & Broadcasting Pallo Jordan has come out in favour of the National Telecommunications Forum being the principal advisory body for this sector. The forum, representing all major stakeholders in the industry (government, the unions, Telkom, cellular operators, civics, academics and industry), will play an important role in drafting legislation to go before parliament soon.

Jordan says it will address many shortcomings of the current Act — particularly with regard to the regulatory matters (now the Postmaster-General's responsibility).

The forum recently presented Jordan with its proposals for inclusion in government's White Paper on the RDP. It supports an independent telecommunications regulatory authority and maintains that it could promote the interests of consumers, encourage greater competition, set standards and control the use of frequencies.

However, the Independent Broadcasting Authority is already doing a "spectrum study." Many expect the two authorities to merge.

Jordan has, meanwhile, asked the forum to help with preparing an SA delegation to the plenipotentiary conference of the International Telecommunications Union in Kyoto, Japan, when SA will formally rejoin the union during the sessions from September 19 to October 14.

Jordan says that, because SA has been excluded from the union for almost a quarter of a century, it has made only a limited contribution to telecommunications infrastructure and policies in southern Africa and this has hindered development of the region.

During this period local industry has been unable to benefit from the technology and skills transfer afforded by the global scale of the union which is made up of 184 member countries.

Marna Bidoli

GENCOR

From 2/19/94

Better in most divisions

232

The instinctive reaction to Gencor's results for a truncated financial year (actually, only 10 months) is that all the house's operating divisions bar one — platinum — have performed significantly well. Operating income was R630m, an increase of 32% or R156m on last year's result.

The group's gold producers together contributed R131m to attributable income (1993 R106m). Coal showed a modest increase in difficult circumstances to R84m (1993 R78m), but the really massive improvements came from ferro-alloys (Samancor) which returned a 44% increase in its contribution to R145m (1993 R101m) and titanium mineral sands — up

SETTING SAIL

	Year to Aug 31 '93 (proforma)	10 mths to Jun 30 '94
Operating inc (Rm)	474	630
Attributable (Rm)	612	625
Earnings (c)	44,5	45,4
Dividends (c)	n/a	15

85% to R157m.

What these results indicate is that Gencor's operating divisions and companies appear to have come to grips with the endless problem of controlling costs. Even in the case of platinum producer Impala, which had a particularly difficult year, costs were well contained. This isn't to say Gencor's companies are problem free but it is certainly clear the group has attended to this area with success.

To a large degree, these results are overtaken by the dramatic effects of the proposed merger between Trans-Natal and Randcoal (see *Leaders*).

Exploration activities gobbled up R88m (1993 R99m) but the really significant damage to the income statement was sustained at the level of money management. Investments and corporate activities earned only R77m compared with last year's R237m. Chairman Brian Gilbertson says this is due to a sharp reduction in cash holdings over the year: cash fell by about R1bn as it was pumped into various projects (significantly the Alusaf development and Columbus stainless steel), second, interest rates were sharply lower and, third, the accounting period this year is over only 10 months.

On the other side of the scale, however, R59m came through as an abnormal profit from the sale of various investments including De Beers shares, and holdings in Sasol and Malbak. And 1993's large earn-

ing in this area was skewed by a R100m tax credit.

For these reasons, attributable income barely moved from R612m in 1993 to R625m this time round. A dividend of 15c a share is covered twice by cash EPS.

In an important sense these results are somewhat academic because they exclude Billiton, the major international metals and minerals producer which Gencor recently acquired from Shell. This transaction came after Gencor's year-end but the question for all observers will be the extent of the impact Billiton will have on the enlarged group's results next year.

Another feature is that these results are the first since Gencor's unbundling. Gilbertson says one of the reasons for it was to narrow the large discount applied by the market to Gencor's NAV. At one stage, this was as high as 28% (November 1992) and was more than 20% at the time of unbundling. It has since fallen to as little as 2%, says Gilbertson, though this needs to be set in the comparative context of the performance of other houses, Anglo particularly. Anglo's discount all but disappeared when the share was targeted by foreign investors some months ago.

Gilbertson is less forthcoming about short-term prospects. There are too many uncertainties, he says, though he concedes the commodity cycle has turned and he expects a sound contribution in the next six months from Billiton. The best bet on this basis, assuming Impala turns its rough corner and the other divisions keep their collective act together, is that Gencor should post an earnings increase of about 10% for the next half.

There is some excitement too about its international exploration activities. Lifting the traditional veil for a brief peek, Gencor's managers reveal the Arizona gold project in Brazil contains proven reserves of about 15 t, the estimated production cost is about US\$150 an ounce. Other projects include a mineral sands development in Mozambique which is apparently far advanced, a potentially huge copper/gold deposit on Irian Jaya (New Guinea) and a variety of gold prospects in Turkey in the area of the Marmara and Aegean Seas. The rest are shrouded in secrecy. *David Gleason*

W&A/GENTYRE

Still struggling

The problems which have beset industrial conglomerate W&A are well known. The trouble is they just won't go away.



Gentyre's Rolfe: real problem was lack of volume production

Interim results to end-June reveal the same difficulty, though in slightly ameliorated form this time.

The group's problem is its debt load at the centre. At the end of December, this was R1,2bn, of which R875m was in long-term borrowings and the balance, less a small amount of cash, in overdrafts.

Chairman Ray Hasson recognises the problem when he says the intention is to

WORN TREAD

Six months to	Jun 1993	Dec 1993	Jun 1994
Turnover (Rm)	262,4	298,1	263,4
Operating income (Rm)	25,0	28,1	20,0
Attributable (Rm)	27,1	24,5	18,2
Earnings (c)...	173	156	116
Dividends (c)	55	57	*

* Scrip dividend declared.

reduce this exposure by R490m by the end of this year. So how has he done this far? In fact, debt at end-June stands at R1,1bn, compared with Hasson's target of R711m, so W&A's managers have some way to go if they are to achieve the objective.

Put simply, it is this area — inadequate shareholders' funds, too much reliance on other people's money — which scuppers W&A's best efforts every time.

This interim the operating profit is R54,9m. That compares with last year's restated R53,5m and has been achieved over a difficult period of high political tensions, strike action and low productivity. It is immediately destroyed, however, by R77,8m in interest payments (including

All-round improvement at Alexander

■ BY CHARLOTTE MATHEWS

An improvement in all businesses in mining, waste handling and engineering group Fraser Alexander contributed to a 38 percent gain in net income before extraordinary items to R19,7 million in the year to June 1994, according to figures that it released yesterday

Turnover grew by 21 percent to R375,4 million.

Fraser Alexander chairman Peter Flack said yesterday that the construction side, Waste-Tech and the bulk materials handling division in particular had increased their turnover, which was also boosted by the acquisition of a concrete products business in Swaziland.

A dividend of 42c a share, up from 30c in 1993, has been declared on earnings of 125c (90,8c) a share.

The company showed an ex-



traordinary charge of R4,2 million from 1993's R7,9 million on representing write-offs on goodwill, loans and an offshore operation. (150) (232)

Since year-end the group had acquired about a 7 percent interest in Randgold in exchange for its investment in First Wesgold.

Randgold is trading at a substantial discount to its net asset value and if this were eliminated the investment would be worth something like R45 million.

Flack said the investment had two positive aspects

For one thing it allowed the group to turn its investment in a private entity into a more realisable investment and, for another, it would expose Fraser Alexander management to mine rehabilitation and mine closure to a greater extent

Part of the group's strategy was to develop mine closure as part of its line of business.

The Merrispruit dam disaster, in which the group's tailings division was involved, was still the subject of a judicial inquiry and there was no indication how long this would take

Fraser Alexander could not exclude the possibility of a claim arising from the event,

Flack said, but nobody had yet come up with an estimate of the likely cost of the damage that was done

In a worst-case scenario, the company carried a R25 million insurance policy intended for such events

If this were not sufficient, the next call would be on the assets of the group's subsidiary, Fraser F Alexander & Co

Any further liability would depend on whether the group's shareholders were prepared to make a philanthropic gesture

Fralex, which holds 57,8 percent of Fraser Alexander, has declared a total dividend of 22,5c for the year from 17c in 1993 on earnings of 68,9c (51,3c).

Fraser Alexander shares closed unchanged at R11,50 yesterday

At that price they offer a P/E of 9,2 on the latest figures, against the sector average of 18,5

JD Group reports big earnings rise

BJD Day 5/9/94

BEATRIX PAYNE

FURNITURE retailer JD Group reaped the benefits of its restructuring and the acquisition of the Rusfurn group to report a 187% surge in attributable earnings to R105m for the pro forma year to June, CE David Sussman said at the weekend.

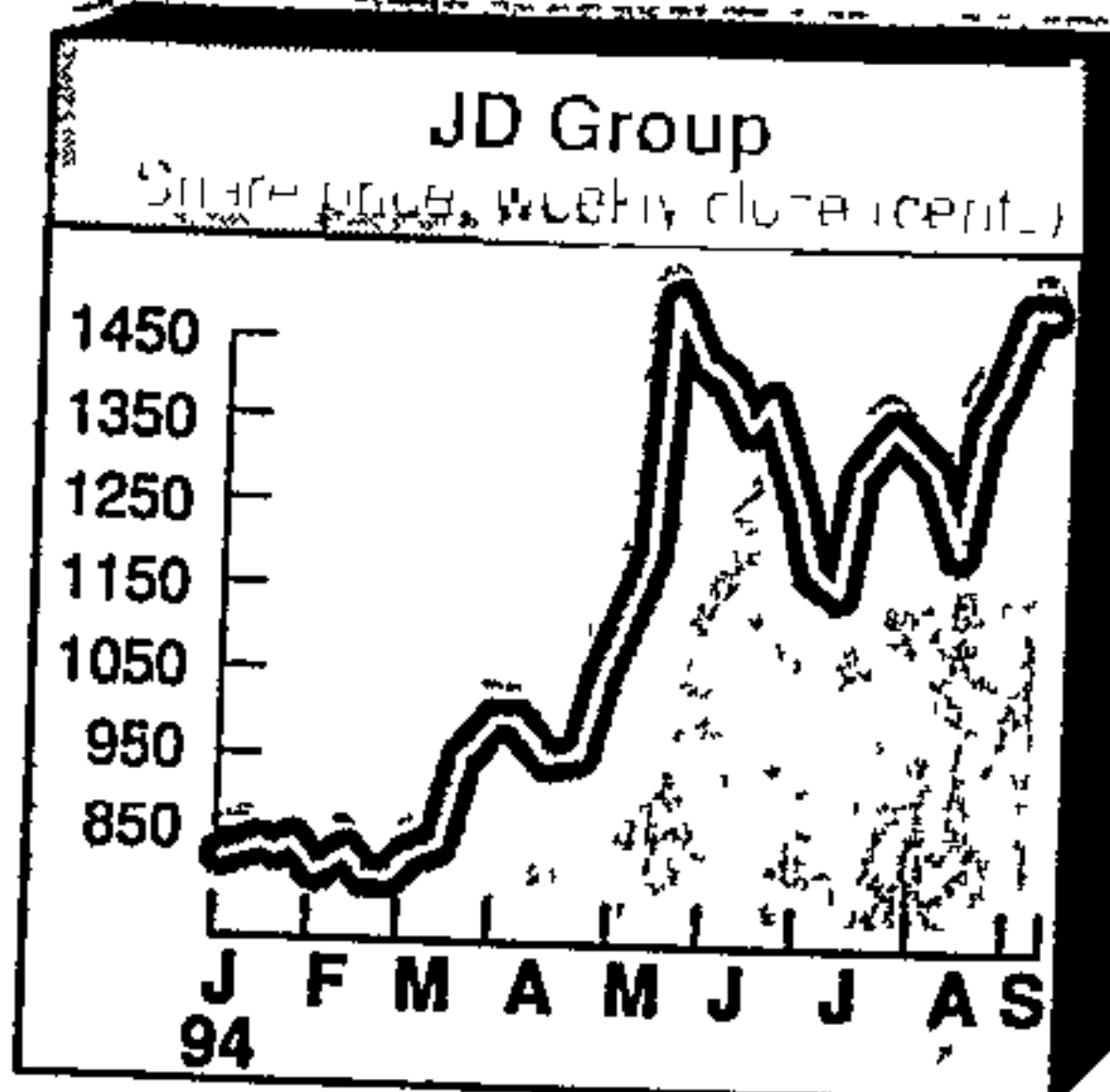
But pro forma net gearing for the 12 months increased substantially to 76,8% (nil previously) as the group incorporated debt from Rusfurn and JD Sales. Sussman said the company intended to reduce gearing to 50% by the end of financial 1996.

The pro forma figures — adjusted from results for the 18 months to June which excluded JD Sales — were compared to the 12 months ended December 1992 and included results from JD Sales and Rusfurn. The group had changed its year-end from December to June and had released the pro forma results to facilitate comparison.

Earnings a share gained 21% to 125c (103,1c) on the back of an increase in the number of shares in issue to 101-million (35-million) "The results reflect the impact of the enormous restructuring we have been through," he said.

"Trading conditions improved substantially in the past six months" and the acquisition of Rusfurn had "catapulted" the number of stores in the group to 562.

Pro-forma turnover jumped to R1,8bn from R457m for the previous 12 months as the group gained substantial market share



and embarked on an "aggressive" marketing campaign

Operating income rose 79,8% to R177m but finance charges shot up to a R71m outflow, compared with a previous inflow of R919 000, after the debt from Rusfurn and JD Sales was incorporated

Pre-tax income almost trebled to R105m (R36m) and the company paid a tax bill of R1,2m (R16 000) in the period under review. But Sussman said the group would not pay tax "for the foreseeable future" owing to the Section 24 allowance of the Income Tax Act.

Pro forma income after tax surged to R104,7m (R36,7m) and the group received

□ To Page 2

JD Group

BJD Day 5/9/94

□ From Page 1

R1,1m from outside shareholders. It declared an extraordinary item of R16m, arising from a surplus on the sale of the Dion division of Rusfurn. A total dividend of 24c (22c) a share was declared for the pro forma 12 months, while a dividend of 28c a share was declared for the total 18-month period.

Stringent control in the Rusfurn chains has brought a significant drop in arrears.

Following the recent acquisition of consumer finance group JD Sales, the group intended to rationalise all its financing activities into one wholly owned subsidiary, JDG Trading. "This will result in the

deregistration of about 50 of the group's subsidiaries, a more efficient, streamlined structure and ongoing cost savings."

But further retrenchments were highly unlikely, he said. The group had closed 32 stores and laid off 400 people as a result of the past year's rationalisation programme.

The group would also benefit this year from the job creation and housing projects under the reconstruction and development programme. It intended to offer shareholders the choice of a capitalisation issue rather than the cash dividend of 6c for the six months to end-June, but details would be released only later this month.

Weak management control takes Cullinan to R21m loss

INEFFECTIVE management control coupled with external factors has pushed Cullinan Holdings deeper into the red, with the company reporting a R21,2m loss (R186 000) for the year to June

The industrial ceramics and electrical-powered products group saw turnover slip to R426m (R430m) as Eskom's electrification programme stalled before the election and plant breakdowns at Iscor resulted in considerably lower refractory sales

Operating income slumped to a loss of R3,5m (R11,5m) while after tax losses came in at R17m (R1,3m loss) Earnings a share plunged to a loss of 146,2c from a profit of 1,3c last year The dividend was again passed ~~(1,3c)~~ (2,32)

Net borrowings increased to R101,6m (R67,1m) while ordinary shareholders funds declined to R83m (R118,1m) as a result of a change in tax policy

The group made a loss of R10,8m on discontinued operations while the sale of investment properties and the writing down of a loan on share purchases added R2,5m to extraordinary losses

MICK COLLINS

Gearing shot to 102,6% from 50% while net asset value dropped to 571c from 813c.

Chairman Alan Clark said the board had decided on an immediate independent critical review of senior management Where weaknesses had become apparent controls would be reinforced

A strategic downsizing exercise aimed at a major reduction of borrowings and costs was also being carried out.

Clark said the downsizing would involve the sale of certain of the group's existing divisions Negotiations had already started but details could not be divulged

On the outlook for the group he said the divisions which would remain comprised effective stand-alone businesses with considerable recovery growth potential.

The results for the year would be clouded by the downsizing programme and the positive effect of the restructuring, together with an expected recovery in the trading environment, would only flow in the second half of the year

Star 6/19/94

Union Mines still talking about manganese rights

■ BY DEREK TOMMEY

Union Mines, which is developing a manganese mine at Kapstevél in the Northern Cape, is still negotiating with other parties to extend its manganese rights, says chairman and controlling shareholder, Nic Lotterie.

He says in a statement to shareholders that they will be informed as soon as the negotiations are completed.

The company has iron ore reserves of about eight million tons and is negotiating to supply ore to a buyer in Europe.

"This will contribute a considerable amount to the profits and can also increase the dividends of the company," he says.

The company has entered into a prospecting agreement to acquire 50 percent of the mineral rights on the adjoining property, Welgevonden.

It has also appointed AJ Scoggins to produce a geologi-

cal report which summarises the results of the exploration programme, including an executive summary of recommendations regarding the viability of the proposed copper mine.

Lotterie says the existing copper reserves on the old tin mine show a value of over 1 percent. The old slimes dams contain about 5 percent copper (232) (232)

The whole region will benefit from the new venture, which will create a large number of jobs, he adds.

Union Mines bought the Kapstevél deposit by issuing 17,6 million shares, worth at that time R7 million. This increased its issued share capital to 20 million shares.

At the time of the acquisition in 1993 the Kapstevél deposit was expected to produce 40 000 tons of manganese in the first year and 130 000 tons in the second year of operation.

Star 6/19/94

No fireworks expected

■ BY CHARLOTTE MATHEWS

The declaration of 15 percent higher interim dividends for the half-year to September by four Rembrandt companies last week is unlikely to bring a similar increase in earnings for the same period, analysts say.

Rembrandt Group declared a dividend of 19,60c (17,04c), Rembrandt Controlling Investments 14,51c (12,61c), Technical Investment Corp 12,73c (11,06c) and Technical and Industrial Investments 13,49c (11,73c) ~~(152)~~ (232)

However, analysts predict group earnings a share will be 10 percent or, at most, 14 percent better.

They say the group has historically maintained a fairly high level of dividend cover of 4½ to

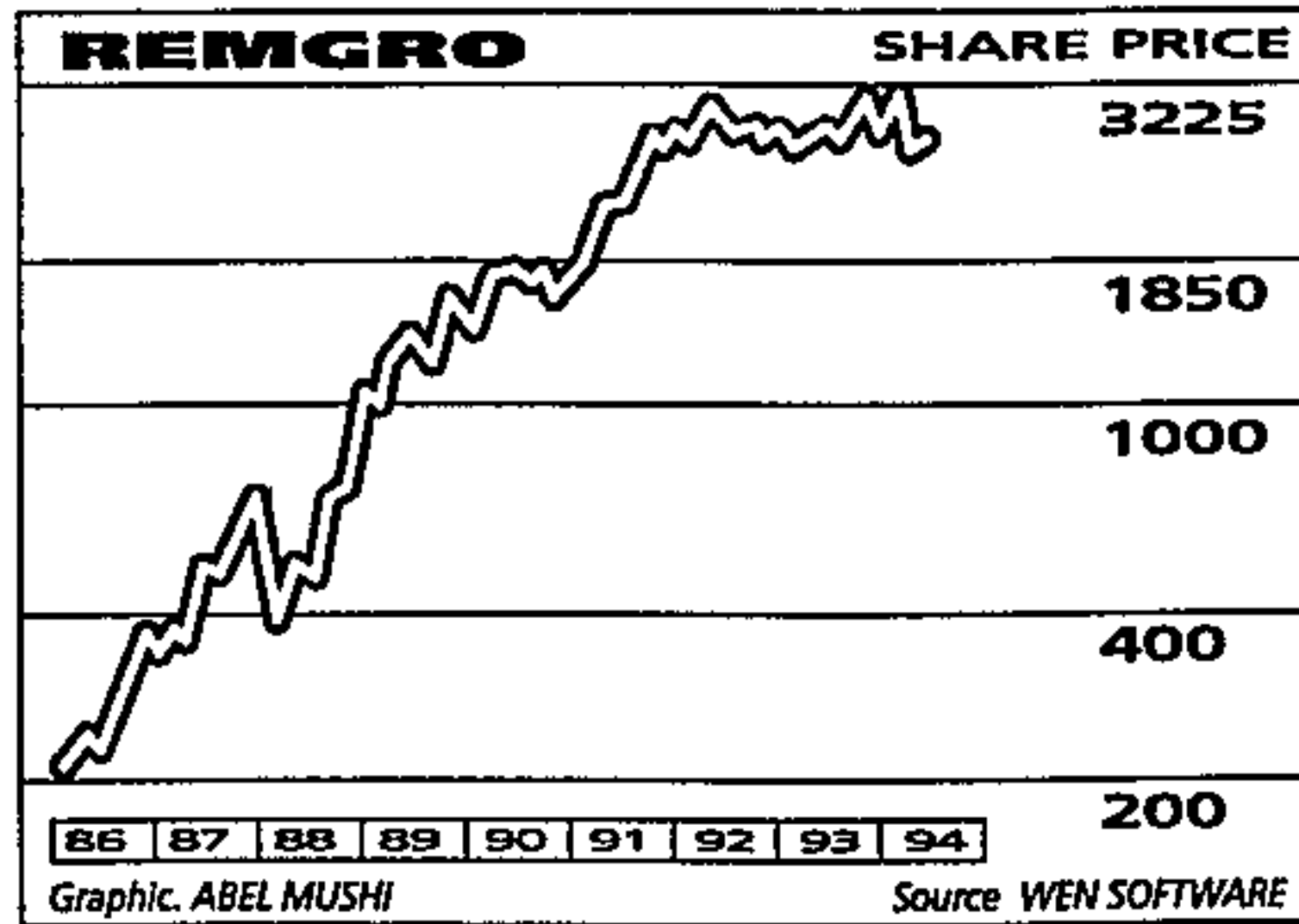
five times, giving it the reserves to grow dividends faster than earnings

It also bases its dividend on taxed income, rather than including equity earnings.

Analysts say there is nothing to produce a total 15 percent climb in earnings. For several years the tobacco business has been in retreat and it is unlikely to grow significantly. The investment in Vodacom, although not a large proportion of assets, is absorbing cash.

However, the upturn in the commodities cycle is likely to benefit the investments in Gencor, Goldfields and Trans Hex.

Although the share price last week at R25,75 was only 25c, or 1 percent, better than last September's price, it saw a high of R35,75 in January 1994



COMPANIES

M-Net helps boost TML shares

PAY-television operator M-Net's massive share price increase during the past year has boosted the share price of Business Day parent Times Media Limited (TML), which traded at R37 yesterday after reaching a new peak at that price on Monday — 110% higher than its nadir a year ago.

M-Net closed yesterday at a R13,50 high, a 145,5% increase since September 23 when it traded at R5,50 a share. The printing and publishing index experienced similar growth, rising 98,4% to 17 613,41 since October 11. (232) (272)

TML MD Roy Paulson said M-Net's strong performance despite losses incurred by offshore operation FilmNet and

AMANDA VERMEULEN

the launch of cellular phone company MTN earlier this year was probably based on the long-term potential of these ventures. TML's balance sheet, cash-flush to the tune of R100m, put it in a good position to take advantage of new opportunities.

Analysts said TML's performance in the year to March, during which it lifted earnings a share 14% to 196c, had also boosted investor confidence. Argus Holdings, which sold its stake in Argus Newspapers to Dublin-based Independent Newspapers earlier this year, had not performed as well. It closed at R35,75 a share yesterday, off its June high of R48,00. 719/94

Altron buys Hoover for R17,2m

ELECTRONICS giant Allied Electronics had concluded its R17,2m acquisition of domestic appliances group Hoover, which would be located in General Technologies subsidiary Gentech Trading, the company said yesterday.

Altron said a stock valuation of loss-making Hoover led to a settlement price of R17,2m, after deductions of R3,8m for the refurbishment of Hoover's facilities.

Management of the Hoover business would continue under Altron's listed subsidiary Power Technologies (Powertech).

Powertech CE Johan van den Bergh said he was satisfied with progress made to incorporate Hoover into the Powertech stable, and he expected Hoover to return to profitability in the short term.

Van den Bergh said Hoover's staff complement of 380 people at its main East London plant and branch offices in major centres had been retained.

He said licence, technical assistance and long-term distributorship agreements had been concluded with the US-based Maytag Corporation for the manufacture and sup-

ROBYN CHALMERS

ply of Hoover products in southern and central Africa: *Bida*

The Maytag group was a major international manufacturer and supplier of a broad spectrum of household appliances and equipment. *7/19/94*

"The acquisition of Hoover and its location in the Gentech group was a logical step in the group's aim to address the broader spectrum of the domestic appliance market."

Van den Bergh said the Gentech group manufactured and supplied domestic appliances to the consumer market in southern Africa. It represented international principals and traded under brand names such as KIC, Daewoo, Indesit, Whirlpool and Hitachi. *(1546) (232)*

"The purchase introduces a premier household name into the stable of the Gentech products, which will serve to enhance the Gentech group's product profile and consolidate its position in the market."

Grinaker puts in fine performance

Eden 7/9/94

ROBYN CHALMERS

RATIONALISATION introduced last year has begun to pay off for Anglovaal's construction and electronics group Grinaker Holdings, with attributable earnings rising more than a third to R41,1m for the year to June.

The group's turnover increased 21% to R2,8bn.

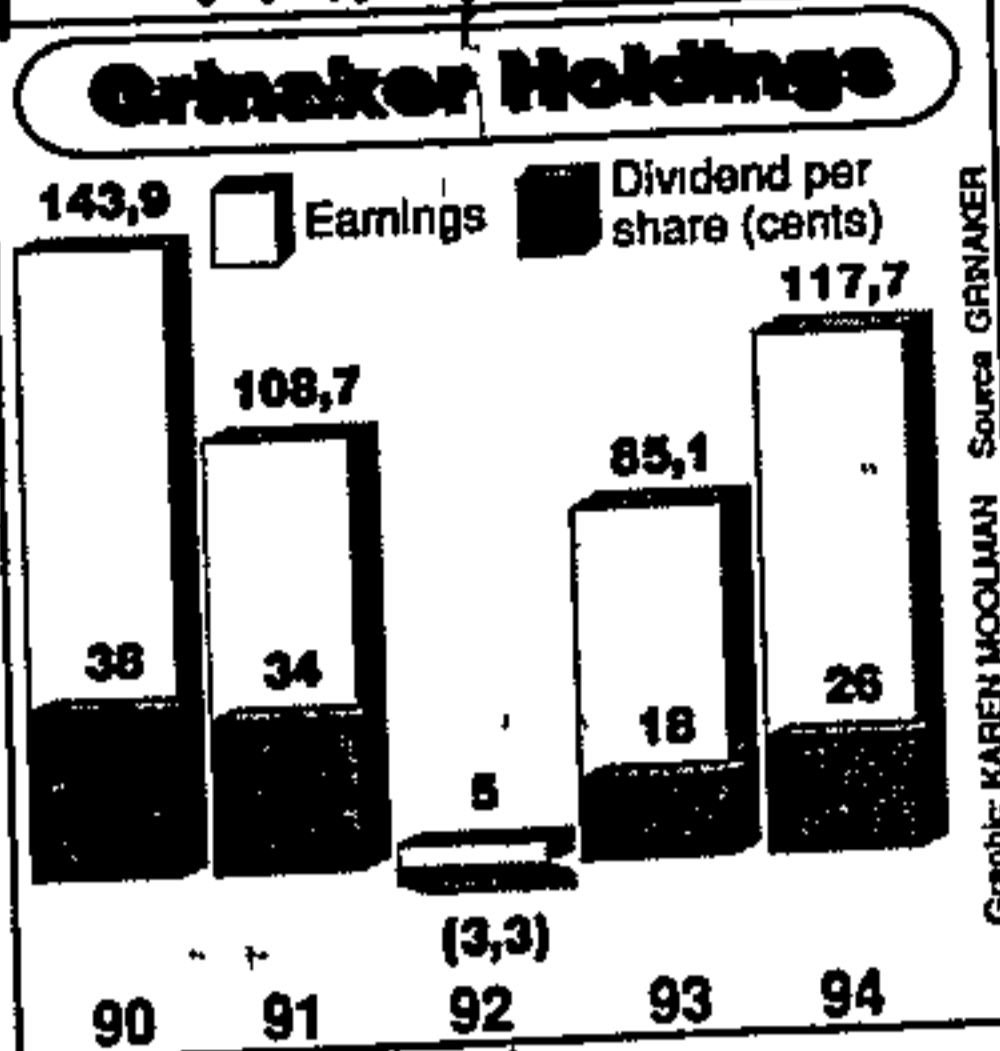
Earnings a share rose to 117,7c from 85,1c during the 1993 year, and a final dividend of 20c was declared, bringing the total dividend to 26c against 18c previously.

Operating profit improved 39% to R107,3m, and R19m in income from investments, together with a lower interest bill of R13m (R16,7m), saw pre-tax profit rise 42% to R113,4m

After providing for the higher tax charge of R32,9m (R21m), after-tax profit advanced to R80,5m (R58,6m)

Extraordinary items amounted to a net surplus of R16,8m.

One of the strongest turnarounds came from subsidiary Grinaker Construction, Grinaker Holdings chair-



Graphic: KAREN MOOLMAN Source: GRINAHER

man Jan Robbertze said.

Turnover rose 18% to R1,1bn and pre-tax profit soared 146% to R24,8m while earnings increased 111% to R18,2m.

Grinaker Electronics boosted earnings a third to R10,6m on the back of a 12% increase in turnover to R285,4m. (232)

Information technology subsidiary Siltek continued its strong performance, raising earnings 23% to R57m and turnover 26% to R1,41bn.

JCI reports its 'best performance'

Biday 7/9/94

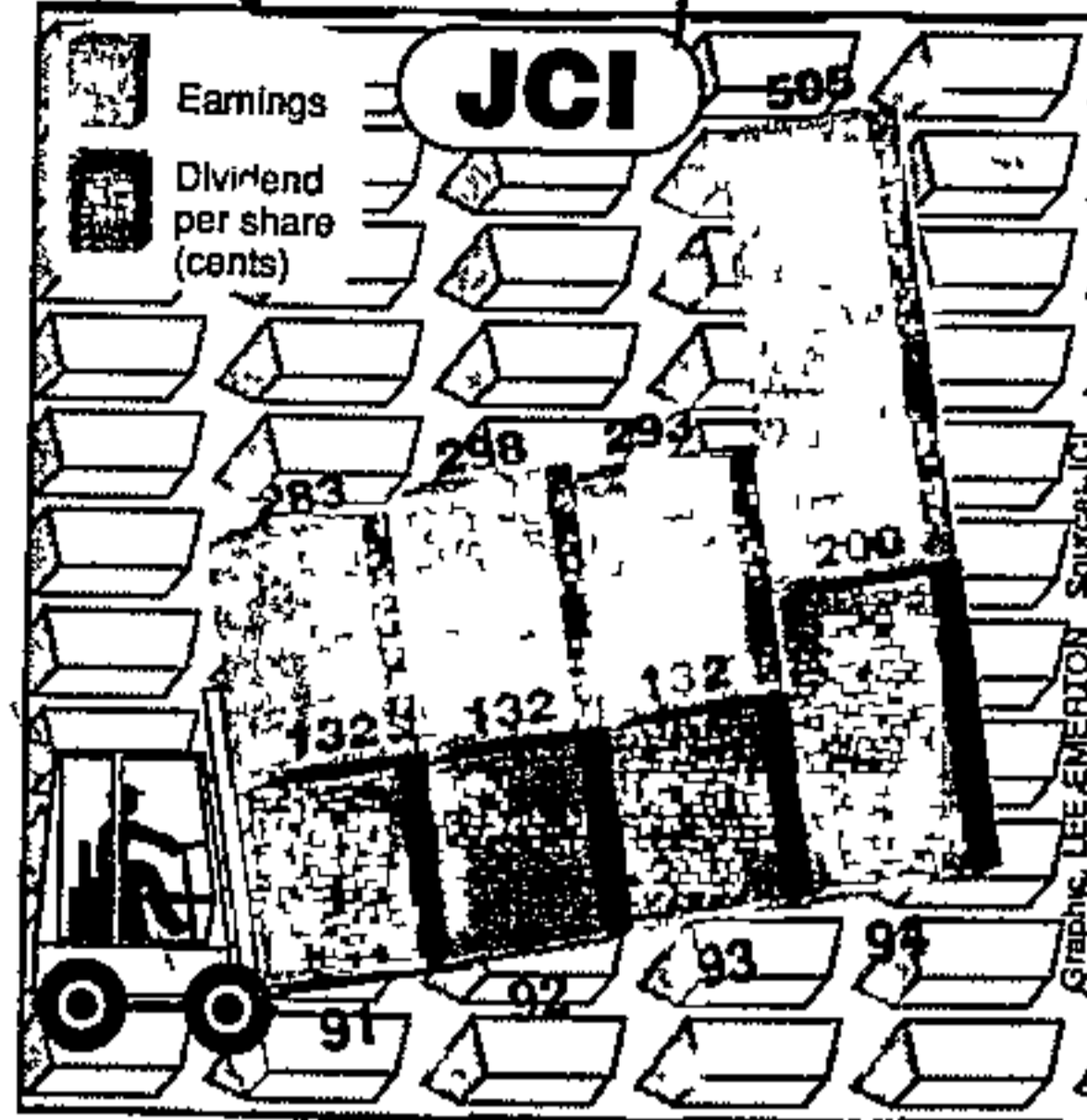
MADDEN COLE

JOHANNESBURG Consolidated Investment, which could be reporting for the last time as combined group before unbundling, reported sharply higher contributions by all sectors for the year to June, with attributable earnings surging 73%.

Chairman Pat Retief told a news briefing yesterday that the results were the best achieved by the group. "The year turned out to be a very good one, and just as well, as it could be the last time JCI will be reporting as a group."

Earnings moved up to R748m (R433,2m) on turnover of R2,91bn (R2,63bn), equivalent to earnings a share of 505c (293c). Equity accounted earnings before extraordinary items showed a corresponding increase to R912,9m (R582,4m) which translated in earnings a share of 616c (394c) ~~(232)~~.

With non-recurring profits taken into account, Retief said the improvement in sustainable earnings allowed final divi-



dividend to be increased 71% to 154c, with total dividend up 52% to 200c.

Minerals and mining sector reporting a 53% increase in profits to R324,6m. This was mainly from improved commodity

□ To Page 2

JCI

Biday 7/9/94

□ From Page 1

markets and world economy.

Retief said there was a welcome reversal in platinum's contribution which increased R29,1m to R114,5m. He attributed the improvement to Potgietersrust Plats reporting for the first time.

Improved operating results and the increase in the average gold price enabled group gold mines to increase dividends substantially, and make a major contribution to bottom line. Contributions increased 171% to R93,8m.

No decision had been taken on South Deep gold mine, but Retief said it was expected to be a major producer. And with the better gold price, he was confident the gold sector would move ahead.

The diamond dividend increased 32% to R104,2m, largely because of the continuing weakness of the rand.

The group had made substantial investments in the coal sector in recent years which should be recouped as the export situation was improving ~~(130)~~ (232).

Earnings from the industrial and property sector increased 58% to R367,7m, and even if dividend in specie of Argus Newspapers was excluded, Retief said the increase was still 22%.

Good performances were reported by

the Premier Group, SA Breweries, TML, Argus Holdings and Toyota SA.

The net extraordinary charge of R87,2m (R49,4m) included a provision for unbundling, rationalisation and future medical aid costs of current and future pensioners.

Net current liabilities were reduced to R82,2m (R423,6m) and investments moved up to R2,74bn (R2,35bn). Net asset value increased to R107,74 (R75,95) a share.

Retief described Randcoal as a missed opportunity and said JCI's coal division would have to grow from within. It would have made the mining companies more viable proposition with unbundling and balance out the large emphasis on gold.

Preparations for the group's unbundling were continuing, but the process required an amendment to the Income Tax Act still to be promulgated by Parliament.

Forecasting was difficult because of the pending unbundling, but Retief was optimistic about contribution of all group businesses. "We're moving out of the recession and the global economy is encouraging."

Analysts described the results as above expectation. The results were an excellent sign of the times with commodity markets on the rise, one said.

● Picture: Page 3

Daazling results precede unbundling plans

JCI goes out with a bang

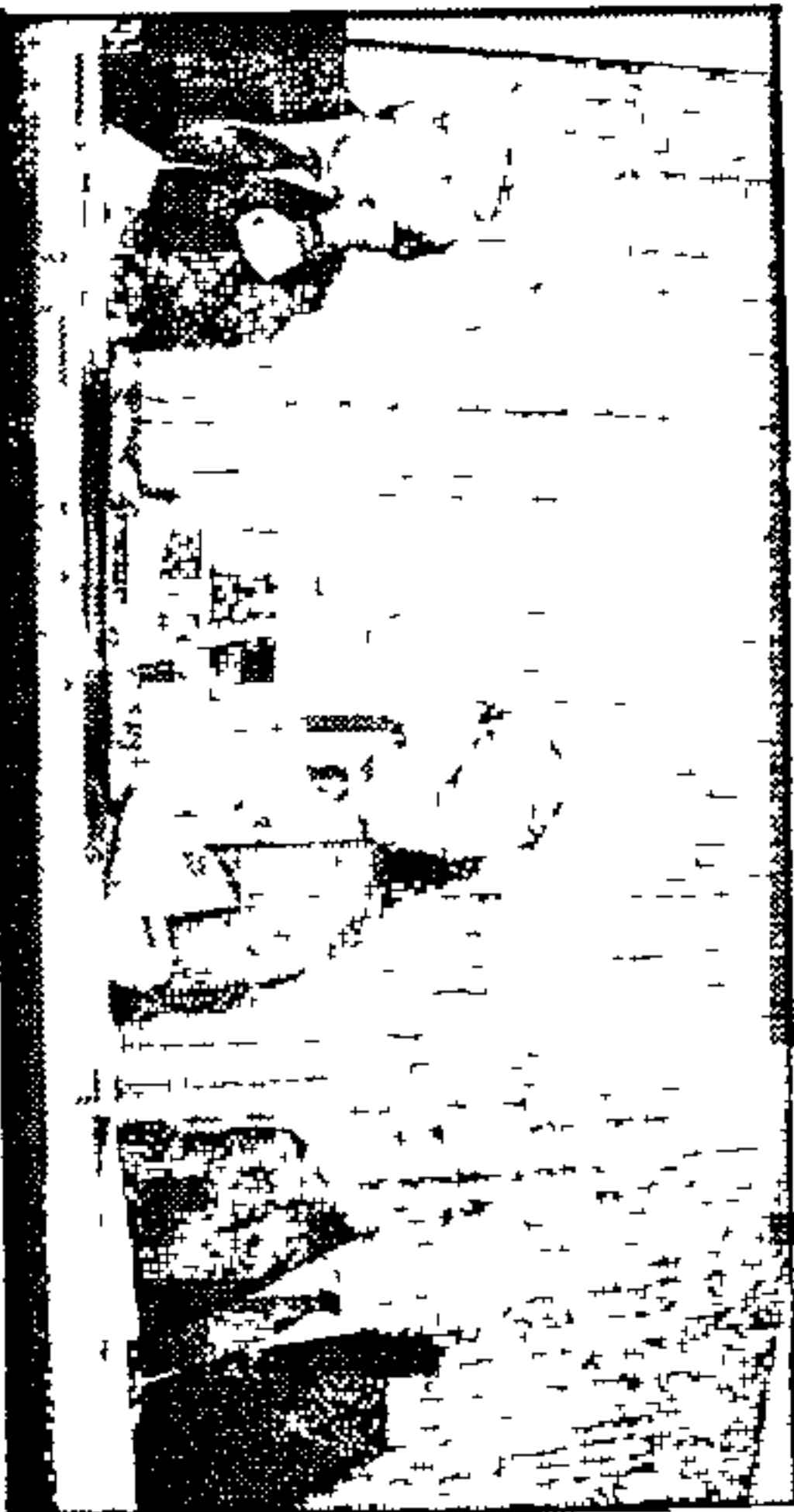
Star 7/19/94

■ BY DEREK TOMMEY

JCI, Johnnies, Johannesburg Consolidated Investment — three famous names for one of the Rand's most important mining houses for more than 100 years — is going out with a bang.

Destined to be unbundled and split up into three companies by April 1995, Johnnies' final profit declaration — for the year to June — should please shareholders and give them much more to remember it by than they probably expected.

Equity earnings are up 57 percent to R912,9 million, attributable earnings are up 73 percent to R748 million, the final dividend is up 71 percent to 154c, and the total dividend for the year to June is up 51 percent at 200c a share. Chairman Pat Retief said yesterday the improved earnings were the result of increased contributions from most sectors, plus a non-recurring profit of R84,5 million from the sale of Argus News-



At the conference yesterday (from left): Vaughan Bray, finance director, Pat Retief, and Barry Wood, finance manager.

PICTURE NATASHA PINCUS

papers and the reversal of R180 million previously written off against the company's investment in Joel.

Earnings from minerals and mining grew by more than a third from RR212,1 million to R324,6 million.

Platinum earnings rose 34,1 percent to R114,5 million, gold earnings rose 171 percent to R93,8 million, diamond earnings rose 31,6 percent to

R104,2 million, and coal earnings increased almost 13-fold to R23 million.

Against this, mining finance and other earnings dropped 60 percent to R10,7 million and exploration absorbed R21,6 million — some R5,8 million more than last year.

Earnings from the industrial and property portfolio rose by R135,7 million to R367,7 million.

The contribution from its industrial portfolio alone rose 47,4 percent to R361,7 million.

Ferrochrome had a turnaround from a loss of R15,4 million to a profit of R4,9 million. (232)

Earnings from fees, interest and treasury operations and net surplus on realisations increased from R84 million to R207,1 million.

Equity-accounted earnings before extraordinary items were R912,9 million (1993: R582,4 million).

An amount of R80 million was provided for future medical aid costs of current and future pensioners, and R41 million for unbundling and rationalisation.

Attributable earnings amounted to R505c (293c) a share, and equity-accounted earnings before extraordinary items to 616c (394c) a share.

Retief said that as Johnnies would become three separate companies, the current final dividend could not be used a guide to future declarations

and should be regarded as a one-off.

The three companies arising from the unbundling would together have a slightly greater net asset value than Johnnies had.

De Beers was discussing the purchase of the group's diamond companies.

He added that in view of the uncertainties in some parts of the diamond trade, valuing these companies on a 10-times earnings basis was perhaps not as conservative as some people claimed.

There was no intention of paying a cash bonus out of the proceeds of the sales of the diamond companies.

This would probably be used as working capital in the mining company.

Retief said that Johnnies profits should continue to improve.

The global economy was continuing to expand, with the Japanese and German economies moving quite strongly off the bottom of the economic trough.

Tight controls pay off for Grinaker holdings

Star 7/19/94
■ BY CHARLOTTE MATHEWS

Management initiatives at Grinaker Holdings paid off in figures for the year to June 1994 showing a 38 percent climb in profits.

Attributable earnings were R41,1 million (R29,7 million).

Turnover was 21 percent better at R2,8 billion and improved margins and a lower interest bill boosted the bottom line still further.

A dividend of 26c (18c) a share has been declared on earnings of 117,7c (85,1c).

MD Jack Saulez said yesterday trading conditions had been difficult for most of the year, but there were tentative indications in the fourth quarter that the economy was on the mend.

Grinaker Construction's performance improved markedly because the group was more efficient after its restructuring and reduction two years ago.

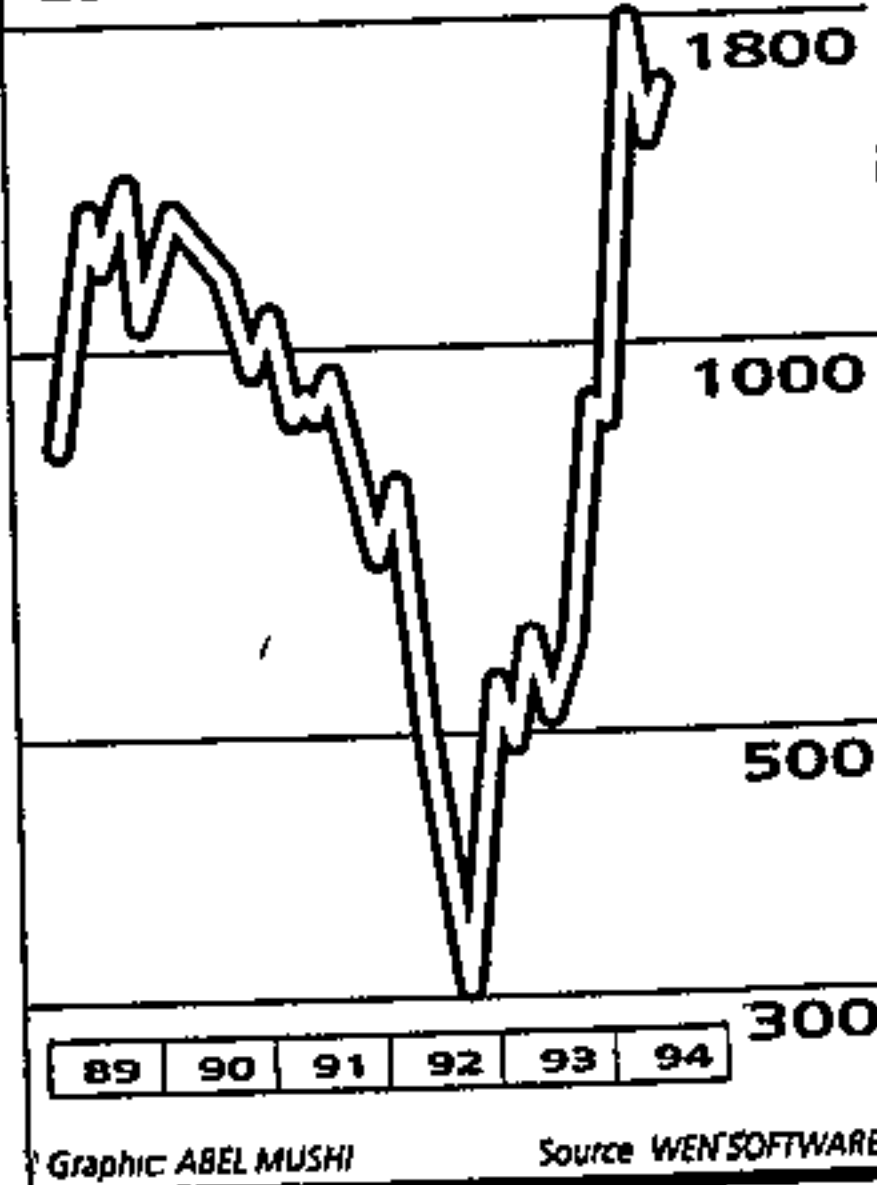
It had also benefited from its participation in the Alusaf and Columbus capital projects.

Pre-tax profit was 146 percent better at R24,8 million.

After a higher tax rate, earnings of R18,2 million were 111 percent above 1993 figures.

An outstanding performance was achieved by the civil engineering division, with creditable results from Duraset, piling and quarries and sound performances from most other divisions.

GRINAKEK SHARE PRICE



Difficult trading was reported by the housing and precast divisions.

Grinaker Electronics last week reported a 33 percent increase in earnings to R10,6 million, while Siltek improved earnings 23 percent to R57 million. ~~(232)~~ (232)

At the end of June 1994, Grinaker held R128,1 million cash — R42 million above the 1993 figure.

Financial director Anthony Mitchell said the group would look at any opportunities for acquisitions, but the cash was intended to bolster working capital requirements in anticipation of an upturn.

Grinaker shares closed unchanged at R16 yesterday, 200c below their 12-month high of R18 in May, but still nearly triple last September's 535c.

BUSINESS

Mining giant Johnnies going out with a bang

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ARL 7/9/94

DEREK TOMMEY

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Chairman Pat Retief said yesterday the improved earnings were the result of increased contributions from most sectors, plus

a non-recurring profit of R84,5 million from the sale of Argus Newspapers and the reversal of R130 million previously written off against the company's investment in Joel

Earnings from minerals and mining grew by more than a third from RR212,1 million to R324,6 million

Platinum earnings rose 34,1 percent to R114,5 million, gold earnings rose 171 percent to R93,8 million, diamond earnings rose 31,6 percent to R104,2 million, and coal earnings increased almost 13-fold to R23 million

Against this, mining finance and other earnings dropped 60 percent to R10,7 million and exploration absorbed R21,6 million — some R5,8 million more than last year

Earnings from the industrial and property portfolio rose by R135,7 million to R367,7 million

The contribution from its industrial portfolio alone rose 47,4

percent to R361,7 million

Ferrochrome had a turnaround from a loss of R15,4 million to a profit of R4,9 million

Earnings from fees, interest and treasury operations and net surplus on realisations increased from R84 million to R207,1 million

Equity-accounted earnings before extraordinary items were R912,9 million (1993 R582,4 million)

Attributable earnings amounted to 505c (293c) a share and equity-accounted earnings before extraordinary items to 616c (394c) a share

Mr Retief said that as Johnnies would become three separate companies, the current final dividend could not be used a guide to future declarations and should be regarded as a one-off

The three companies arising from the unbundling would together have a slightly greater net asset value than Johnnies had

JCI turns in sterling 'swansong'

232
CF 7/9/94

From MADDEN COLE

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The minerals and mining sector reporting a 53% increase in profits to R324,6m on the back of improved commodity market.

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dividends substantially, and make a major contribution to the bottom line. Contributions increased 171% to R93,8m.

No decision had been taken on South Deep gold mine which was expected to be a major producer.

The diamond dividend increased 32% to R104,2m, largely because of continued rand weakness.

The group had made substantial investments in the coal sector in recent years which should be recouped as the export situation improved.

Earnings from the industrial and property sector increased 56% to R367,7m and even if the dividend in specie of Argus Newspapers was excluded, Retief said the increase was still 22%.

Good performance were reported by the Premier Group, SA Breweries, TML Argus Holdings and Toyota SA.

Unbundling

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Retief described Randco as a missed opportunity and said JCI's I division could have to grow from within.

Preparation for the group unbundling were continuing with three entities likely by April 1995. The process required an amendment to the Income Tax Act still to be promulgated by Parliament.

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COMPANIES

M-Net 'will boost Naspers'

CAPE TOWN — M-Net could become the biggest single contributor to the profits of Nasionale Pers, executive chairman Ton Vosloo said at an Investment Analysts' Society meeting yesterday.

The publishing, printing and distribution group — which has a 28,6% stake in M-Net — is to list on Monday. No additional shares other than those allocated to existing shareholders in the listing will be issued as the objective is a freer trading environment for the shares.

Vosloo said due to M-Net's heavy investments in growing existing operations and developing new ones here and overseas, Naspers was providing for a loss from M-Net this financial year.

3 Day
EDWARD WEST

He said, however, that in the 1996 financial year profits would "start trickling in — a trickle which Naspers believes in time will become a stream". *8/19/96*

In the year to March Naspers reported a R102m (R29m) profit before accounting for a loss from associates of R3,6m stemming from M-Net's investment in FilmNet in Europe and in MTN locally.

Vosloo said Naspers was investigating moving its Cape Town printing plant to larger premises at a cost of about R200m.

He said Naspers's diversified base could provide good opportunities in traditional and emerging markets. *(242) (232)*

Liberty 'in the dark' on new coal merger

Biday 8/19/94

MADDEN COLE

LIBERTY Life has broken its silence surrounding Trans-Natal's proposed merger with Randcoal, yesterday claiming that the share swap deal had left the life insurer, a main shareholder in Rand Mines, in the dark.

The merger will create the world's largest steam coal exporter, and the new company, with assets worth R4,3bn, will be the world's third-largest private coal business with annual sales of 57,5-million tons.

Liberty Asset Management chairman Roy McAlpine said as the proposed transaction was complex and involved no cash underpin, its merits were very much dependent on the share prices of three listed companies, namely, Rand Mines, Randcoal and Trans-Natal.

The Liberty group — which held a 20,5% stake in Rand Mines, which in turn owned 76,8% of Randcoal — said the majority of shareholders in Rand Mines were not properly consulted on the merger.

McAlpine said there had been a number of suitors interested in Randcoal.

UAL Merchant Bank, which had recommended the merger, did not make public the other suitors or their offers.

If this were a cash deal, the winner would be the highest bidder, but in the share swap with Trans-Natal, it was difficult to know if it was the best offer.

It was also difficult to determine whether a sufficient premium had been paid by

Trans-Natal to acquire legal control of Randcoal. The ruling share prices on August 29 had Trans-Natal at R33, Randcoal at R22,50 and Rand Mines at R30,50.

Since then Trans-Natal had dropped back to R26,50c, Randcoal was unchanged at R22,50c and Rand Mines closed at R33 yesterday.

McAlpine said he had no reason to believe that Trans-Natal's share price had been supported before the announcement of the merger.

But there should have been a shareholders' meeting of Rand Mines to decide on the merits of the offer. "After all, shareholders own the company," he said.

He did not know if there were other shareholders who shared his view. But Old Mutual, the largest shareholder in Rand Mines, was said to have approved the merger. If so, it was reasonable to believe Old Mutual had been in possession of privileged information. (215) (232)

Trans-Natal MD Dave Murray said last night he could not comment on McAlpine's remarks, but strongly dismissed analysts' allegations that Trans-Natal's share price had been supported to bolster the merger.

Randcoal chairman John Hall — who will be chairman of the newly merged coal company — and Old Mutual could not be reached for comment yesterday.

ZCCM's copper and cobalt output lower

LUSAKA — Zambia Consolidated Copper Mines (ZCCM), in which Anglo American has an indirect stake and board representation, posted copper production at 88 550 tons for the June quarter, against 102 741 tons for the same period last year. ⁸¹⁹¹⁹⁴

The company said yesterday it made a profit on metal trading of 23-billion kwacha (\$32,86m) for the quarter, compared with 35-billion kwacha last year, while net profit was 7-billion kwacha (12-billion).

Total sales revenue rose 13% to 170-billion kwacha.

Copper sales out of ZCCM's own production at 95 637 tons were 13 300 tons lower than last year (~~232~~).

In the past two financial years ZCCM's copper production has been less than its forecasts. It produced 392 000 tons in the 1993/94 year against a forecast of 420 000 tons. The decline in production has been caused by a combination of factors, including poor ore grades, production costs and lack of spare parts. Cobalt production fell to 735 tons for the quarter from 988. Sales rose to 817 tons from 510. — Reuter

Star 8/19/94

Argus Holdings optimistic

■ BY CHARLOTTE
MATHEWS

Earnings growth from re-constituted Argus Holdings will be restricted in the short term by investments in M-Net and Multichoice, but in the medium term it is well-positioned, outgoing chairman Murray Hofmeyr says in the annual report ~~145~~ 232.

In the past year Argus Holdings divested itself of its interests in Argus Newspapers, and since year-end has increased its stake in Times Media.

Hofmeyr says Argus Newspapers' publications played a constructive role in supporting the transition process.

The company was now soundly capitalised and set to continue to be a major publishing group. Argus Holdings, which

proposes re-naming itself Omni Media Corporation to differentiate itself from Argus Newspapers, holds stakes in CTP Holdings, CNA Gallo, M-Net and Multichoice, in addition to Times Media.

At the end of March Argus Holdings held R91,1 million in cash, but at the same time its bank overdraft and current borrowings were R92,1 million.

Financial director John Sturgeon said yesterday how the group financed acquisitions, whether through gearing or the issue of shares, would depend on opportunities that arose.

The group's capex commitments are R73,8 million, R30,6 million for metropolitan newspapers and journals and R43,2 million for entertainment, retail and other activities.

AVI earnings boost is ninth in a row

BiDay 9/19/94

MICK COLLINS

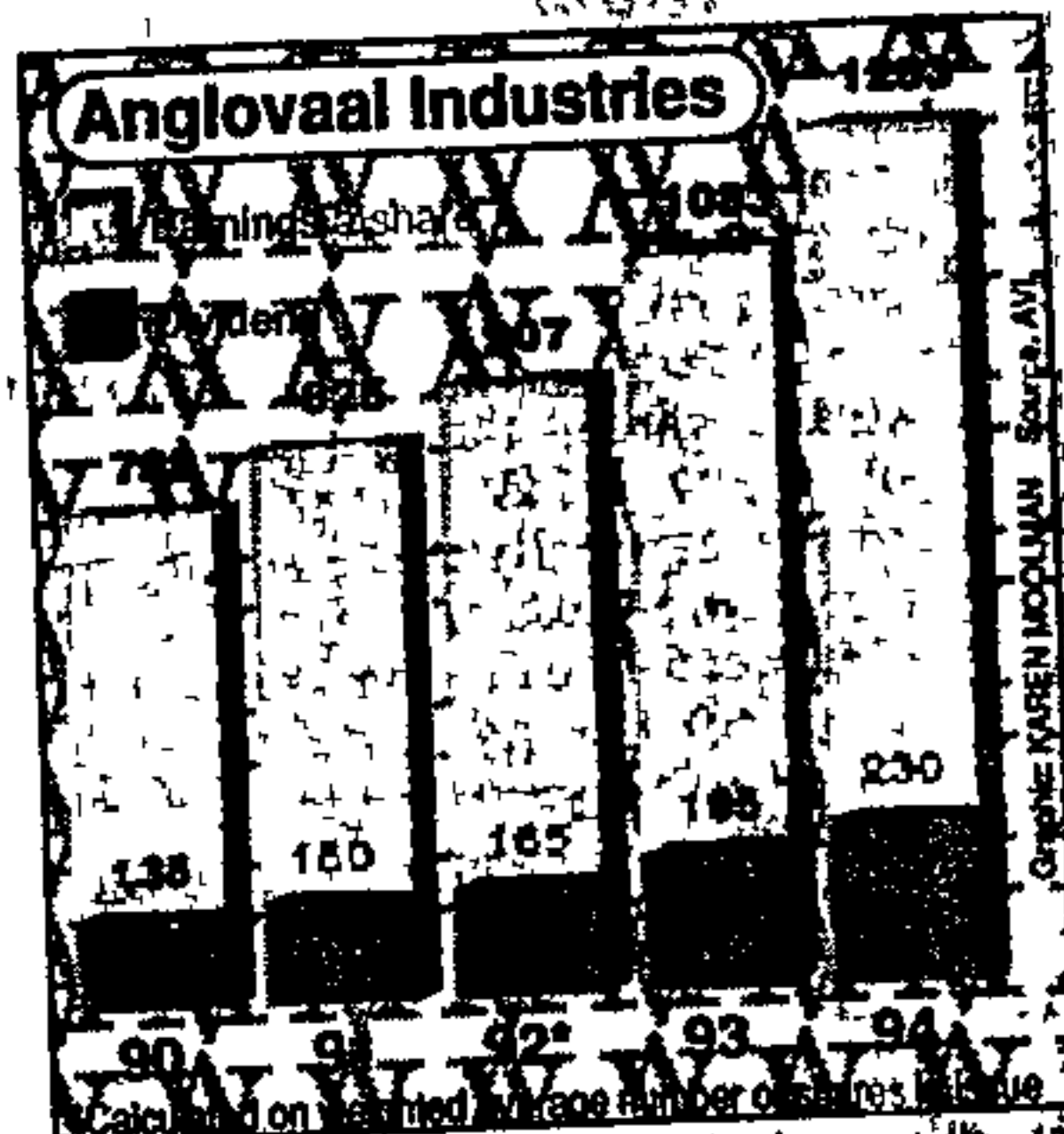
ANGLOVAAL Industries (AVI) boosted earnings 18% to R407,1m for the year to June — its ninth consecutive year of earnings growth — as tight cost control offset thinning margins.

AVI, 60% held by industrial and mining group Anglovaal, saw turnover climb 16% to R9,6bn despite difficult trading conditions. About 5% of turnover was generated by acquisitions. Operating profit rose only 13% to R747,9m, reflecting persistent pressure on margins. (20) (232)

MD Jan Robbertze said the moderate economic upturn would see the group re-commission idle capacity. "It's a plus to have idle plant at present. As we bring it back into production, margins will improve without aggressive price increases."

Earnings a share rose 18% to 1 283c and the dividend was increased a similar percentage to 230c, giving cover of 5,6 times. Group profit before tax of R763,8m reflected an increase of 8%.

The effective tax rate was reduced to



28,8% from 33,9% by exempt income, the effect of prior year adjustments and tax allowances following the acquisition of Willards by subsidiary National Brands.

Robbertze said the improvement in group profit was mainly attributable to

To Page 2

AVI

BiDay 9/19/94

From Page 1

improvements in contributions of 31% by AVI Diversified Holdings, 42% by Grinaker Holdings and 3% by Irvin & Johnson. "These contributions more than offset the decreases of 6% by Consol Limited and 3% by National Brands."

Grinaker's earnings rose 38% to R41,1m, I&J's 11% to R62,3m and National Brands' 14% to R101m. (23) (232)

In Willards, AVI had "bought a business with a strong growth record. In the first two months it was trading at levels significantly ahead of last year's."

AVI Diversified's engineering activities generally performed well, with listed Bearing Man producing exceptionally good results and the textile portfolio showing a substantial recovery off the modest base of the previous year. Grinaker's improvement was led by the recovery in construction and sound performances from information and technology interests.

The decrease in profit before tax reported by Consol and National Brands and the marginal increase by I&J again reflected the erosion of consumer spending power experienced during the period.

Total group contribution from associated companies — distributed and retained — increased to R51,2m (R42,3m) mainly as

a result of Anglo-Alpha's R10,3m contribution. The group balance sheet showed net cash resources of R196,2m with a gross debt-equity ratio of 14%. Although net funds decreased by R345,4m (R541,6m), R205m and R411m were paid by Consol and National Brands for their respective acquisitions of Interpak Limited and Willards. Robbertze said the Interpak acquisition was important in that it rounded out Consol's portfolio. As part of the deal Consol had acquired a long-term contract from SA Breweries.

The group had planned capex of R1,4bn over the next three years. "This will ensure the maintenance of a base of modern equipment and technology to address the anticipated increased international competition arising from newly negotiated GATT treaties."

Earnings were expected to increase this year, but the size of the increase would depend on the extent and sustainability of the economic recovery, and the speedy resolution of any labour conflicts. "This year has commenced satisfactorily. Most of the major wage negotiations have been settled and the exercise has taken place in a mature fashion."

Basil Read suffers net loss of R14,2m

B Day 9/19/94

S - I - R - 3

SAMANTHA SHARPE

A POOR performance from Basil Read's civil engineering division was a major culprit behind the construction group's net loss of R14,2m for the 12 months to June, compared with a previous R20,01m loss.

The recently restructured group said it had changed its year-end to December to put it on par with major stakeholder French construction firm Bouygues, resulting in interim results for the year to June.

Turnover showed a marginal increase to R391,49m from a previous R381,6m, but the group said the 1993 figure would have included certain activities curtailed after the Bouygues capital injection of R12m earlier this year.

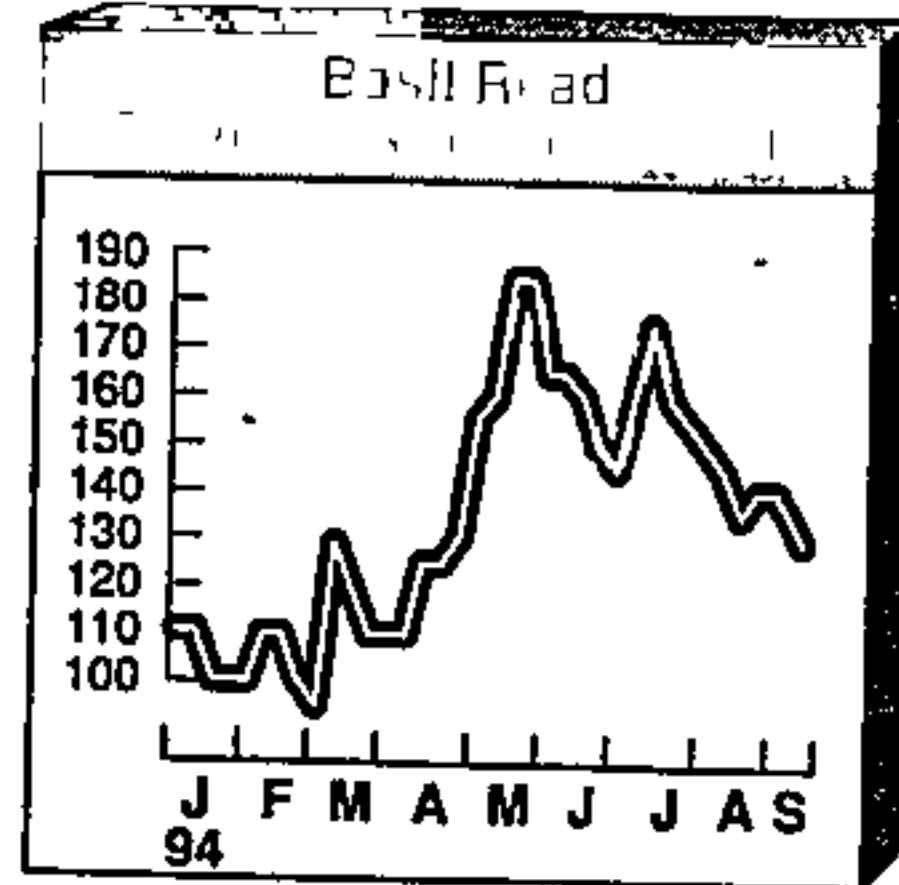
Its operating loss was confined to R11,4m compared with a R17,25m loss at the same time last year, with interest payments reduced nearly 74% to R3,06m.

Losses a share were pegged at 68,8c — a significant improvement on last year's 139,8c, and were based on the average number of shares in issue for the last year.

Chairman Leon Dison said that while the results still showed a loss they were an improvement on the previous year.

"We've been going through a terrible time and it finally looks like we're pulling ourselves out of the red."

He said the group had taken a knock from the poor performance of its civil



engineering division, especially its activities in Botswana, and from strike action in June and July.

The negative effect of the strike action had, however, been fully accounted for in the latest results, he said.

He said the French connection boded well for future prospects and further forays into the subcontinent.

"Bouygues is determined to get the whole thing right and it has tremendous resources and expertise at its disposal," Dison added.

Turnover and profit for the next six months was expected to show an improvement on the latest figures, with the prospect of international development aid to many southern African countries boosting construction opportunities in the region.

GRINAKEK

Better all round

FM 9/9/94

For those cautious investors not convinced of the sustainability of Grinaker's profit recovery in 1993 after 1992's poor performance, latest results should provide comfort. Earnings climbed 38% to R41,1m, giving EPS of 117,7c (232)

While shareholders will be pleased with management's efforts to glean better performances from the two operating arms — Grinaker Construction and listed electronics firm Grintek — they should be equally impressed with the strengthened balance

SWEET SUCCESS

Year to June 30	1993	1994
Turnover (Rbn)	2,00	2,78
Operating income (Fm)	77,4	107,3
Attributable (Fm)	29,7	41,1
Earnings (c)	65,1	117,7
Dividend (c)	1-0	26,0

sheet. Gearing has been reduced to 9% from 17% last year and 1992's 27%.

Operating income increased 39% to R107,3m on turnover of R2,78bn — up 21%. Turnover of R1,1bn in the construction business is 18% up on a year ago. Chairman Jan Robbertze says this was largely because of greater efficiency and the benefits of participating in large construction projects such as Alusaf and Columbus. The civil engineering division in particular had an impressive turnaround, with excellent results from Duraset, piling and quarries in the supplies and services division. Construction provided two-fifths of group turnover.

Increased volumes, operating efficiencies and curtailed overheads saw Grintek report earnings up 23% at R42,1m, on a similar increase in sales, to R1,7bn. Grinaker Electronics continued to face lower defence

FM 9/9/94

spending though demand from traditional customers underpinned profits. Earnings increased 33% to R10,6m on turnover up 12% at R285m. Robbertze attributes the much improved performance to a broader base of commercial products.

All divisions produced creditable performances, says Robbertze, with good results again coming from the specialised engineering divisions. Usage of manufacturing capacity rose, and agency products derived from foreign alliances increased their contribution (232)

Listed information technology subsidiary Siltek again produced enviable results, with turnover up 26% and EPS rising 23% (FM September 2).

Grinaker's effective tax rate was brought down by tax incentives and losses. In the 1994 year it climbed from 26% to 29%, all but eliminating effects of the R3,8m drop in finance costs, to R12,9m.

With the group performance gaining momentum in the second six months to June — turnover was up 21% on the first half and operating income up 67% — it is not surprising management is looking for improved results for the current year. Nevertheless, the forecast of real earnings growth depends on a similar increase in SA's fixed investment.

The share has been rerated over the past year from 510c to R16 now. On a p.e of 13,6 and dividend yield of 1,6%, below the sector's 17,8 average p.e, it could strengthen further

Marylou Greig

JD GROUP
From 9/9/94
Digesting Rusfurn

(232)

The uncle of the furniture business, JD Group chairman and CE David Sussman, appears to have achieved what many analysts believed was the impossible. In less than a year, he has superintended the absorption of Rusfurn, SA's largest but ailing furniture retailer, and — more re-

FOX

markably — turned it around.

The long-awaited annual results are confusing because of changes in accounting periods and the group structure, but nevertheless indicate EPS up 21% to 125c in the 12 months to June. 9/9/94

And while management has done its best to make the accounts analyst/investor friendly by reincorporating the contentious debtors' company JD Sales, analysis remains problematic. First, the year-end has been changed from December to June, so figures are for 18 months, second, figures are not comparable, as 1994 figures include Rusfurn, and, third, the inclusion of JD Sales distorts the pro forma accounts for the 12 months to end-June. Still, some useful comparisons can be made.

Turnover for the year was R1,82bn (R1,64bn for the 18 months), and margins

From (232) of the extended group are better at 9,9% against the year-ago 7,8%. The jump in finance costs is enough to send analysts seeking refuge in their calculators: the R71,7m charge compares with R919 000 for the 12 months to December 1992; of this, R61,3m represents the cost of financing JD Sales. JD Sales was re-acquired and incorporated into JD Trading after the increase in STC, which made the previous structure financially unattractive.

Of the R531m long-term liabilities, financial director Colin Stein says R401m represents JD Sales' debt; the remainder relates to capitalised leased assets. Net gearing of 0,77 (0,16 excluding JD Sales for the 18 months) is not necessarily high for the industry, and Stein believes that given budgeted cash flows it will fall below 0,50 within the next two years. Meanwhile,

interest cover is an adequate 2,5 times. Some relief to the bottom line comes from the large S24 tax allowances, which will effectively eliminate tax for JD Group over the next four years.

Rusfurn's provisions at the time of acquisition, mooted to be around R100m, have been fully retained. Sussman says there are no plans to write this shareholders' wealth back.

Though debtors are a formidable R1,34bn, the average length of the debtors' book is 12 months, only marginally more than before the merger. Arrears are around 12% and, though up on the old JD's 9%, indicate a substantial improvement on Rusfurn's arrears of 24% a year ago.

P 10 →

FOX

From 9/9/94

The start to the new financial year has been promising. Sales are already R9,5m ahead of budget and, despite the closure of 32 stores, Stein says sales for August increased 17% on a year ago.

On a p e of 11,9 (using pro forma 12-month EPS), the share is rated well below Ellerine's 22,1. With cost savings flowing from the successful rationalisation, and expected benefits from government's RDP, a real increase in earnings should be achievable this year. (232) Marylou Greig

Bowing out on a high note

From 9/9/94

(232)

Glittering results for financial 1994 from mining house JCI certainly took many market analysts by surprise. Attributable earnings rose 73% to R748m, the increase in equity earnings, though less spectacular, is still a respectable 57% at R913m. This performance was heavily influenced by two non-recurring items of income, though that shouldn't detract from strong contributions from almost all sectors.

The irony of these results, described by chairman Pat Retief as "the best ever achieved by the group," is that they come in what is probably Johnnies' last year as a major SA mining house. The next time the annual financial results are published, the chances are that JCI will have been dismembered, broken into three constituents, the directors say they expect the exercise to be completed by April next year, subject to the enactment of enabling legislation.

The results are marred by one unusual fact, a fundamental feature of controlling shareholder Anglo American's intentions when it announced JCI's unbundling was to create a well-diversified mining house under black control. Part of the scheme embraced a marriage of convenience with Randcoal and Rand Mines, the effect would have been to reduce the mining house's strong reliance on gold. In the event, this plan has come to nought following the successful bid made by Gencor's Trans-Natal and announced only last week.

Price unacceptably high

"Yes," says Retief, "we're very disappointed at the outcome. But we have no choice other than to accept it and grow our coal business from within." And he makes it clear JCI considers the price paid by Gencor was unacceptably high, "And it's only paper," he adds, referring to JCI's offer which was cash under-pinned.

But with turnover up at R2 919m (1993 R2 628m), net profit — despite an increase in the tax bill of R83m — clocked in at R751m, attributable EPS is a handsome 505c (1993 293c), an increase of 42%. The analysis of equity-accounted earnings shows that nearly all sections of JCI's business performed appreciably better over 1994 and mining once again accounts for the largest single share of income. Best performers were gold mining, up to R94m (last year R35m) and diamonds at R104m. Though the platinum sector performed "excellently," the comparatively greater contributions from other sectors saw its share decline from nearly 15% in 1993 to 12,5% this year.

However, the industrial portfolio —

which encompasses such blue chip stocks as SA Breweries, Premier, Times Media, Argus and Toyota — really provided the fireworks. Earnings soared to R362m (1993 R212m), in a sense, of course, it is this sweep of investment which lends JCI its inherent strength and its ability to meet nearly all economic circumstances with better flexibility than many. The list of improvements in industry is formidable.

SHOWCASE SPARKLE

Year to June	1993	1994
Turnover (Rm)	2 628	2 919
Pre-tax profit (Rm)	628	751
Attributable (Rm)	293	751
Earnings (c)	293	505
Dividend (c)	1	1

Breweries up 14%, Premier 11%, Times Media 14%, Argus 7%

The results contain two important items which are non-recurring: first, a dividend in specie of R84,5m from Argus on the sale of Argus Newspapers; second, writing back an earlier provision of R130m against HJ Joel gold mine, where prospects have improved markedly.

One consequence of its superior cash flow this year has been JCI's ability to retire debt. Retief says borrowings now stand at about R600m, the amount raised overseas to finance the equity purchase into platinum refiner Johnson Matthey included. On shareholders' funds of R3,52bn, this implies modest gearing of 17%.

Extraordinary items of R87,2m net include provisions for unbundling costs and R80m for future medical aid expenses for pensioners. This is an area of corporate life only now being taken seriously in SA and from the figures being applied it is clearly a matter of grave import. A number of other public companies have reported provisions in this area recently.

With the counter now on a page of 23 and offering investment opportunity, the house's future is marred only by the fact that it won't be around for much longer — at least not in the present form.

David Gleason

M-Net chief
Stat 9/19/94
optimistic

■ BY CHARLOTTE MATHEWS

M-Net's cautionary notice referring to a possible restructuring of some of the Multichoice assets would affect Naspers's future profits, M-Net and Naspers chairman Ton Vosloo told the Investment Analysts Society yesterday.

Vosloo said although a loss from M-Net was being provided for, eventually it was likely to be the biggest contributor to Naspers profits.

He could not be specific about future profits because of the cautionary, but "we don't do these things unless we expect a healthy return".

Ed Hern, Rudolph analyst Sid Vianello said the restructuring of M-Net with linked shares to Multichoice, which houses the group's European film channel and the MTN cellular phone business, had not achieved its original aim.

Profits from M-Net were adulterated by equity-accounted losses in Multichoice. Those wishing to do so could not buy into the foreign film business alone, but had to take M-Net and MTN as well. *(232)*

He said what should have been done at the outset and was probably being discussed now was forming three separate companies or even two.

M-Net should distribute its holding in MTN/FilmNet to its shareholders. M-Net shareholders could then benefit from the profitability of its core operations, and have the option of retaining or selling their MTN and FilmNet shares.

Anglovaal Industries lifts earnings, dividend

BY CHARLOTTE MATHIEWS

Industrial holding company Anglovaal Industries (AVI) lifted its dividend by 18 percent to 230c in the year to June 1994, despite difficult conditions and pressure on margins.

Attributable earnings grew to R407,1 million from R343,7 million, equivalent to R12,83 (R10,83) a share.

Consolidated turnover was 16 percent better at R9,7

billion, about one-third of which arose from acquisitions. Operating profit increased by 13 percent to R747,9 million.

Although income from investments dipped and the interest bill was higher, the tax rate dropped to 28 percent from 1993's 34 percent and associate companies' contribution was 31 percent higher, reflecting an additional R10,3 million from Anglo-Alpha. Capital expenditure was R415 million.

Over the next three years the group will spend another R1,4 billion to address the expected increase in international competition.

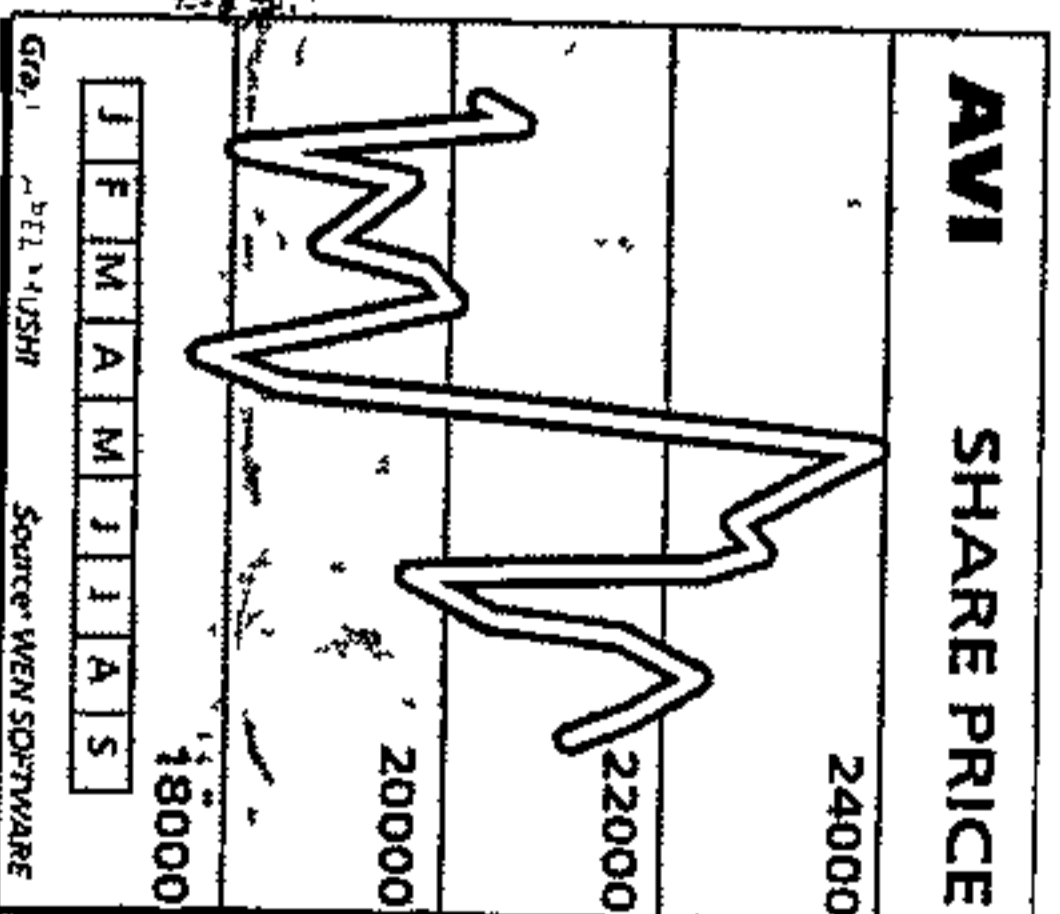
AVI Diversified Holdings made a greater contribution to group profits, including a substantial recovery at Avtex.

A pleasing improvement was recorded by Consol, which reported higher demand in the closing months of the financial year. Grinaker's earnings rose,

while Irwin & Johnson reported an 11 percent growth in profits.

National Brands reported earnings 14 percent higher, despite reduced consumer expenditure and disrupted production.

AVI chairman Jan Robberitze says the group is likely to increase earnings in the current year, but the extent will depend on the economic recovery and the resolution of labour conflicts.



Eight bidders seeking Penrose stake in TimeLife

Stur 12/19/94

■ BY CHARLOTTE MATHEWS

Negotiations between publishing group Penrose Holdings and eight bidders to sell Penrose's recently acquired 75,3 percent stake in life insurer TimeLife were at an advanced stage, Penrose directors confirmed on Friday.

Penrose chairman Albert Alletzhauser said the eight bidders were all top names in SA and all the bids were above the R3 million paid by Penrose in June. (232)

At the same time, three bids have been put on the table to acquire the business of Penrose itself

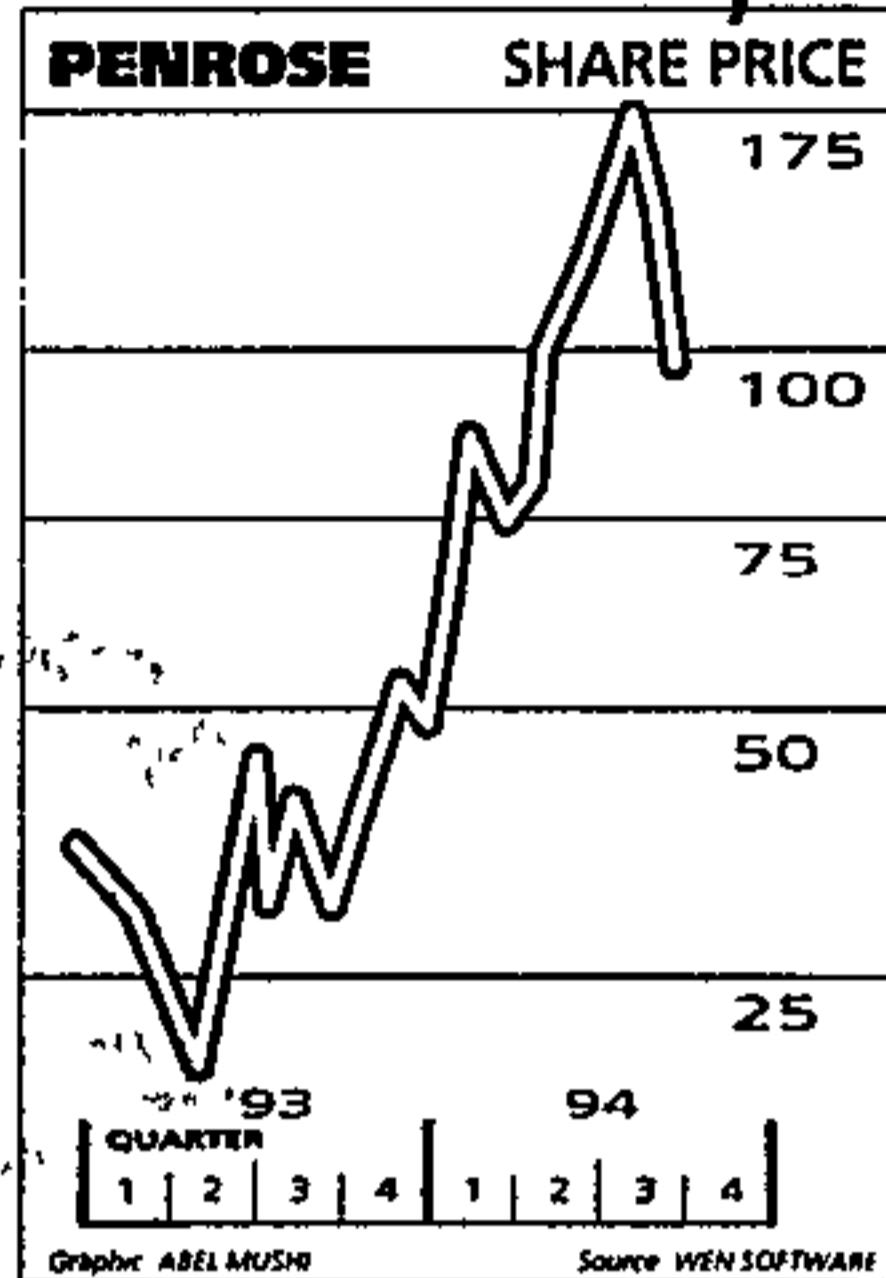
One bidder is CTP Holdings, which issued a cautionary at the end of August saying it was exploring the possibility

Two others are rumoured to be Macmillan Publishers and Perskor

The sale of the group's businesses follows an acrimonious dispute among board members about the direction of the company after the purchase of the stake in TimeLife.

During the dispute, Alletzhauser and his brother Eric were charged with the theft of R2,25 million of Penrose funds to buy Nasionale Pers's stake in Penrose.

Alletzhauser said on Friday it was probably clear by now that there was an ulterior motive in bringing the charge,



which he claimed was unfounded

However, there was at present a truce between the directors and he would not use his 32 percent majority shareholding in Penrose to block the TimeLife deal.

Penrose shares are at present suspended from trading on the JSE.

Director Peter Vos said the next step would be to publish the group's half-year results for the six months to June and then secure the lifting of the suspension

Alletzhauser said the suspension could be lifted once the dispute was resolved and the directors were actively negotiating to resolve it. This should be achieved by the end of the week.

Anglo American's plans for ZCCM stay on hold

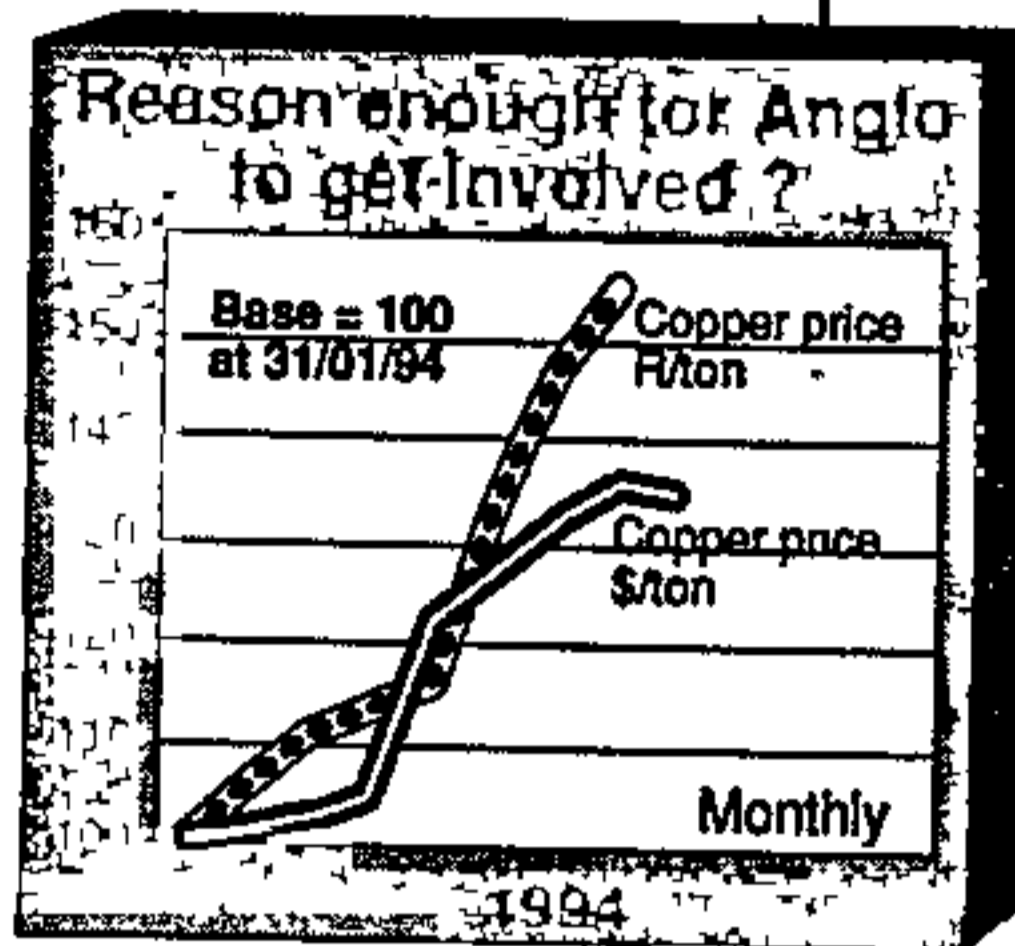
MICHAEL URQUHART

ANGLO American's plans to increase its stake in state-owned Zambia Consolidated Copper Mines (ZCCM) will remain on hold, in spite of the Zambian government's statement last week that ZCCM would be privatised as a single entity.

Anglo, which has always supported keeping ZCCM as a single entity, said last week it would be happy to lead a consortium of investors in the Konkola Dip project, on which it had submitted a joint venture proposal to the government.

But director Jack Holmes said the company was not prepared to commit itself until it had clarity on the government's plans. Anglo had to know whether the government planned to spin off Konkola as a separate operation.

Anglo was also undertaking a due diligence investigation on Konkola, which was on hold until the necessary cost figures were received



from the Zambian government.

The government had made clear its intention to privatise the mine, he said, but there had been little clarity on how this was to be achieved or what sort of stake the government would retain.

Despite President Frederick Chiluba's announcement on Friday that the government had decided to privatise ZCCM as a single entity, there was still dissension within the government, he said.

Zambian Deputy Mines Minister

Mathias Mphande said yesterday he favoured privatisation of ZCCM in separate operating units as recommended by German consultant Kienbaum Development Services.

The deputy minister said neither the government nor any single investor would be able to raise the estimated \$3bn needed by the company in the next 10 years for rehabilitation and new projects.

The government had to choose what was right for investors, workers and ZCCM managers.

The government did not have the \$3bn needed to fund the mine, he said, and Anglo American could not raise the money alone.

Mphande said ZCCM had reported \$135m in losses between October 1993 and March this year, which he described as "very worrying".

ZCCM's copper production for the quarter to June 30 was 88 550 tons compared with 102 000 tons in 1993. Production for the 1993/94 financial year was 392 000 tons, when 420 000 tons was the target.

Penrose to post half-year loss

AMANDA VERMEULEN

PRINTING and publishing company Penrose will this week report a R3m loss in the six months to June, despite earlier claims by deposed chairman Albert Alletzhauser that the group would post good results for the period. *BiDay 13/9/94*

Penrose director Marius Logtenberg said yesterday the interims would indicate the true depth of the problems that had beset the company in recent months.

Logtenberg was one of three directors who voted to have Alletzhauser removed as chairman after his arrest in connection with the theft of R2,3m from Penrose Book Printers.

Alletzhauser said yesterday he had been approached by Logtenberg and MD Peter Vos, one of the other directors involved in his removal, to return to Penrose.

"Management, including Peter Vos and Marius Logtenberg, and I have reached a truce. *(195) (232)*

But Logtenberg dismissed his comments, saying nothing had changed since evidence was provided to the police of the alleged theft.

JSE president Roy Andersen said he had been assured by the directors that they would soon resolve any remaining disputes, adding that the exchange was anxious to see the shares trade again soon. The shares were suspended on August 16.

Logtenberg said an announcement detailing the resolution of disputes could be made this week.

Meanwhile, financial services company Timelife MD Bill Haslem said it had been approached by 11 parties interested in acquiring the Penrose stake in Timelife.

He had received written bids but declined to give the exact number.

He said it was too early to speculate who would purchase the Penrose stake, adding that due diligence had to be completed before any announcement could be made.

Billiton's debt is first priority for Gencor

MICHAEL URQUHART

GENCOR, because of the acquisition of Billiton, was unlikely to spin off its aluminium assets as a separate entity in the near future, analysts said yesterday.

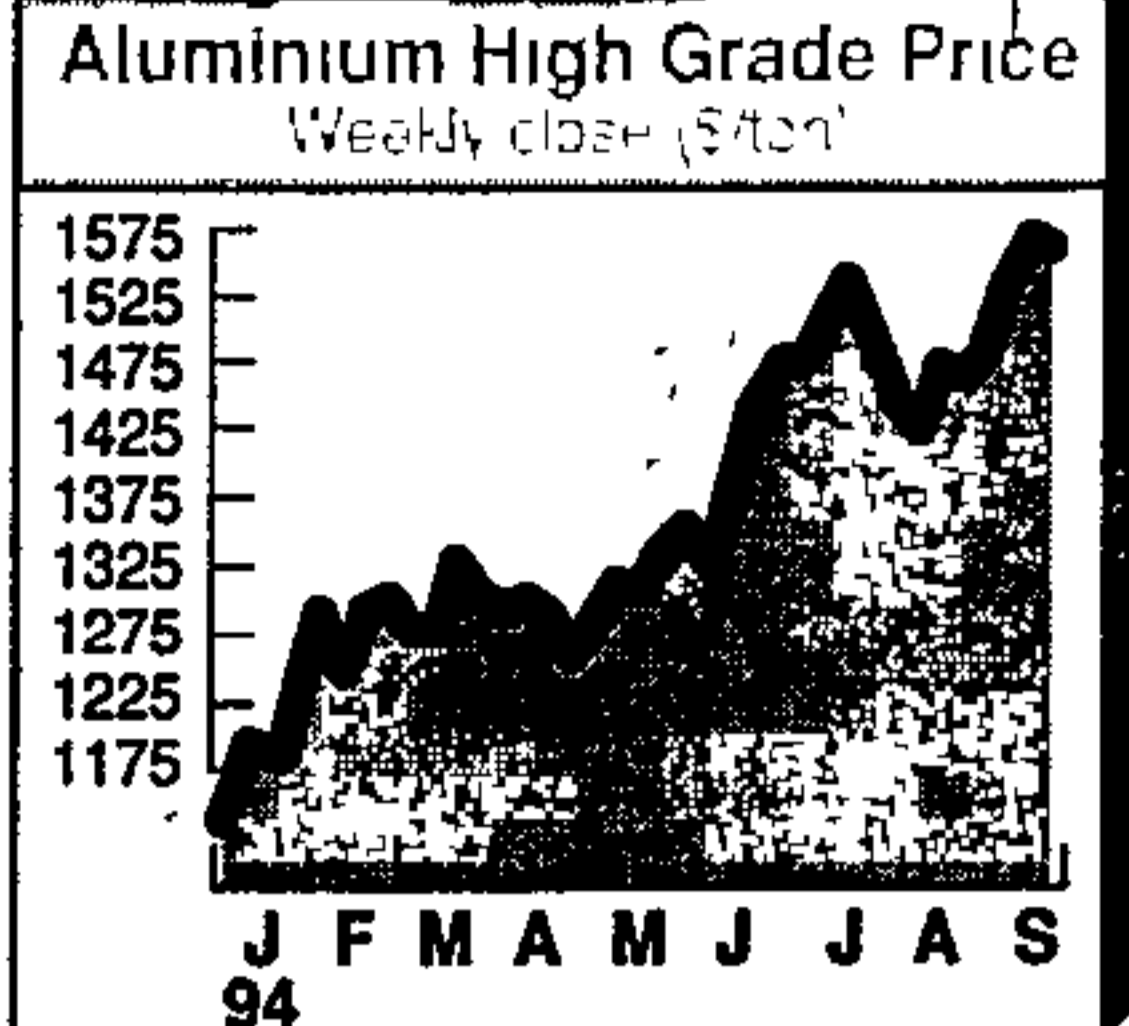
They said the first priority would be for Gencor to restructure Billiton's debt, and Gencor would not consider a separate listing until this had been achieved.

Foreign exchange controls meant the acquisition of Billiton for \$1.2bn was achieved without the use of capital from Gencor, and had left Billiton with a level of gearing which Gencor chairman Brian Gilbertson had said he was "not familiar with". He said the bank debt of \$430m was expensive, and something would have to be done to restructure it.

An analyst said this bank debt, and the emphasis on restructuring it, meant a separate listing of Billiton's aluminium interests was very much second on the list.

Gencor was unlikely to list its aluminium assets in the short term, he said, and would list it only if aluminium became too great a component of Gencor's earnings.

If Gencor did decide to unbundle Billiton, it could either break Billiton into an aluminium and other division, or add Alusaf as a downstream aluminium asset, he said. But Gencor would probably consider this only if the price of aluminium broke



the \$2 000 a ton barrier.

Another analyst said if the aluminium assets were spun off separately, then this would be done to unlock value and to help repay the debt.

As the aluminium price was on the upward cycle it would make business sense to delay the listing until the aluminium price was closer to the top of the cycle.

Any listing would depend on how Gencor progressed with restructuring the debt, he said.

If Gencor tried to spin off the aluminium interests separately now, it might run into problems from the bankers who had supplied the debt to Billiton as a single entity.

Dice tumbles in Safren's favour

31 Day 15/9/94

EDWARD WEST

CAPE TOWN — Improved economic conditions saw shipping, transport and leisure group Safren lift attributable earnings 15,2% before extraordinary items to R340,5m for the year to June.

Despite pre-election unrest, which affected its resort and casino operations, the group boosted turnover 12,7% to R5bn, while operating profit before depreciation came in 14,2% higher at R1,2bn.

After depreciation, operating profit was 9,8% higher at R845,3m.

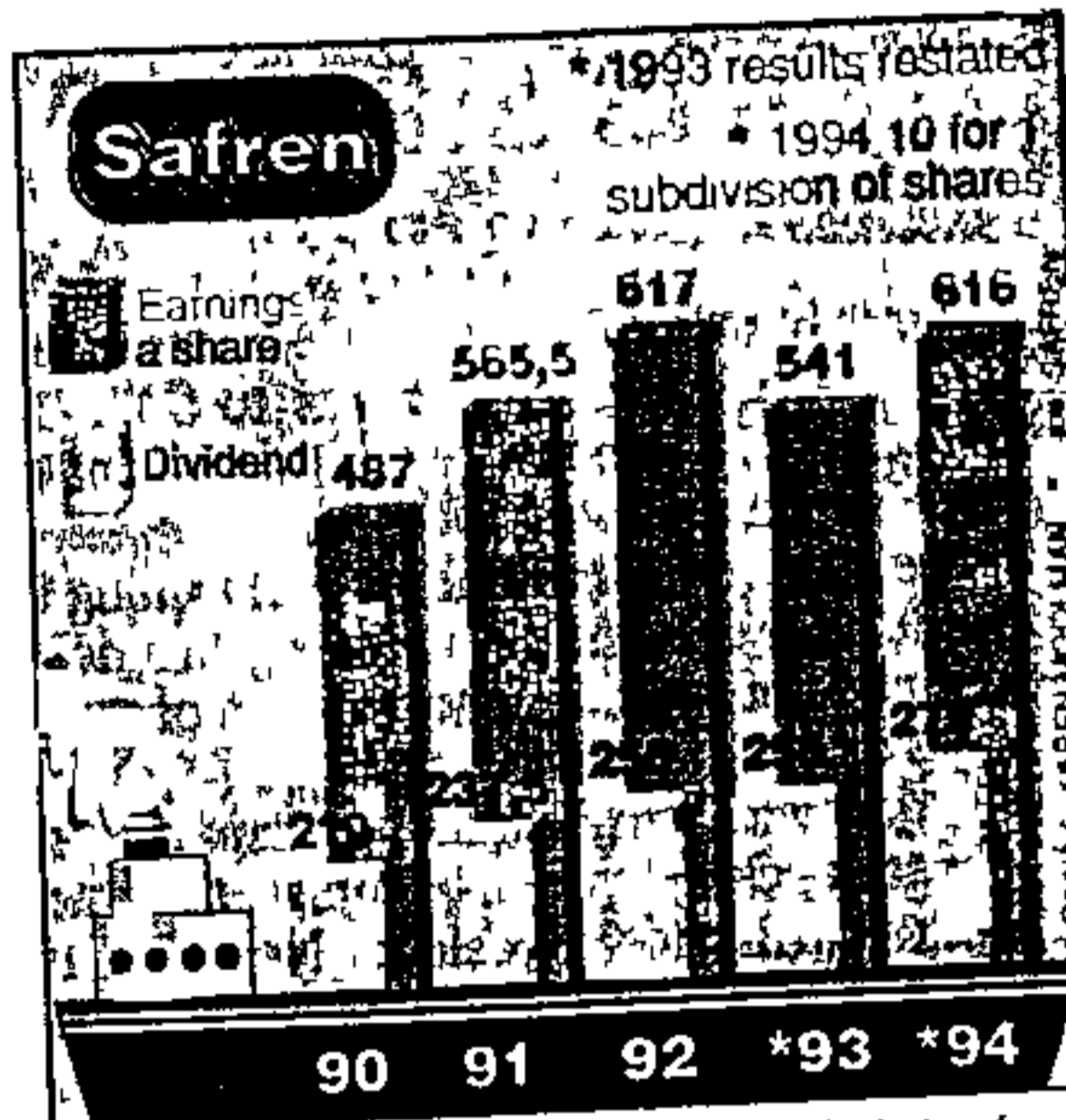
Earnings a share rose 13,9% to 616c and the total dividend was lifted 7,8% to 275c. But following Safren's 10-for-one share split in July a final dividend of 20,7c was declared per 5c ordinary share.

Pre-tax profit rose 11,6% to R774,2m but a higher tax bill of R145,6m (R91,7m) saw after-tax profit reach R659,3m (R602,1m).

Depreciation increased substantially to R365,2m (R290m) and additional depreciation of R28m was written off against operating profit after a review of the market value of Safmarine's assets.

A R14,7m extraordinary item represented closure costs of Safair's unprofitable domestic air freight service.

The 1993 results were restated as a result of the consolidation by Kersaf Invest-



ments of its offshore leisure subsidiary, Royale Resorts, which was previously equity accounted. Following the share split, pro forma earnings amounted to 61,6c (54,1c) a share while the pro-forma dividend for the year of 27,5c could have been compared with 25,5c for the previous year. The group benefited from the gradual economic upturn through improved trading conditions. Safmarine in particular produced a substantial profit increase as a result of improved trading in the European

To Page 2

Safren

31 Day 15/9/94

From Page 1

and US liner trades and in most of its bulk operations.

Safmarine's contribution to attributable income rose 21,4% to R158m (R130,2m), while freight and travel group Rennie's contribution climbed 17,1% to R50,1m (R42,8m) Kersaf's contribution increased only 7,8% to R275m (R255m)

Kersaf's results were affected by unrest in the Northwest in the third quarter and earnings for the second half were only

moderately higher than the previous year, when compared with 15% growth in the first half of the 1994 financial year.

Directors said the group was also adversely affected by unregulated gaming.

Safren said it was in a good position to take advantage of a continued improvement in trading conditions at home and abroad following the lifting of sanctions. The group expected earnings to continue growing this year.

Hiveld drives 'phenomenal' gains in steel and allied sector

MICK COLLINS

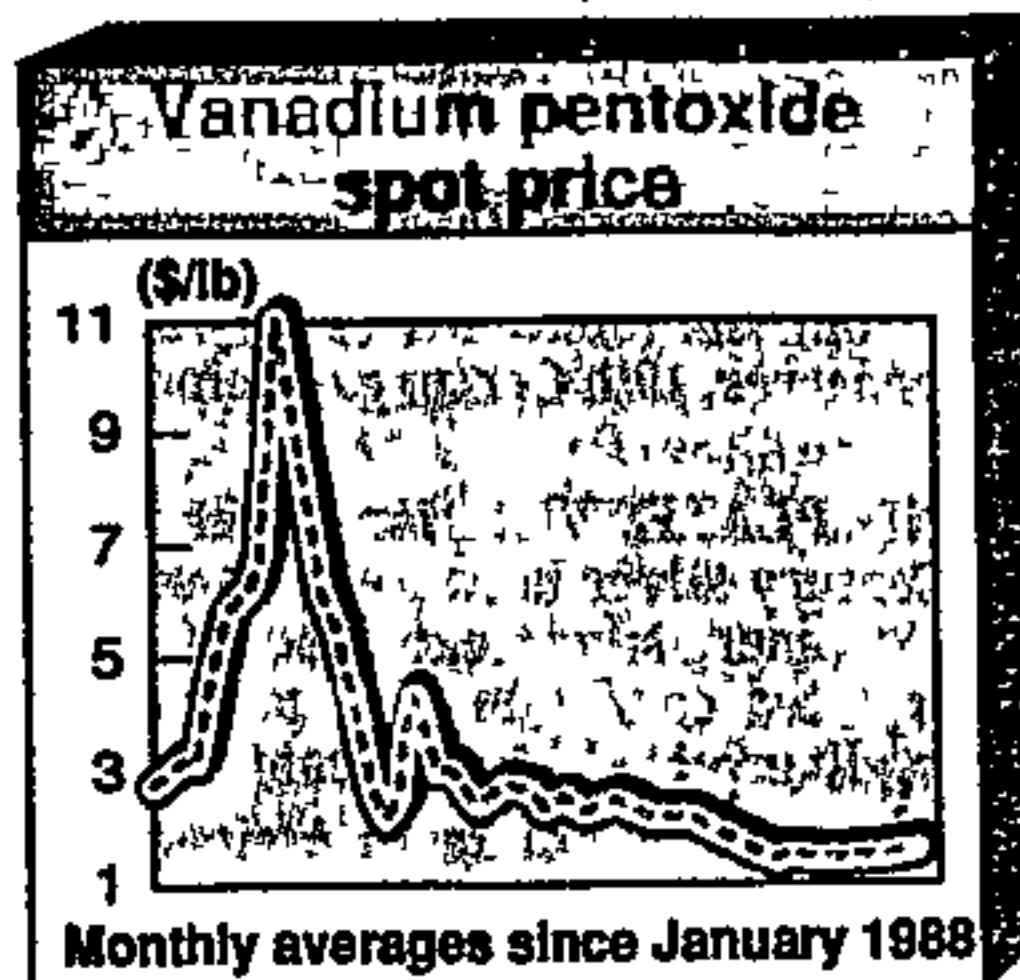
MASSIVE gains in the JSE's steel and allied sector had been brought about mainly as a result of the strength of index stocks Highveld Steel and Vanadium (Hiveld) and Iscor, analysts said at the weekend.

A report by stockbrokers EW Balderson Inc said while the steel and allied division had been expected to perform well during the past 12 months, "its performance has been remarkable". The index displayed "a phenomenal 194% compound annual growth to April 1994, while the overall index climbed just 50%".

Hiveld's earnings before extraordinary items for the six months to June rose 78% to R49,2m on the back of increased local demand for steel and a bigger contribution by the new aluminium can plant at Rheem.

Balderson Inc said Hiveld's structure had changed in recent years to diversify out of the highly cyclical vanadium market and to move into the more lucrative steel and value added product market.

Hiveld financial director Luigi Matteucci said the company would always remain in vanadium production but it was selling less slag and moving into more value added products. "We have even seen a bit of an improvement in ferrovandium



prices from \$8/lb to \$9/lb. The Vantra kiln is working flat out and we are not stockpiling." ~~232~~ 232

But Balderson Inc said although Hiveld was the world's largest producer of vanadium pentoxide and vanadiferous slag, these products did not offer expansion potential. "Rather Hiveld will continue to expand its steel production, which we believe accounts for about 50% of turnover at present."

World vanadium production was less than 60% of installed production capacity. Installed capacity was estimated at 110 000 tons of vanadium pentoxide and 1993 production was about 58 000 tons.

In the unlikely scenario of a sustained and substantial price rise, the return of idled capacity and potential

new capacity would most likely result in the improved price outlook being short-lived.

SA is the world's leading producer accounting for more than 40% of world production and 60% of Western production. World trade in vanadium is dominated by SA with a share of more than 80%.

The Vantra division of Hiveld, Vametco and Transvaal Alloys — with a combined capacity 15 000 to 20 000 tons a year — had stopped producing pentoxide directly from ore and instead was obtaining feedstock from vanadium rich slag produced at Hiveld's steel plant.

Analysts said monthly vanadium pentoxide spot prices were hovering around \$1,40/lb to \$1,50/lb. The peak price of nearly \$11/lb was reached in February 1989.

"Although it appears that vanadium pentoxide prices will remain under pressure for probably this decade, recent industry rationalisation in SA should help elevate prices slightly."

Assessing Hiveld's future, the report said that "the importance of steel cannot be expounded enough" and the company was expected to further increase this division, while diversifying out of vanadium and related products. The manufacture of aluminium cans at Rheem was an example of this diversification.

Takeover terms announced

BIDAY MICHAEL URQUHART 16/9/94

SCHARRIGHUISEN Holdings has announced the terms of its acquisition of four companies — Westonaria, Hendor, Phoenix and Cyclop — for R19,4m on behalf of Scharrig Industrial Holdings.

The companies would be paid for through the issue of up to 2,1-million ordinary shares at R9 each, bringing the total issued shares to 32,5-million. (232)

Scharrig is acquiring 100% of Hendor Mining Supplies and Westonaria Engineering Enterprise. It would also acquire 70% of Phoenix Steel Enterprise and 70% of the share capital and loan account claims against Cyclop Engineering. Scharrig acquired 100% of GHL Properties on behalf of subsidiary Scharrighuisen Investments

Roychem acquires stakes in Medhold, Prempharm

B1 Day 16/9/94

232 183

CASH shell Roychem had acquired about 80% of medical supplies group Medhold and roughly 5% of pharmaceutical group Premier Pharmaceuticals (Prempharm), corporate financiers Price Waterhouse Meyernel said yesterday

The group acquired roughly 5% of the Krok family's shareholding in Prempharm for R108m which would be paid in cash and shares. The financiers said the group may increase its holding in Prempharm to 20%

The group had acquired roughly 80% of offshore holding company Element's share in Medhold in exchange for 6,4-million shares in Roychem

The group said it intended to hold a "balanced portfolio of investments focused on health care and consumer products for the mass market"

The acquisitions would see earnings a share for the year to April 1994 rise to 10c from 8,6c when the group was just a cash shell. It was also expected to boost the share price

BEATRIX PAYNE

from R1,15 a share when it was suspended from the JSE in May to R1,50

The share was suspended in May after the group became a cash shell. JSE operations director Niel Carter said the JSE would review the group's announcement before it made a decision on relisting.

The financiers said Medhold would be restructured to move into niche markets with high consumer growth. The company makes medical supplies and hospital equipment.

The group was set to acquire six additional companies involved in traditional African medicines, beauty products and emergency equipment.

The restructured company would benefit from government's attempts to improve the supply of health care and upgrade facilities.

Medhold's broad portfolio would enable the group to expand and through acquisitions achieve a "substantial market capitalisation".

After the restructuring the group would have a market capitalisation of R190m. Medhold would remain listed on the JSE to provide investors with the choice of investing in a "young aggressive company"

Investors looking for a more balanced investment in the health care sector could buy shares in Roychem and take advantage of the stability offered by the group's share in Prempharm, the financiers said

The 5% share in Prempharm would contribute about 38% to the group's earnings but represented the major underlying value of the group

Roychem had been given until today by the Securities Regulation Panel (SRP) to give details of its acquisitions to shareholders

It was suspended from the JSE in May and was due to provide shareholders with details of its acquisition plans in late July but the SRP relaxed the deadline after majority shareholder Abe Krok said the negotiations had been protracted

Corporate income fall hits Minorco

B1 Day 16/9/94

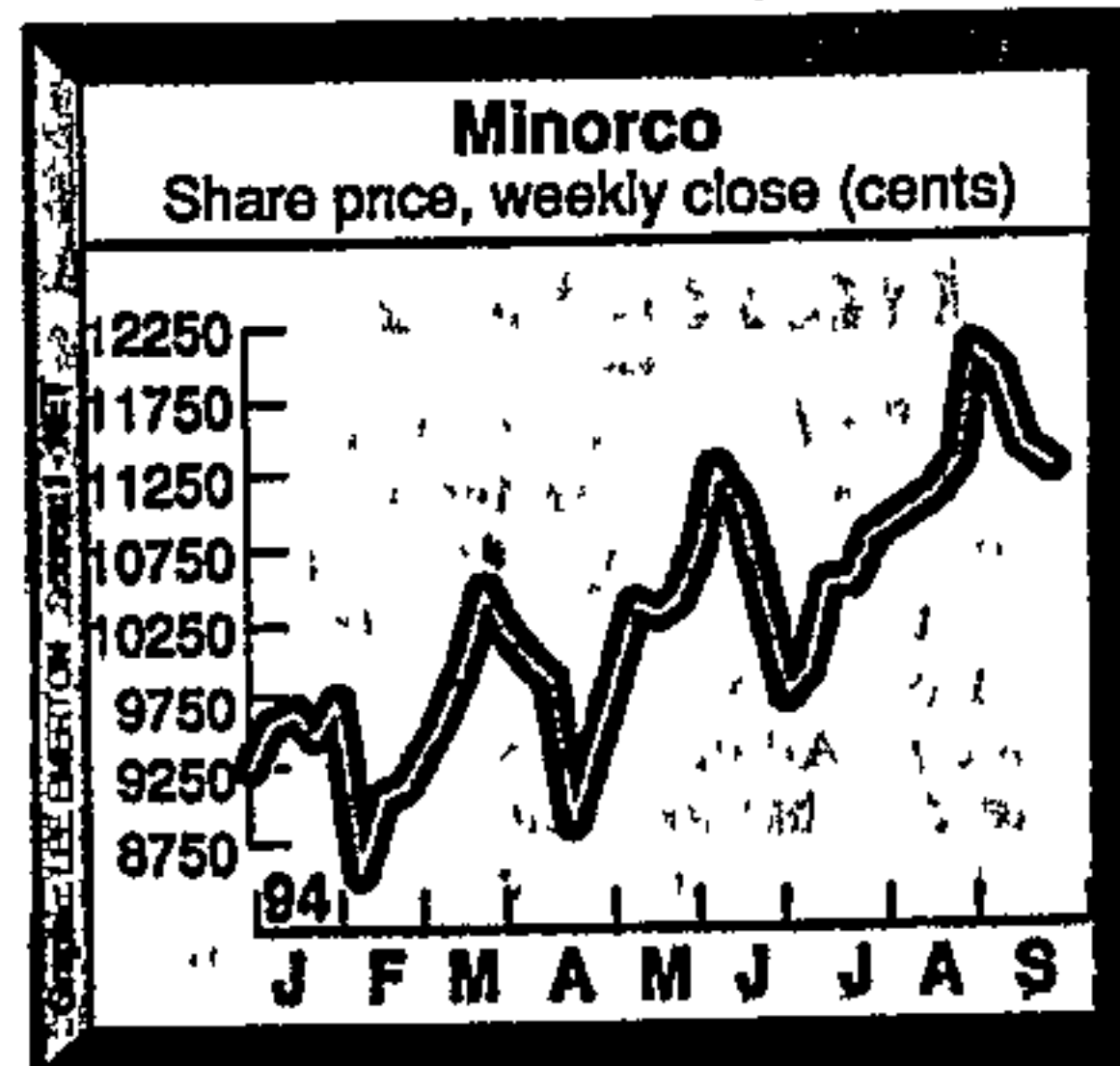
MICHAEL URQUHART

MINORCO, Anglo American's offshore arm, reported a 12% fall in attributable earnings for the 12 months to June, as a higher operating income was knocked by a fall in net corporate income and earnings from investments

Operating income rose 44% to \$200m, on a 13% higher turnover of R3.1bn. But the strong performance from the operating side was offset by the lower corporate income and earnings from equity accounted investments.

Earnings a share came in at \$0.99 and an interim dividend of \$0.38 was declared. Together with the interim dividend declared in March this made a total dividend for the year of \$0.57. (220) (210) (232)

The Minorco year-end had been changed to December, making this the second interim period. The final dividend would be declared in March 1995 for the 18 months to December 1994. Minorco said barring unforeseen circumstances the final divi-



dend would not be less than the second interim dividend.

It said the past year had been dominated by the successful completion of the transaction that merged the non-diamond international assets of Anglo American and De Beers into Minorco.

□ To Page 2

Minorco

B1 Day 16/9/94

□ From Page 1

The company said it was committed to increasing the efficiency and profitability of each of its operating sectors, an example of which was the acquisition of Agricultural Minerals & Chemicals by Terra.

In this regard Minorco would be looking for acquisitions in its industrial minerals and paper and packaging segments, and investigating "highly promising" mining projects in South America.

Major developments so far had been the purchase of 50% of Aylesford Newsprint, which had begun construction of a £250m expansion project, the start of a \$350m redevelopment of Chilean base metals producer Mantos Blancos and the purchase by Hudson Bay of the remaining 56% in the Trout Lake mine in Canada.

There were significant improvements in all business segments apart from base metals, which suffered from lower metal prices. Acquisitions and favourable agri-

cultural conditions lifted Terra's earnings to record levels, while gold companies benefited from higher gold prices and tighter cost control. Austrian paper interests were boosted by an improvement in international demand for pulp and paper.

Lower financial income and higher exploration expenditure meant corporate income declined from \$74m to \$34m. Exploration expenditure increased as a result of taking over the full responsibility for certain projects which previously had been shared with Anglo.

Minorco said the main reason for the \$18m fall in earnings from investments to \$74m was the sale of Charter in August 1993. Main contributors were Engelhard and Johnson Matthey. (220) (210) (232)

Positive economic trends had continued, the company said, and should lead to an improvement in commodity prices. Minorco said it was well placed to benefit.

CONCOR

Unduly modest rating

What's striking about construction group Concor is not so much that it remained ungeared and improved profits during the building industry's years of famine — though this is commendable — but the share's low p/e of 6,9.

Operating margins are average for the industry and the group has just achieved its highest earnings since incorporation in 1948. Management's aim to diversify income sources underpin long-term prospects. *Fun 16/9/94*

By June 1995, more than half of profits will be derived from nonconstruction activities such as toll roads, concrete products and tool retailing and wholesaling.

Chairman Brian Murphy says: "Provided the indicated upturn in the construction industry materialises, earnings should again improve this year."

MATERIAL IMPROVEMENT

Year to June 30	1993	1994
Turnover (Rm)	484.2	632.0
Operating income (Rm)	13.1	19.0
Attributable (Rm)	12.3	15.4
Earnings (c)	112.0	134.9
Dividends (c)	30.0	35.0

On the face of it, therefore, either the market is unaware of this modest rating or shareholders are holding on to their paper. The main shareholder is Eurafrika GmbH, a subsidiary of German construction company Hochtief (35%). *(232)*

Time Holdings share

One possible reason for the rating could be Concor's 50% indirect share acquired in Time Holdings some six months before Time was placed in liquidation. A R7,9m provision was made in the 1993 results. To protect its interest, Concor acquired all the shares in Time Projects Botswana for R2m and the 66% stake in Time Life — which was sold to printing group Penrose in June. No additional provision for the Time Holdings deal is required; so this association hardly seems to justify the share's low rating.

The start and completion of a number of large projects provided most of the profits for financial 1994. Operating income increased by 46% to R19,3m, off a 30% rise in turnover to R632m. The balance sheet is sound, with interest-bearing debt less than a tenth of shareholders' equity. Cash reserves stand at R66m.

Management is bullish and the financials support this sentiment. A price of R15 would bring the share in line with the building and construction sector average p/e. This suggests that, at R8,25, the share is inexplicably cheap.

Kate Rushton

Lifting brick capacity

FM 16/9/94
 At its March year-end Corobrik, the building materials division of Tongaat-Hulett, was running on 55% of its capacity. That made it profitable, but only because improved efficiencies and cost reductions had reduced the break-even sales level from 75% to 50% usage.

**Savage**

Demand remains soft Group MD Cedric Savage says the increase in demand has been lower than expected, though it is 5%-6% higher than a year ago.

However Corobrik is gearing up to increase capacity by recommissioning its

Odendaalsrus and Crown Mines brick plants. Capacity has also been increased at the Effingham, Maritzburg, Glencoe and Witbank factories. That has raised capacity to about 70% (232)

The expansion, says Corobrik executive chairman Errol Rutherford, is "in anticipation that the country as a whole, and the Reconstruction & Development Programme in particular, will enter the delivery phase later this year"

Corobrik will benefit from the RDP's emphasis on low income housing, particularly if clay face bricks are chosen as the building medium, but the real benefits will probably come from the infrastructure that goes with large-scale housing projects

"Even in the squatter camps, the first basic needs are a community hall for community activities and meetings and

schooling facilities. If we are to create housing, then the need for schools, community halls, health clinics and the like, are essential to the wellbeing of those communities," Rutherford says

At year-end, Corobrik was contributing R358m, or 9%, of group turnover and R8,3m (4,9%) of profit. An underperformer as recession hit the construction industry, it did, however, use the downturn to streamline efficiencies and lower its cost base. Savage says the division is now well positioned for growth — it should become one of the group's strong performers

Prospects for the aluminium division will be boosted if the board gives the go-ahead for a R1,6bn hot rolling aluminium mill expansion, partly dependent on Tongaat finding a joint venture partner for the project. A final decision is expected in November

Interim results, also due in November,

FM 16/9/94 (236)
 should show a continuation of the emerging pattern in the second-half of financial 1994, when all six divisions improved operating profits. That was the first time in several years that all divisions grew profits simultaneously and was largely due to management's earlier thrust to get rid of loss-makers and sharpen the focus of the respective businesses

Savage says despite disruptions caused by the elections, large number of holidays, violence and strikes, he expects results to show a material improvement on the first half last year

The market is anticipating good results. Despite coming off its R55 high, at R43 the share is double the price of a year ago. A p/e ratio of 20,1 is slightly above the average for the Food sector, though with Tongaat's growth prospects there is probably still value in the share at this price

Shaun Harris

BTR DUNLOP

Liquidity swing

Fri 16/9/94

BTR Dunlop's interims lack bounce. But then again, the group's markets — automotive, mining, engineering and consumer — haven't been particularly exciting growth areas. What is pleasing, however, is that margins and the balance sheet remained sturdy. The R32 share price is closing in on its R35 high set in 1991.

Turnover rose 6,2% over the six months. MD Michael Smithyman says this was derived mostly from the improving motor and industrial divisions. These more positive trading conditions should continue despite the motor industry strike; new car tyres account for less than a fifth of BTR Dunlop's total tyre sales.

Meanwhile, the decline in the hard-hit consumer markets affected sales in the flooring, sports and engineering divisions. Sales here were well down. Even after allowing for a favourable deferred tax rate adjustment, profit after tax fell and EPS

Fri 16/9/94

were marginally down at 138c.

For the full year, Smithyman expects a small increase in trading profit and, if the deferred tax rate adjustment is excluded, a corresponding increase in EPS on 1993's 272c — so a good second half is expected. In 1993, a deferred tax rate adjustment was largely responsible for the reversal of two years of earnings decline. Lower interest payments provided the rest.

Cash holdings rocketed from R700 000 to R38m. Interest payments were a minuscule R200 000 (1992 net borrowings R4m) and gearing is a negative 11,3%. Smithyman says that due to delays in delivery, capital expenditure was below expectations and accordingly operating cash flow of R52,1m was higher than expected.

Given the more-than-adequate cash flow, and despite the narrow cover, the dividend is unlikely to come under pressure. On a p/e of 10,2 and dividend yield of 5,6%, the share is inexpensive.

Kate Rushton

NASIONALE PERS

Large M-Net influence

Fri 16/9/94

Soon after listing on the JSE on Monday, shares in printing and publishing group Nasionale Pers (Naspers) were trading at R21. That gives the newcomer to the sector a market capitalisation of R2,34bn, by far the highest in the sector now

Nearest is Argus Holdings, with a market cap of R1,57bn. Even with its increased stake of 57,3% in Times Media (current market cap R850m), the expanded Omni Media Corp, as the old Argus will be known, will probably be smaller than Naspers.

Of course, like most other printing and publishing groups, Naspers' market value is heavily influenced by its investment in M-Net/MultiChoice. Its 29% interest in the pay-TV group represents roughly 40% of its market cap.

The share is similarly affected, which partly explains why some analysts feel the price set in initial trading was a little high. Developments within MultiChoice — a cautionary notice last week pointed to a possible restructuring of certain assets — seem to be finding market favour, with the price rising to a record high of R14.75 earlier this week. ~~(14.75)~~ (232)

Details of what might happen are hard to come by but speculation is that it almost certainly involves European pay-TV operator FilmNet and could relate to a potential acquisition.

The listing of Naspers shares shows a much higher value now being placed on the group than that represented by over-the-counter trading before the flotation. The last price before listing was R75, or R15 after the five-for-one share split. Then again, the unlisted shares last traded in April, when M-Net shares were trading at about R8,50.

Double pyramid structure

Under the listing and after the share split, shareholders have received five shares in top unlisted pyramid Nasionale Pers Beherend and five shares in Naspers for every share held. Beherend shares have not yet traded, it will be interesting to see what price they fetch.

The double pyramid structure — Naspers is 50%-held by an unlisted new company, Nasbel, which in turn is a wholly owned subsidiary of Beherend — appears cum-



Nasionale's Vosloo .. not talking about

*MultiChoice
Fri 16/9/94*

bersome. One reason for the structure is to retain voting control in the unlisted Beherend but it's not clear why Nasbel should be sandwiched between the controlling company and the listed operating company. Chairman Ton Vosloo was away from his office this week. Maybe the double pyramid structure is more tax-efficient. ~~(14.75)~~

Even riding on M-Net's buoyant share price, analysts believe R21 is expensive. One notes that the price should settle and thinks it's worth buying at R20 or below. (232) Shaun Harris

CONSOL *Fm 16/9/94*
Still tilted upwards (232)

Activities: Packaging (glass, paper, plastic and glass tableware) and rubber products (automotive tyres and industrial rubber products)

Control: AVI (60,3%)

Chairman: C S Menell, MD P J Neethling

Capital structure: 64,4m ords Market capitalisation R3,35bn

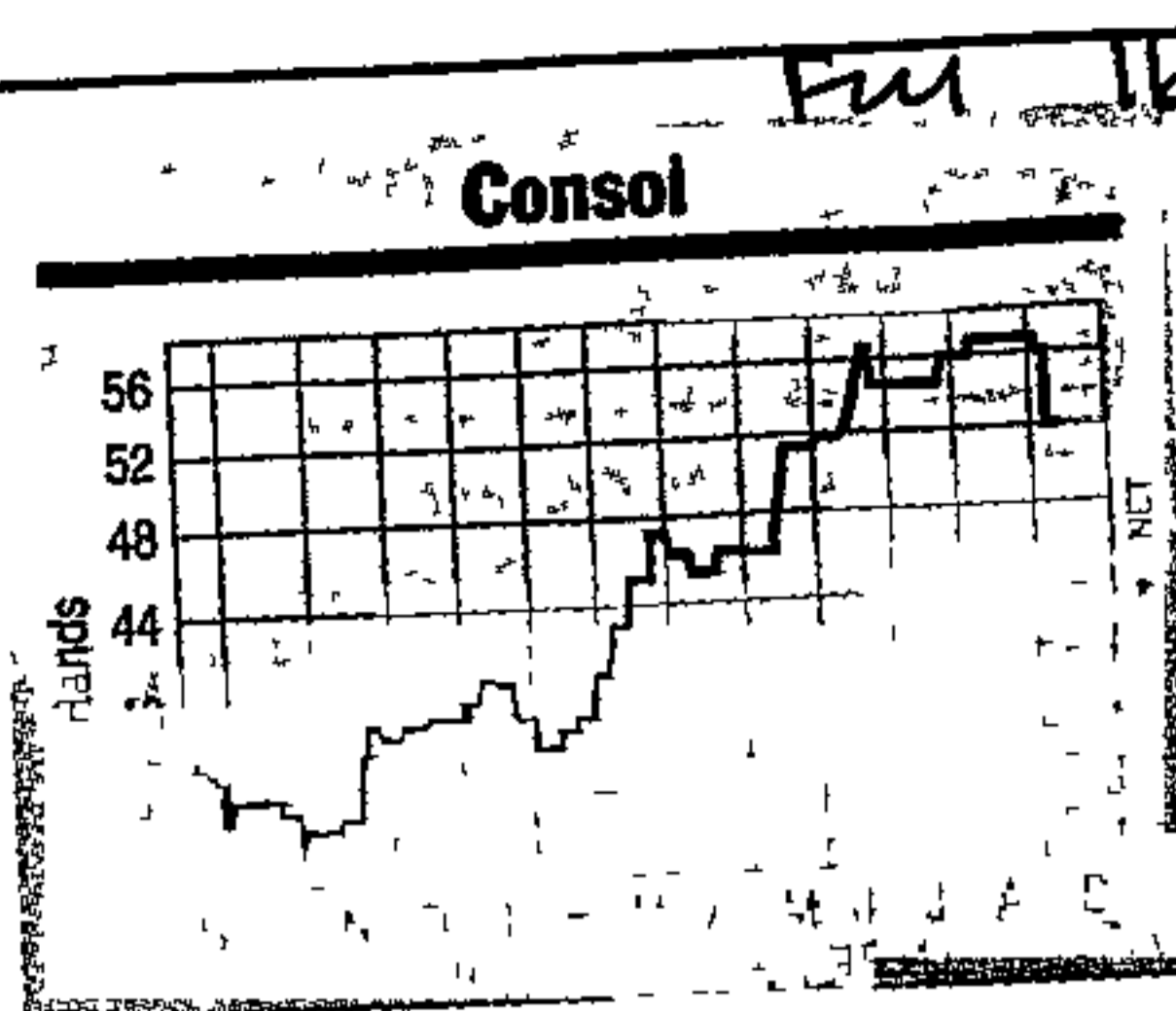
Share market: Price 5 200c. Yields 1,4% on dividend, 4,9% on earnings, p/e ratio, 20,2, cover, 3,5 12-month high, 5 700c, low, 3 450c Trading volume last quarter, 68 944 shares

Year to June	'91	'92	'93	'94
ST debt (Rm)	22,9	28,7	43,9	107,4
LT debt (Rm)	136,4	61,4	63,3	169,4
Debt equity ratio	0,51	(0,22)	(0,08)	0,34
Shareholders' interest	0,40	0,55	0,51	0,46
Int & leasing cover	10,3	521,9	33,3	10,1
Return on cap (%)	31,4	21,2	22,4	20,0
Turnover (Rm)	2 072	2 098	2 166	2 443
Pre-int profit (Rm)	319,4	290,9	280,5	285,5
Pre-int margin (%)	15,4	13,9	13,0	11,7
Earnings (c)	194	217	243	257
Dividends (c)	55	62	70	14
Tangible NAV (c)	453	546	524	538

Consol is one of a select group of companies able to have kept up earnings growth throughout the recession. Chairman Clive Menell and MD Piet Neethling believe the trend will continue. But for this to happen, especially in the short term, there may have to be greater reliance on acceptable trading than in recent years and an accompanying abatement of labour unrest

Factors contributing to Consol's 1994 results were covered at the prelim (Fox September 9). Looking at the broader picture, though, the extent to which earnings over the past few years have benefited from lower tax must be recognised. Since 1991, the effective tax rate has declined ten percentage points from 46% to 36%. Without this, 1994 EPS would have been 215c instead of the 257c achieved and the net growth over three years would have been 21c (11%) from 1991's 194c instead of 63c (32%). Tax alone has accounted for two-thirds of the growth for the period

Clearly, it would be unwise to count on lower tax as a source of future earnings growth. Fortunately, however, a number of factors should enable Consol to maintain its upward trend, given a reasonably stable



trading background. These, in no particular order, include

□ The R205m acquisition of Interpak may have been strategically important but was also costly in terms of earnings in 1994. At the time of the deal, it was envisaged (based on historical results) that Interpak would dilute EPS by 2,6%. Menell notes the outcome was in line with expectations. With Interpak contributing for a full year for the first time, though, and with rationalisation benefits, this problem should be reversed from the current year;

□ Like most other companies, Consol has been involved in various rationalisation programmes designed to reduce overheads and improve profits. In the 1994 financial year, however, fundamental changes occurred in the loss-making rigid plastics sector of the packaging division where, midway through the year, an asset swap was arranged with Nampak in exchange for that group's blown plastic container division. This led to other changes in Consol's factory and warehouse. The combined effect is expected to restore the operations to profitability. Last year's loss was large; without this, group EPS could have risen 15%-20%. So an improvement here could significantly affect overall group results,

□ Possibly resulting from the Interpak acquisition and the changes to the rigid packaging division, working capital control suffered a setback last year, with the ratio of working capital to turnover bulging to 20% from the 17%-17,5% of the previous two years. Though the figures are distorted by acquisitions, the resultant additional funding requirement was probably between R60m-R70m, accounting for 20%-25% of the R269m movement from a net cash position of R48,9m in 1993 to 1994's net borrowings of R220m. If this can be reversed, the release of cash tied up in working capital would help finance a heavy capex programme (R215m to be spent this year against R165m in 1994), limiting further increase in debt to fund the programme.

The share price has had a good run over the past year but has been under pressure recently, probably reflecting fears of the effect of the motor industry strike on original equipment sales. If so, the reaction has been extreme as sales are more likely to have been delayed than lost and could well be made up in the months ahead.

But it does underline an important point

in assessing companies such as Consol. In packaging in particular, the customer base is varied and, regardless of how well such companies manage their affairs, results can be affected by conditions in almost every sector of the economy.

Because of the spread of interests between the packaging and motor sectors, which are of roughly equal importance to Consol, the share is difficult to value on a yield-relative basis. Compared with the packaging sector where it is listed, it is underpriced on a p/e of 20,2 and a dividend yield of 1,4%. The sector averages are 31,3 and 0,9% respectively. Even against the industrial market, where the p/e and dividend yield are 19,6 and 1,7%, one wonders whether Consol's rating does justice to its track record.

Brian Thompson

(232)

PREMIER GROUP

Feb 16/19/94

Working on the food division

232

Activities: Food, pharmaceuticals, wholesaling, retailing and entertainment, and other activities

Control: JCI 30%, Liberty 30%

Chairman: P G A Wrighton, MD G M Utian

Capital structure: 826,5m ords Market capitalisation R5 042m

Share market: Price 610c Yields 1,7% on dividend, 5,1% on earnings, p e ratio, 19,4, cover, 3,0 12-month high, 775c, low, 555c Trading volume last quarter, 21,8m shares

Year to April 30	'91	'92	'93	'94
ST debt (Rm)	123,4	—	118,8	192,1
LT debt (Rm)	215,7	160,5	124,9	256,6
Debt equity ratio	0,27	0,05	0,14	0,25
Shareholders' interest	0,50	0,43	0,47	0,36
Int & leasing cover	3,8	5,90	12,4	6,8
Return on cap (%)	14,8	11,8	11,7	12,7
Turnover (Rbn)	5,09	9,82	10,15	14,43
Pre-int profit (Rm)	375	420	439	635
Pre-int margin (%)	7,4	4,3	4,3	4,4
Earnings (c)	21,0	24,4	28,3	31,4
Dividends (c)	7,0	8,1	9,4	10,5
Tangible NAV (c)	131	140	159	110

* 13 months' trading

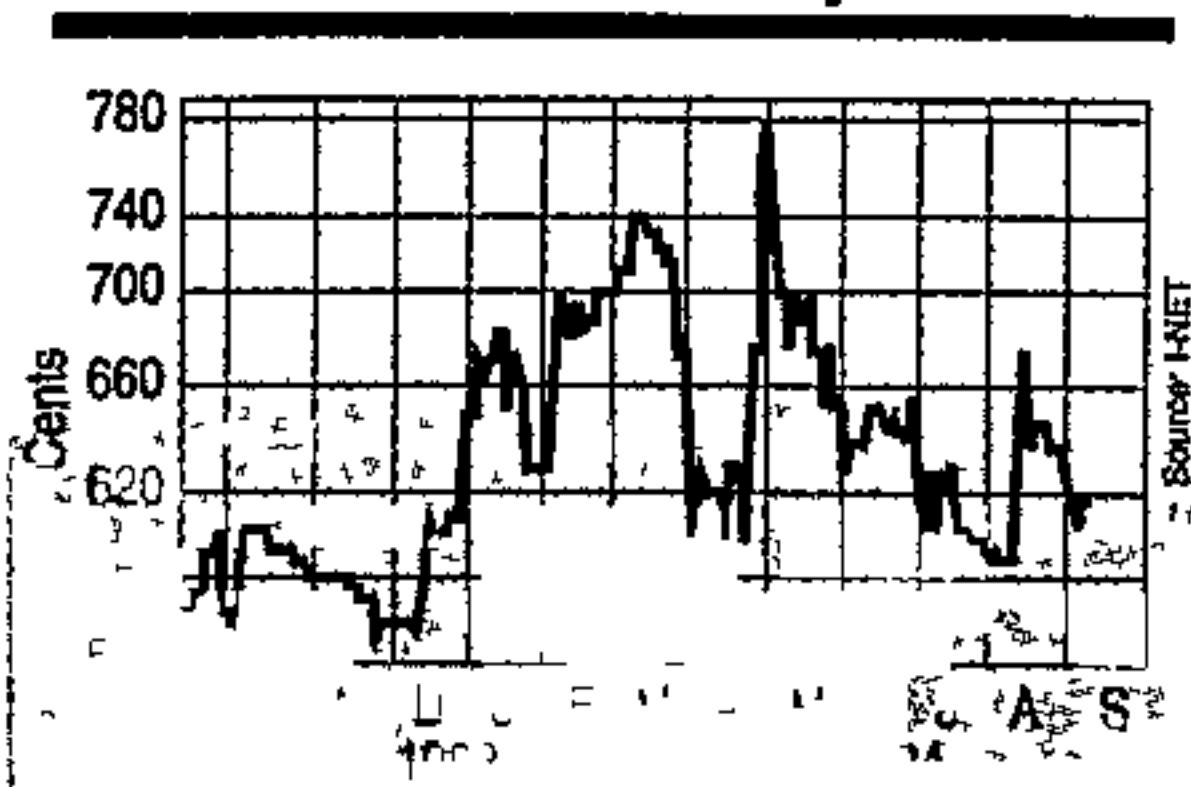
A key question for investors must be why they should buy Premier rather than choose from its listed subsidiaries. Looking at the way the share price now stands close to its 12-month low, it is a question which is being asked widely in the market.

With group turnover at R14,4bn, Premier is one of SA's biggest trading operations. Unfortunately, it has become a consumer-based conglomerate in which some of its divisions produce considerable flows of cash, only to watch these being consumed by others (principally the unlisted, capital-hungry food companies). A re-structuring programme now aims to make the milling and baking operations the lowest cost producers in their respective industries.

It sounds good, but it needs to be read in a wider context. Premier Group's principal competitors in this area — Tiger Oats and Foodcorp — are aggressively pursuing similar goals, competition is stiff. However, Premier may have the edge with its sophisticated information systems.

It is obviously an area of deep concern, outgoing chairman Peter Wrighton confirms the decision to transform 80-year-old

Premier Group



Premier Foods into a customer-focused, market-orientated and lowest-cost supplier (presumably it was none of these before) will prove costly and painful but should provide cost savings of as much as R40m in the long term.

Wrighton makes two other comments of interest in this context: the first is that the food division's problems "were exacerbated by the effects of deregulation and a sharp drop in inflation." This is an admission of the extent to which SA's food industry has been protected by government fiat and of the comfort given by a long period of inflation — though other groups (Pepkor, for example) have lamented the problems specific to the transition to lower inflation.

Second, Wrighton says the intention is to build Foods's product range and to attract new business partners. The assumption is that Premier is pursuing the same process seen recently with Tongaat-Hullet (joint venture with US-based Corn Products); this internationalisation, presumably ahead of anticipated stiffening of competition as overseas companies move in, is one which will be followed with interest.

Premier's business is centred on food (30% of sales, 44% of group attributable earnings), pharmaceuticals (14% of sales, 24% of attributable earnings), wholesaling (39% of sales, 18% of attributable) and entertainment and leisure (17% of sales, 11% of earnings). What is interesting about this breakdown is the group's reliance on the lower value-added businesses. In these circumstances, the concentration of management's effort in those segments likely to add greater profits on a disproportionate basis is not surprising.

Premier's attributable earnings of R259,1m were 11% better than in 1993 (EPS fully diluted of 31,4c compared with 28,3c). Turnover jumped 42% to R14,4bn, unfortunately the trading margin at 4,4% was only 0,1% better than last year. And the bottom line was squeezed by significantly higher finance charges of R79m (1993 R24m) and R170m went in taxes. However, figures are distorted by the consolidation of previously equity accounted earnings.

Borrowings rose appreciably, drawings against medium and long-term facilities



Premier MD Gordon Utian cutting costs

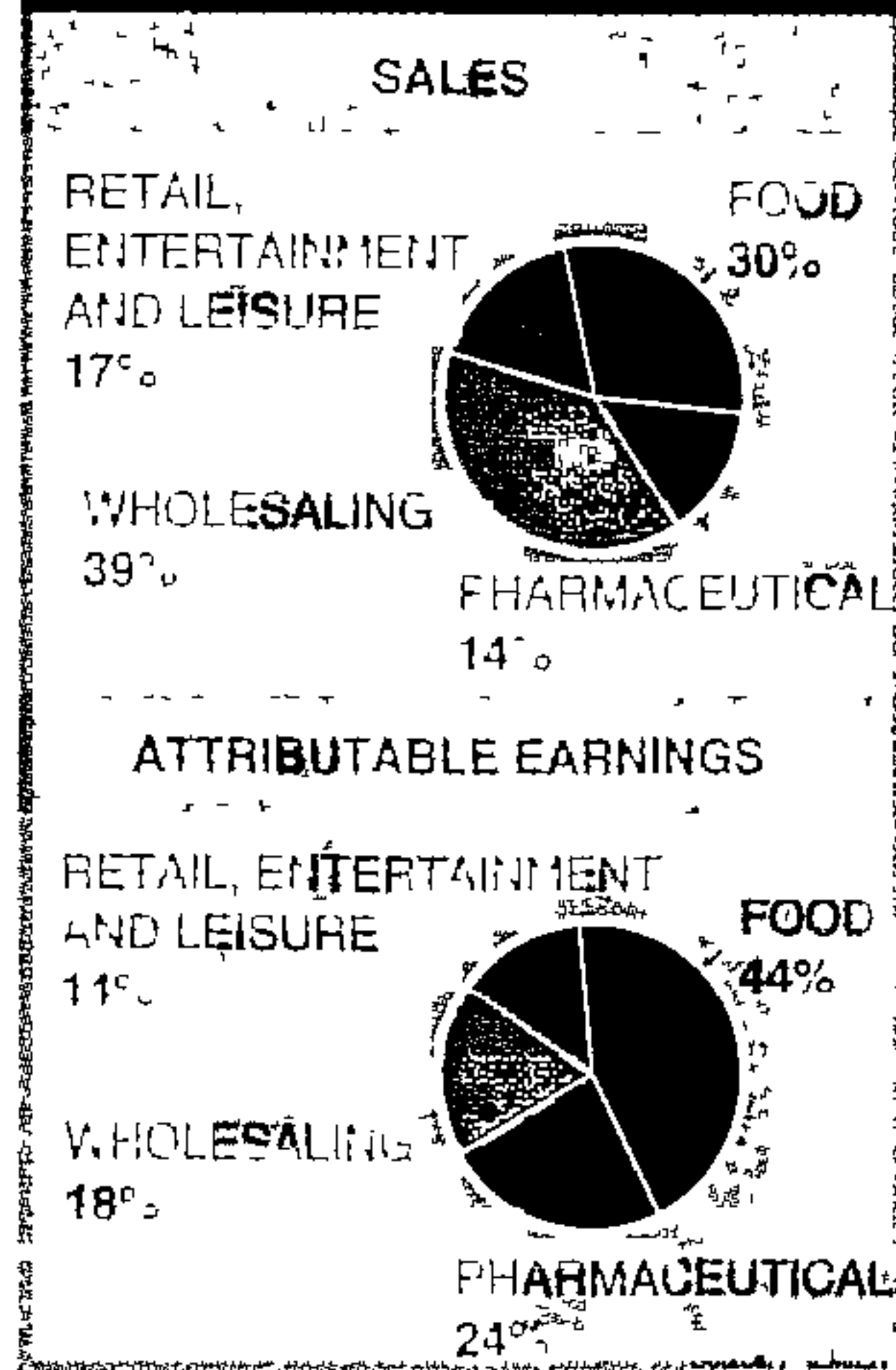
went to R257m, up R132m or a little more than double 1993's position, short-term borrowings at R192m compare with 1993's R119m. Gearing has increased to 25%, still not unduly high.

Notably, the value of trade in Premier's shares has climbed from R35m in 1990 to R530m in the 1994 year and liquidity should be boosted further by the 10-for-1 share split last April.

Wrighton's tenure at Premier — he has been with the group for 37 years — has been marked by his growing involvement in social responsibility programmes and in his support for affirmative

action. He is remembered for his participation in a protest march by union members which left the organisers somewhat nonplussed ("I'm also a worker"). It is a role which has sat uneasily with some of his fellow executives and it must be unlikely his successor Doug Band will adopt the same profile. Nevertheless, over the past five years, characterised by recession and political unrest, shareholders'

PREMIER'S PROFIT SOURCES, 1994



Fri 16/9/94
wealth has increased a compound 53%,
something not matched by Premier's com-
petitors ~~(232)~~ (232)
Wrighton is obviously reluctant to com-
mit Band in his comments on the com-
pany's prospects; about all he is prepared
to offer is that he expects real growth.
Assuming that means an increase in EPS
of, say, 15% nominal (allowing for some
growth in Foods and taking account of
labour dissatisfaction at its biggest cus-
tomers), then the prospective EPS of about
36c gives a p/e of 17, probably fairly priced
in the circumstances. *Marylou Greig*

From page
10
19/94

Si Times (Buss)

HICOR, the listed consumer electronics group which owns 82% of Allwear, has posted interim profits of R793 000 compared with a loss of R30 000 for the same period last year, writes **JEREMY WOODS**

But the first half is the worst one for Hicor and retail analysts believe Hicor's year-end results will show profits of well over R3-million — or earnings per share of 6c against 2,3c last year.

Allwear has made a dramatic turnaround in profits and exports Allwear manufactures school wear and some fashion clothing and this year should make profits of R3,5-million.

"Both groups are going well. Allwear has full order books to the end of this year while Hicor's consumer electronics business is growing fast," said Renier van Rooyen, who runs Hicor.

Hicor's net asset value is 41c a share. ~~(232)~~ (232)

In the last 12-months, Allwear's share price has rocketed to 190c from 60c, while Hicor's has only moved from 17c to 38c. 18/9/94

Competition Board moves home

STIMES (Buss)

THE Competition Board is about to fall under the jurisdiction of Trade and Industry Minister Trevor Manuel next month.

However, the transfer from the Ministry of Public Enterprises is unlikely to signal an imminent hardening in the government's anti-trust and competition policies.

In the run-up to the election a tough anti-trust approach was promised as one of the planks of the ANC's economic policy. After almost five months in government the policy has been quietly relegated to the party's back burner.

References to anti-trust policy have been omitted from the latest draft of the reconstruction and development programme. The original document said conglomerate control over a wide range of activities within the financial, mining and manufacturing sectors should be reduced by invoking anti-trust policies.

"Mr Manuel has enough other battles on his hand. Competition policies are not a priority at the moment," says Jos Gerson, economist at Davis Borkum Hare.

Other economists describe the ANC's commitment to tough anti-monopoly action as "ideological baggage" which could re-emerge as an issue ahead on the next election.

Sources in Trade and Industry admit that not much thought has been given to setting up a commission to investigate competition policies.

Mr Manuel announced the com-

By SVEN LUNSCHÉ

mission shortly after his appointment, stating that it would examine pyramid structures and "anti-competitive" behaviour.

A "deconcentration" commission announced by President Nelson Mandela last year, in which government and business were to consider the problems associated with concentration of economic power, has also to see light of day.

A spokesman for Mr Manuel says the government is still committed to legislation promoting stronger competition.

"The lack of competition in the manufacturing sector can be traced to the concentration in the sector.

"It is something we will address, but we still have to work on the mechanics of how to do it," the spokesman says.

Pierre Brooks, chairman of the Competition Board, says that soon after the transfer he will meet Mr Manuel to discuss strengthening the administrative power of the board.

"While the commission will decide on the details of greater power to the board, Mr Manuel and I seem to agree on the direction of future competition policy," Mr Brooks says.

He proposes establishing three new institutions responsible for administration and implementation of competition policy.

be raised to "punitive and deterrent" levels and possibly extended to permit private actions for damages.

He also proposes that restrictive trading practices, such as price-fixing, market sharing, resale price maintenance and collusive tendering should be outlawed in an amended Competition Act, and by government notice as is the case at present.

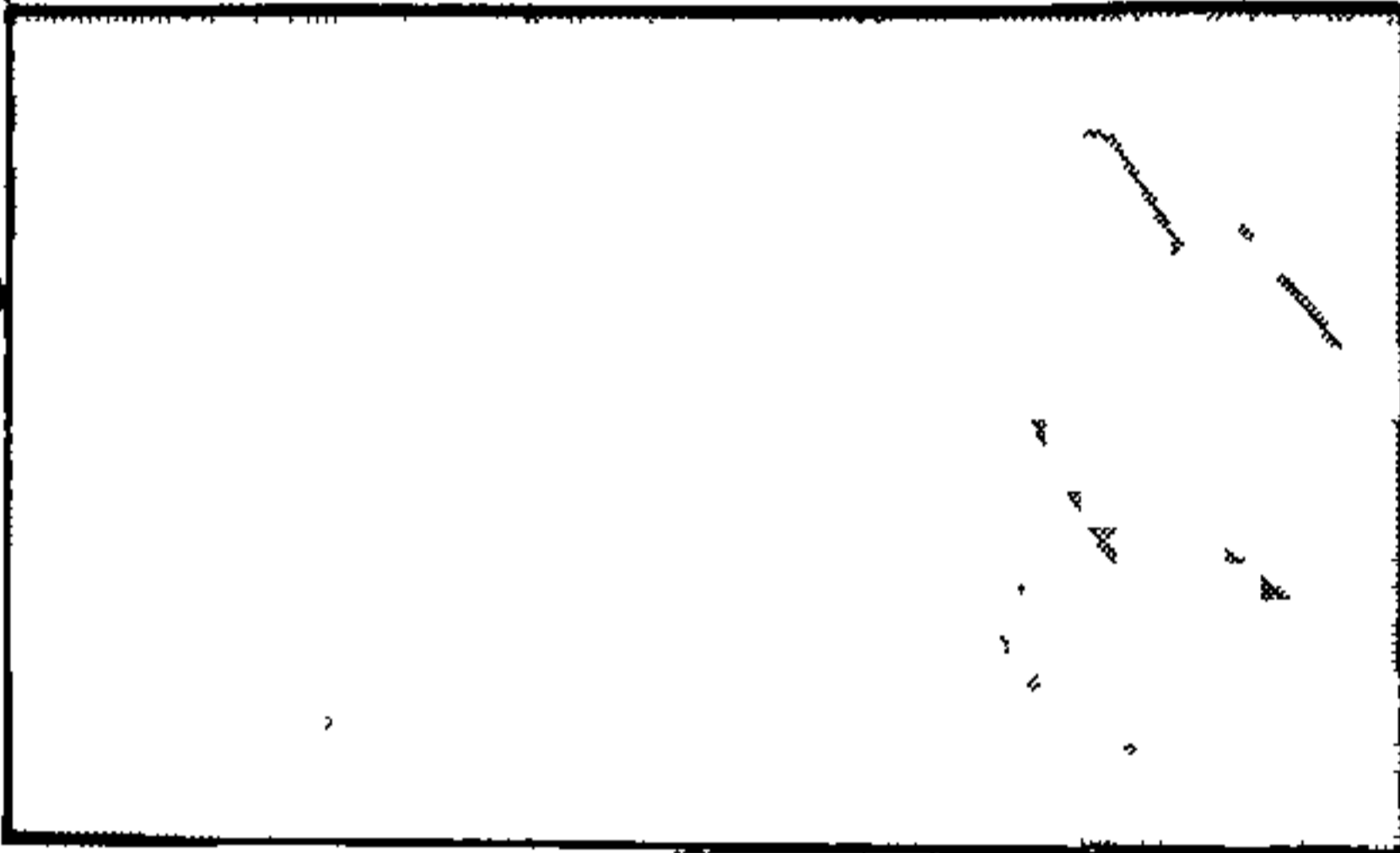
Malcolm Stewart, senior partner at stockbrokers Malcolm & Stewart, believes that competition, and even anti-trust policy, could re-emerge as an economic issue ahead of the next election.

At a recent conference Mr Stewart said that the "honeymoon period" between government and industry would last for 1,000 days, giving companies time for voluntary actions such as unbundling.

"If, in the government's mind, not enough has been achieved in its first three years and it faces the prospect of losing the next election, then far stronger action will be taken," he said.

Competition policy could also be given renewed emphasis from foreign investors US businessmen, have on numerous occasions remarked that SA conglomerates are hampering their access to the SA market.

They are likely to raise these concerns tomorrow at the inaugural meeting of the US-SA Business Development Committee.



PIERRE BROOKS

□ The Special Court for Competition Appeals to deal with appeals against decisions by the tribunal

□ The Competition Tribunal, which will act as the reconstituted Competitions Board

□ The Special Court for Competition Appeals to deal with appeals against decision by the tribunal

Mr Brooks is seeking heavier fines against contravention of competition law, up from the current maximum of R100 000. This should

RMBH likely to show good growth

BiDay 19/9/94

SAMANTHA SHARPE

A FULL year's results from Rand Merchant Bank Holdings (RMBH) share-swap partner NBS and its stake in Aegis would give a solid boost to the financial services group's results, analysts said at the weekend.

They expected "very good growth" from RMBH and subsidiary Momentum Life, with the group forecast to show earnings growth of between 34% and 40% for the year to June, compared with growth of 20% in June 1993.

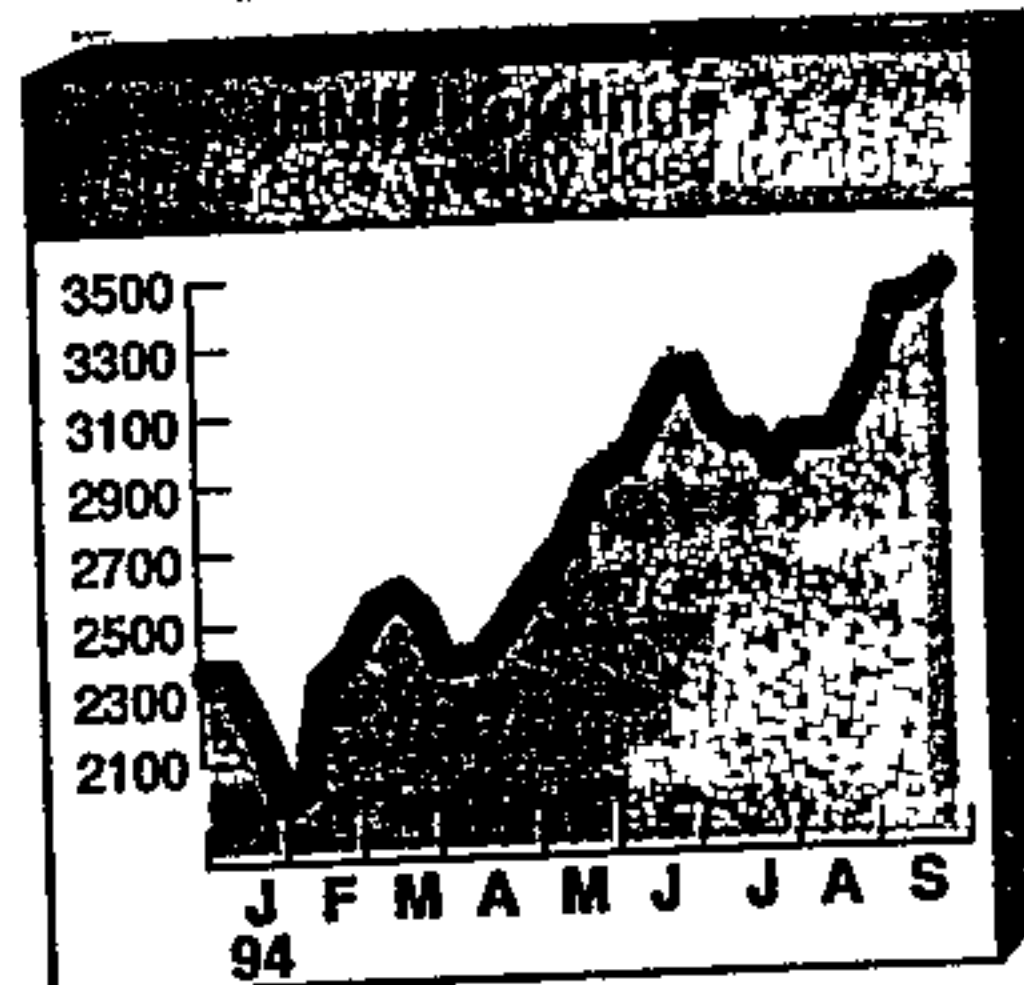
This would mean a final dividend of between 43c and 45c compared with 32c at the same time last year.

Momentum was forecast to show earnings growth of between 30% and 32%. Tomorrow's results would, for the first time, incorporate a year's gains from RMBH's 20% cross-shareholding with NBS, which came into effect in July last year.

The 1994 earnings would also reflect a full year's income from short-term insurance company Aegis compared with the three months' net income included in last year's results and would be sure to kick in to RMBH's bottom line.

An analyst said the group was a good fit for the trading bank mould and with international changes it could only benefit from being in the merchant banking business.

The group's merchant bank, RMB,



recently reported a 25% increase in attributable income to R55.1m for the year to June (232)

Edey Rogers analyst David Southey said the group's Australian operations would probably support growth in earnings a share of about 40% to 113c a share.

But better-than-expected profits from subsidiary Australian Gilt Holdings — registered with the Australian Reserve Bank — could knock this up higher.

RMBH reported a 38% rise in its dividend to 14.5c a share for the six months to December from a 39% increase in earnings a share to 41.7c. Net attributable income surged 53% to R25.2m. Momentum Life raised premium income 12.6% to R701m for the same period, with earnings a share up 33% to 21.2c and the dividend up 33% to 12c.

Six major mining prospects coming to fruition

Star 11/19/94

Minorco sitting pretty

■ BY DEREK TOMMEY

Anglo American must be feeling satisfied because after years of struggling to make overseas associate Minorco a major natural resources company, its efforts have been rewarded

Minorco reported at the weekend that in addition to considerable growth in other areas, it was now in a position to bring to production six large mining projects within the next four to five years

This achievement would make it one of the world's major suppliers of copper and nickel and an important producer of gold

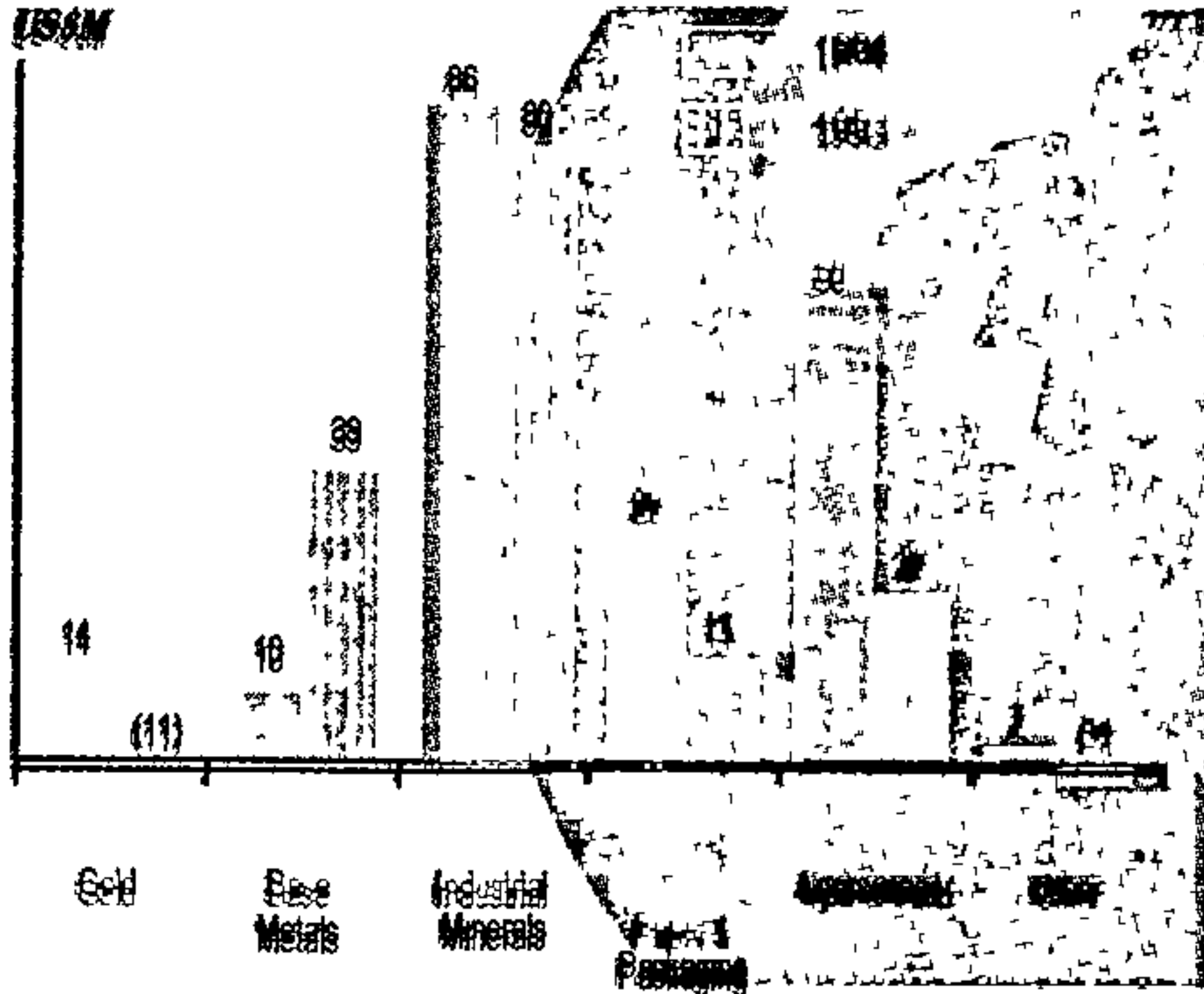
One of the projects is Cerro Vanguardia in Patagonia, Argentina, in which Minorco has a 49 percent stake. Drilling has established an ore body containing 2 million ounces of gold and 16 million ounces of silver

"This was a real exploration success for Minorco as Patagonia was not known for gold production," a spokesman said

"We have a mine, but do not know how large," he added

It could be in production by mid-1998 and would probably produce six to seven tons of gold a year and a large tonnage of silver

Another project is Salobo in Brazil. Minorco has a 37 per-



Minorco's business segments with operating earnings of \$201 million.

cent interest in the mine, which contains 1 billion tons of ore with a grade of 0,96 percent copper and 0,52 percent gold.

If the project is proved to be viable, it could be operating by 1999 and eventually produce 200 000 tons of copper a year and seven tons of gold

Because Salobo is in the Amazon jungle, discussions are being held with environmental authorities to ensure that it is cleanly mined.

A third major project is Col-

lahausi in Chile. Minorco has a 29 percent stake in the operation, which is estimated to contain 2 billion tons of ore with a grade of 0,9 percent copper.

A complication is that Shell is selling its one-third stake in the project. Minorco will not know for another month who its new partner will be or whether it will exercise its preemptive right and to take over the Shell stake from the successful bidder

Collahausi could be in production by the end of 1998

A fourth project is Quellave-

co, situated near the southern border of Chile, and north of Minorco's 74,9 percent-owned Chilean copper mine, Mantos Blancos

Quellaveco is estimated to contain 388 million tons of ore with an average grade of 0,90 percent copper. The first phase of the feasibility study should be completed by year-end. It will take another two years to decide on how to treat the ore

Minorco also has a 5 percent stake in a major nickel deposit, Loma de Hero, in Venezuela. This is estimated to contain 30 million tons of ore averaging 1,5 percent of nickel

A decision to open the deposits will be taken in the first quarter of next year. The mine could be in production in the first quarter of 1998

Ivernia West has won its court case over its preemptive right to acquire the remaining 52,5 percent of the Lisheen project in Ireland, which contains 22,3 million tons of ore averaging 11,6 percent zinc, 1,9 percent lead and 26g/t silver.

Although there may be an appeal against the decision, Ivernia is confident it will not succeed.

Planning, therefore, can go ahead. Planning should be completed by year-end, and production could start in 1998.

Liquidations on wane as economy starts to pick up

Star 20/9/94

■ BY CHARLOTTE MATHEWS

A further indication of economic recovery was signalled by yesterday's release of liquidation and insolvency figures by the Central Statistical Service (CSS), which reinforce a declining trend

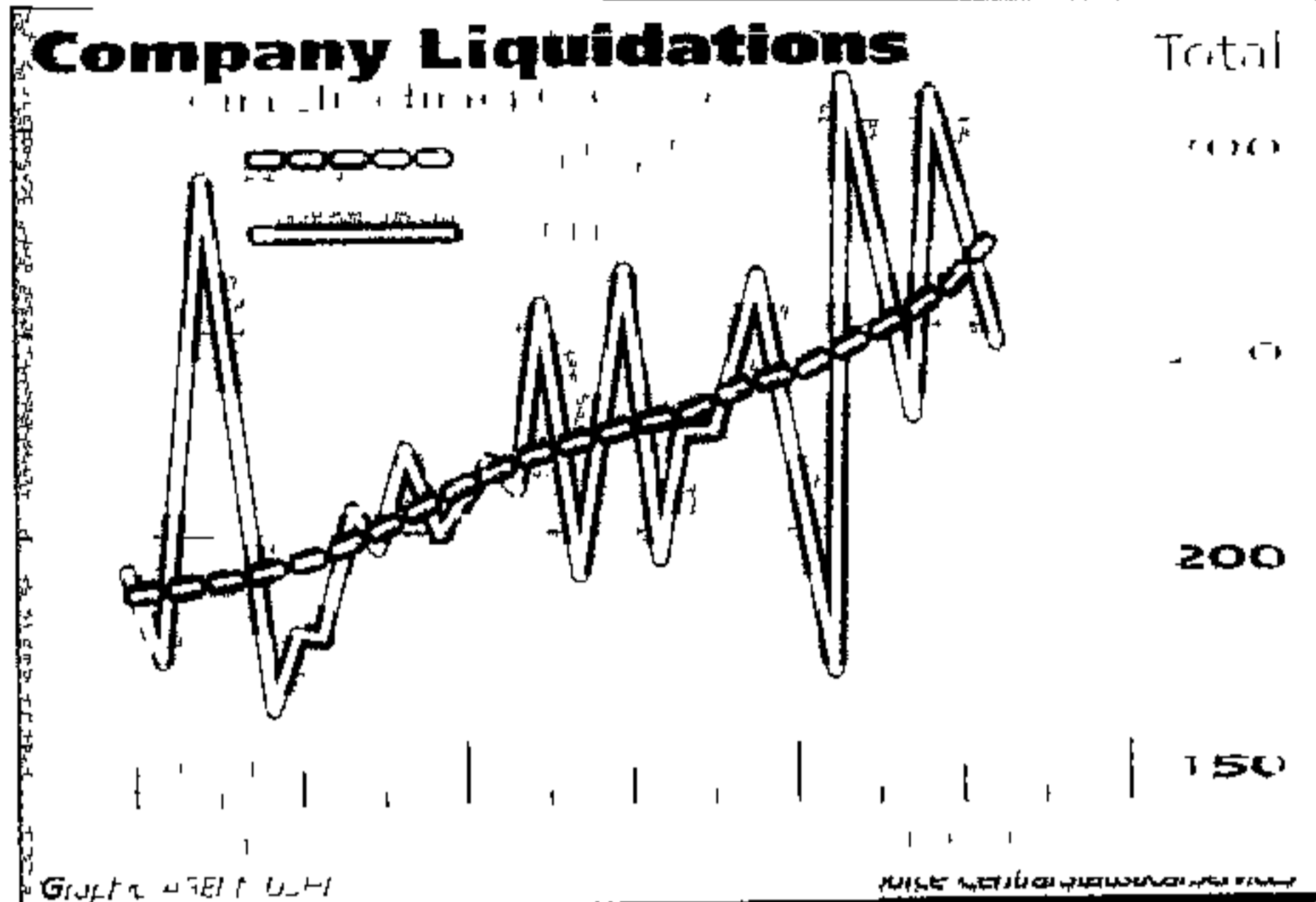
The figures show the number of liquidations of companies and close corporations in July dropped by 8 percent to 240, compared with June, but still 53 above July 1993

Two sectors continued to report a high incidence of liquidation

There were 44 liquidations in the manufacturing sector, against 32 in July 1993, and 105 in the financing, insurance, real estate and business services sector, against 52 a year ago. (237)

Insolvencies, which relate to individuals and partnerships, declined further to 224 in June

In the three months to June, insolvencies were 41,2 percent below the same period in 1993 and 30,5 percent below the



preceding three months

Afrikaanse Handelsinstituut (AHI) economist Johan Rossouw said yesterday the decline in liquidations was not surprising in view of the upswing

Although it would take some time before the benefits of recovery worked through, liquidation statistics could be expected to bottom out now

As far as the real estate sec-

tor was concerned, a number of people had started businesses in anticipation of the benefits the new SA would offer to that sector and got their fingers burnt

The bulk of liquidations in that sector probably arose from the fact that the benefits of recovery take time to filter through to real estate and for some people the recession lasted too long

Liebenberg looking at privatisation (232) and civil service (230)

ARG 20/9/94

Political Staff

NEW Finance Minister Chris Liebenberg has signalled that privatisation and trimming the civil service will be two prongs of his strategy to boost the country's economy.

Mr Liebenberg, sworn-in as Derek Keys's replacement yesterday, also said at a media briefing that he had been asked by President Mandela to draw up proposals on how to cut government expenditure.

The African National Congress has traditionally been lukewarm about privatisation, but Mr Liebenberg said he had been involved in discussions with government leaders on the issue and these had been "progressing very nicely".

He said the economic policy

he would like the government to follow would demand more discipline, "initially quite a bit of belt-tightening", and "some privatisation".

Turning to the president's request for proposals on how to address government expenditure, Mr Liebenberg pointed out that the civil service salary bill amounted to 54 percent of all such spending. In some other countries the figure was only 30 percent.

"Whichever way you look at cutting government expenditure, you have to address salaries," he said, adding that the problem appeared to lie with too many civil servants rather than the level of salaries, and an emphasis should be on increased productivity.

SA urged to turn to privatisation

LT 21/9/94 (232)

By ARI JACOBSON

SA MUST go the privatisation route within two years, otherwise the country will be seriously left behind, warned Norman Bergel, MD of Global fund manager Alliance Capital Management, yesterday.

Speaking at the inauguration for the Advancement of Black Accountants of Southern Africa (Abasa) conference, Bergel said that with many alternative investment opportunities, and particularly considering the funds in Europe and America, the private convicted parasites in the country, for example, could acquire funds.

Bergel warned that portfolio managers were interested in the "bottom line" and this meant that social development projects were no-go areas.

He stressed, "Foreign fund managers are not going to make an exception for SA by taking on additional risk."

Alliance Capital came to SA four months ago through the

inc of the Southern Africa Fund on Wall Street and has been at 100% of the investment on the JSE.

Bergel pointed out that investors had been disappointed with the return of the fund since 1990 of \$17.90 compared to the JSE of \$30 higher at \$16.60 in 1995.

He said the fund is now contemplating a turn to this issue and was hoping to increase the amount invested from the current \$100m to about \$250m by 1995.

However, Bergel said it was difficult to be more out of ten in terms of difficult — from an investment perspective.

Other problems were a lack of information about listed corporations and poor financial statements, lack of tradeability in local stocks and the "unsavoury" shareholders — large institutions and corporations had over the time changed the economy.

In addition, Bergel said, SA was geographically isolated and still consisted predominantly of a third world population.

However, Bergel said the "black component so close to this large third world sector is extremely exciting. That is why we are looking at infrastructure and retail stocks."

But he also pointed to leisure and export-orientated companies as growth areas for the country.

Bergel stressed that SA's unlisted companies were still not meeting the criteria for Allied's funds.

"We have recently looked at 30 proposed black business projects. Only two were up to our investment standards."

He said that it was not the duty of foreign fund managers to volunteer seed capital for emerging black businesses.

"In the UK, for instance, the large corporations put aside venture capital and once businesses are up and running, fund managers came in and invest."

"I gather that venture capital is on its way to SA — it's just taking its time."

Decision to restructure bears fruit for Fralex

MICHAEL URQUHART

ENVIRONMENTAL services management company Fraser Alexander increased attributable earnings 38% to R19,7m for the year to June as the company took advantage of the improvement in business conditions ²¹¹⁹¹⁴

Turnover on continued operations rose 16% to R375m, with net income from continuing operations ahead 23% at R31m. Attributable income prior to extraordinary items was pegged 36% higher after last year's figure had been pulled down by losses from discontinued operations.

Extraordinary items of R4,2m were due to losses related to goodwill in the purchase price of an acquisition, the lower recoverable value of loans to the Group Share Trust and provision for the possible discontinuation of an offshore operation.

Fraser Alexander paid a dividend of 42c on earnings a share of 125c.

Chairman Peter Flack said all the divisions had shown an improvement in earnings, with the construction, bulk materials handling and waste divisions putting in better than expected performances.

He said the higher earnings were the fruits of restructuring in the 1993 financial year, the marginal turn in the fortunes of the economy and a good performance from employees and management.

The concrete division was the only one which did not increase its business activity, but Flack said product innovation and cost control enabled the division to

Fraser Alexander Group



improve its earnings

The improvement in commodity prices had benefited the mining division, which had increased the volumes of tailings it had handled. The division was developing a new colliery at Witbank, based on high-grade deposits and closer to major markets than its existing mine (48) (232)

Flack said the coming year was likely to bring strong growth. The company was well placed to benefit from the construction and electrification schemes associated with the RDP.

He said there were also a number of possible acquisitions in the pipeline.

Fraxex, whose sole asset is a 57,8% stake in Fraser Alexander, increased attributable earnings 33% to R11m. Dividends were 22,5c on earnings of 68,9c a share.

Board rules on cement cartel

232 CT 21/9/94

From ROBYN CHALMERS

JOHANNESBURG. — The cartel that fixes prices and market share in the R1,4bn-a-year cement industry should be scrapped, the Competition Board has ruled.

The decision — which has sent shock waves through the building materials industry — is understood to have followed pressure from Trade and Industry Minister Trevor Manuel and Public Enterprises Minister Stella Sigcau.

It is a major blow for cartel members Pretoria Portland Cement, Anglo-Alpha and Blue Circle Cement. Analysts believed it could lead to sharply diminished profits.

The board's long-awaited report was handed to Manuel last week following a 15-month investigation. He is expected to make a ruling on the board's recommendations within weeks. Manuel and Sigcau's opposition to the cartel is in line with the recon-

struction and development programme's opposition to market collusion.

Competition Board chairman Pierre Brooks said a number of factors were considered. The investigation was conducted with the co-operation of the SA Cement Producers' Association (Sacpa).

Some of the arguments advanced by Sacpa were contradictory. For example, in arguing for the retention of the status quo it pointed to the capital intensive nature of the industry and the high risk involved and moderate return on investment. At the same time, it dismisses the notion that there are substantial barriers to entry.

Cartel members were consistently able to make profits and achieve returns on investment that were better than most other capital intensive companies. This was despite operating at about 62% of their collective capacity

country-wide and despite the economic recession.

Sacpa argued that Cement Distributors of SA (CDSA), which is owned by the three cartel members, led to cost savings.

Brooks said the benefits of the transportation model, when assessed in relation to the industry's size, were not significant and did not justify continuing the exemption.

Blue Circle Cement chairman Graham Hardy said the organisation did not agree with the board's recommendations, but the exact impact of the report was not yet clear.

"If the recommendations are ratified by Manuel, there could possibly be adverse implications for certain cement consumers and industry associate employers."

The industry subsidised the price of cement transported to rural and distant areas. This might no longer be possible.

Anglo knocks 'purist competition policy'

(232)

CT22/9/94

From MUNGO SOGGOT
and SAMANTHA SHARPE

JOHANNESBURG — Business had nothing to fear from the RDP White Paper, business organisations said yesterday.

However, commenting on the White Paper's firm stand on anti-trust legislation, Anglo American said: "SA cannot afford a purist competition policy that enfeebles the private sector's capacity to compete internationally. A modest, practical, achievable policy is in the interests of all."

A spokesman said anti-trust legislation was being regarded increasingly as a political indulgence that only wealthy and developed countries could afford. But Anglo endorsed the opening up of the economy to more people. It also supported an inquiry into competition policy, but this would have to include all stakeholders — not just parliamentarians — to inspire confidence.

Business SA president David Brink said: "As far as anti-trust policy is concerned there is already strong anti-trust legisla-

Reaction to RDP Paper boosts gilts

tion so there are unlikely to be any significant changes"

Lawyers said the document went no further on anti-trust legislation than the ANC's original RDP. The Trade and Industry Department's White Paper later this year was likely to give more details.

JSE president Roy Andersen said the thumbs down for pyramids was an "important input" into the debate about their role. The JSE believed pyramids were a good way to achieve black empowerment.

Sapa reports that the Afrikaanse Handelsinstituut said the document's credibility would depend largely on the extent to which the public identified with it.

It said cross-subsidisation, as envisaged

with service charges, was inclined to be "highly inflationary"

Positive reaction to the RDP White Paper also helped boost the capital market yesterday, with bulls refusing to be swayed by weaker international bond markets.

Dealers said strong offshore buying in a stock-depleted market was another culprit behind rates breaking through the resistance levels of 16,48%, then 16,36% on the key government R150 stock.

Market sources said the London office of US-owned JP Morgan Securities had placed an order for Transnet one year bonds — T13s — worth R460m.

"Foreigners could be buying in anticipation of a good international credit rating," one dealer said. An analyst said: "Investors who have been sitting with their funds in the money market for the past few months have woken up to the fact that they could get higher yields in the bond market."

He said institutional buying on Tuesday had left jobbers short, forcing them to buy stock yesterday. This was strengthened by purchases from "strong hands".

Industrial division likely to lift Anglovaal earnings

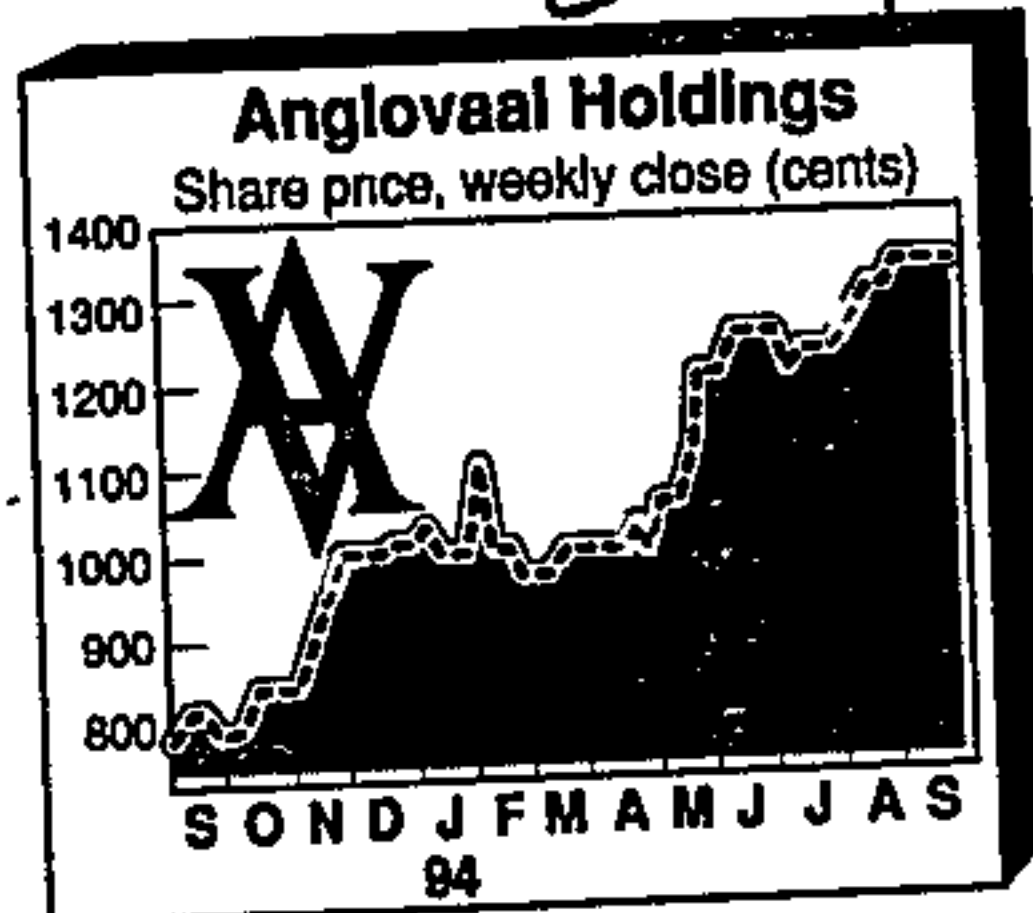
MICHAEL URQUHART

MINING and industrial holding company Anglovaal was expected to post attributable earnings of about R330m for the year to June, lifted 12%-14% on the previous year by strong results from its industrial division.

Anglovaal Industries, the main contributor to Anglovaal's earnings, posted an 18% rise in attributable earnings for the year. Other major contributor Middle Witwatersrand posted flat earnings for the year. Anglovaal is due to report today.

But analysts said dividend cover would remain high to build up the group's cash reserves. This cash would be used to fund the group's potential mining projects, especially the Slaaihoek nickel mine.

One analyst said having a substantial cash reserve for use when funding was needed to develop Slaaihoek would give the group greater flexibility on its funding options.



If the company did come to the market to raise funds for Slaaihoek it would be with a very good project. Anglovaal had raised R320m with the issue of 2.4-million ordinary shares in June this year to help fund the company's acquisition of Willards.

Capex on Slaaihoek — a joint venture between Eastern Transvaal Consolidated and Midwits — was likely to depress earnings for the 1995 financial year. Spending for the current financial year on the project is estimated to be in the region of R43m.

22/9/94
The major unknown in Anglovaal's results was the profit it would make from its trading portfolio and from its wholly owned mining subsidiaries

Although Midwits — which receives its main earnings from De Beers' Venetia diamond mine via Saturn — posted flat earnings for the year to June 1994, analysts said earnings from Midwits would jump once Venetia had recouped the money it had spent developing the mine

Venetia currently pays 12.5% of its earnings to Saturn, but once the mine has paid for its development costs this figure will jump to 50%

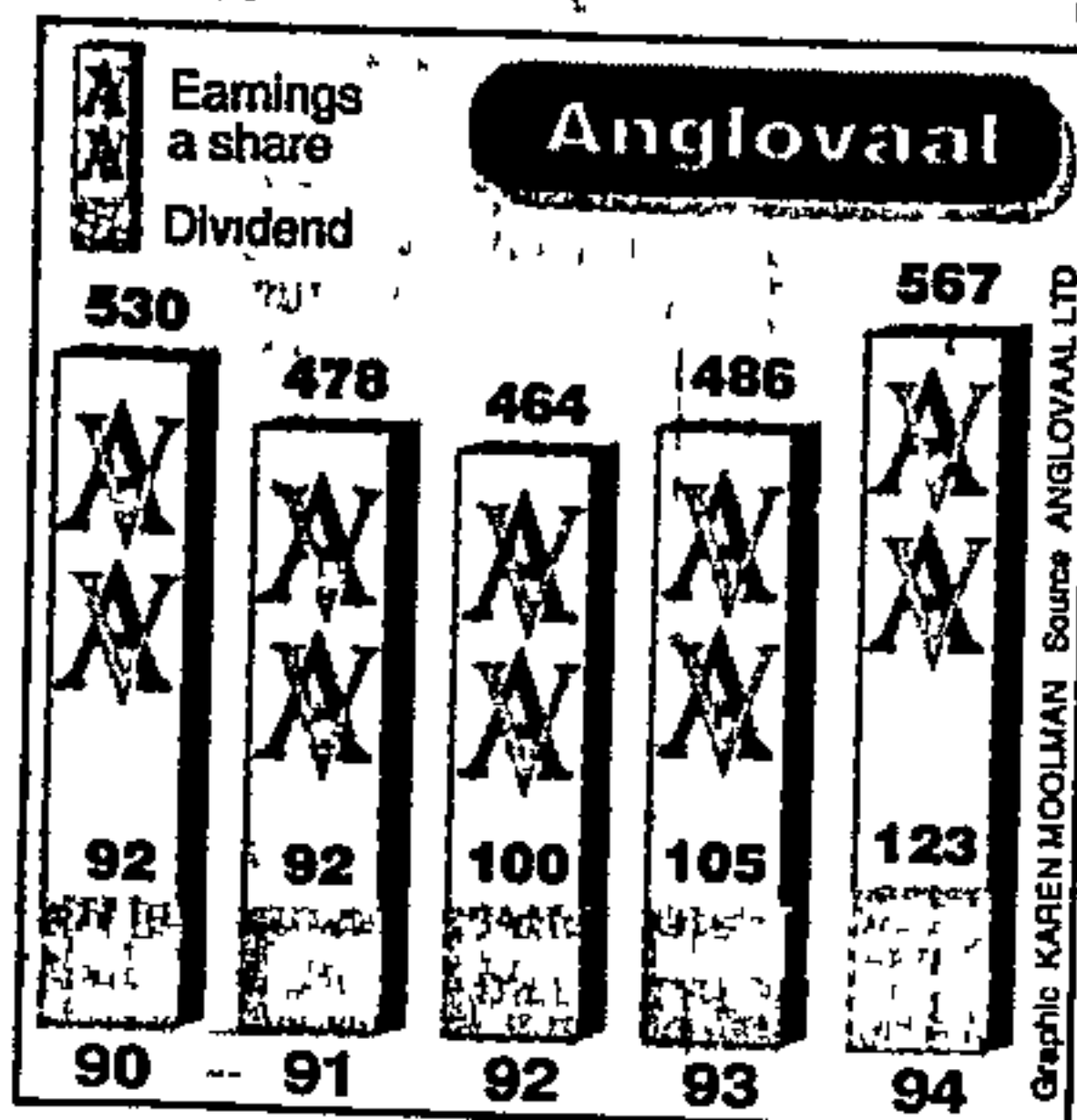
An analyst said De Beers could delay this by carrying out additional capex. The Anglovaal share price had a very high rating as it had already discounted the increased earnings flow from Venetia, he said

As a result any delay in the flow of earnings from Venetia would have a heavy impact on the Anglovaal share price. Anglovaal's share price closed at R135 yesterday. (232)

Anglovaal lifts earnings 17%

Biday 23/9/94

MICHAEL URQUHART



MINING and industrial holding company Anglovaal increased attributable earnings 17% to R342m for the year to June, lifted by mainstay Anglovaal Industries.

The higher earnings were achieved on the back of a rise in turnover to R9,9bn, largely as a result of the industrial division's rise in turnover and an increased contribution from mining.

Anglovaal chairman Basil Hersov said better dividends had been paid by the group's gold mines, thanks to a higher gold price, while volumes rose at Associated Manganese Mines of SA (Assmang).

□ To Page 2

Anglovaal

Biday 23/9/94

□ From Page 1

Dividend cover was maintained at the same level as last year, with a final dividend for the year of 88c, bringing the total to 123c, on earnings of 567c a share.

Hersov said the group was sometimes criticised for its conservative dividend policies, but he felt it had been important in building the company's finances.

The percentage rise in operating profit lagged turnover as pressure had been put on margins by Anglovaal Industries' surplus capacity. Operating profit moved up 13% to R813m. But a slight fall in the tax bill to R252m meant after-tax profit rose 21% to R622m. Hersov said improvements across the board should lead to a further improvement in earnings this year.

The rise in the industrial division's importance to Anglovaal's earnings was not a deliberate policy, but a result of the long lead time of mining projects. There would be decisions on a number of mining projects in 1996, and the income would restore the balance between mining and industrials to 50/50. The Slaaihoek nickel prospect and Target gold prospect were under way.

Anglovaal has a 12,5% royalty stake in De Beers' Venetia diamond mine, through subsidiary Saturn Mining, and this would

increase to 50% of Venetia's attributable profit once De Beers had recouped its capital expenditure.

Hersov said earnings from Venetia would be flat until then, after which there should be a substantial growth. This would probably coincide with the coming on stream of Slaaihoek and Target.

Target is being explored via development from the adjacent Loraine gold mine. Hersov expected that there would be enough gold coming out of the development to repay development costs.

The Sun project, north of Target, was too high-cost to develop as a separate mine, and would be developed only in conjunction with Target. This would mean development from Target, or a separate shaft which served Sun and northern Target.

Hersov said it would be too costly for Anglovaal to develop the projects by itself. Partners would be sought and the risk split. But a cash pile had been built up, putting the group in a position of strength when the projects were developed.

Meanwhile, the third generation of the Hersovs and Menells have moved into Anglovaal with the appointment of James Hersov and Rick Menell as directors.

COMPANIES

Fin 23/9/94 ~~232~~ 232

TEMPORA/ETTINGTON

Bubbling up

Tempora

Activities: Investment holding company Major investments include Dalys, Cadswep

Control: Suncrush 44,4%

Chairman & CE: R D Hamilton

Capital structure: 10,8m ords Market capitalisation R210,6m

Share market: Price 1 950c Yields 1,8% on dividend, 3,4% on earnings, p e ratio, 29,6, cover, 1,9 12-month high, 2 125c, low, 1 625c Trading volume last quarter, 492 000 shares

Year to June 30	'91	'92	'93	'94
Investment inc (Rm)	3,8	8,3	19,8	35,7
Net income (Rm)	3,4	7,3	15,1	27,0
Earnings (c)	31,2	36,4	50,6	65,8
Dividends (c)	32	32	41	35
Tangible NAV (c)	1 861	1 878	2 262	2 427

Financial 1994 was characterised by good fortune for the investment interests of Natal-based beverage group Suncrush

Tempora Investments, housing the beverage shares, continued to perform well in the year to June, with EPS up a pleasing 30% to 65,8c The share, at R19,50, has made little headway since November It stands at a 20% discount to the June 30 NAV; if investments are valued at current market prices the discount is 13%

The newly acquired Ettington Investments (formerly DAB Investments) saw EPS decline 80% to 6,8c. However, figures are not comparable, distorted by its cash shell status before the acquisition by Suncrush The share has climbed steadily over the past 12 months, almost doubling to 425c, and for those Tempora shareholders who followed their rights at 215c, the appreciation is particularly pleasing

In July last year, Suncrush acquired a 49,9% stake in Dab Investments for R5m A month later the trust acquired Tempora's nonbeverage investment portfolio — comprising shares in Saficon, Sakers and Seardel — for R13,5m This translated into a loss of R6,5m for Tempora

However, the market value of Tempora's listed investments increased by year-end to

Ettington

Activities: Investment holding company Major investments include Saficon, Sakers and Seardel

Control: Suncrush 89%

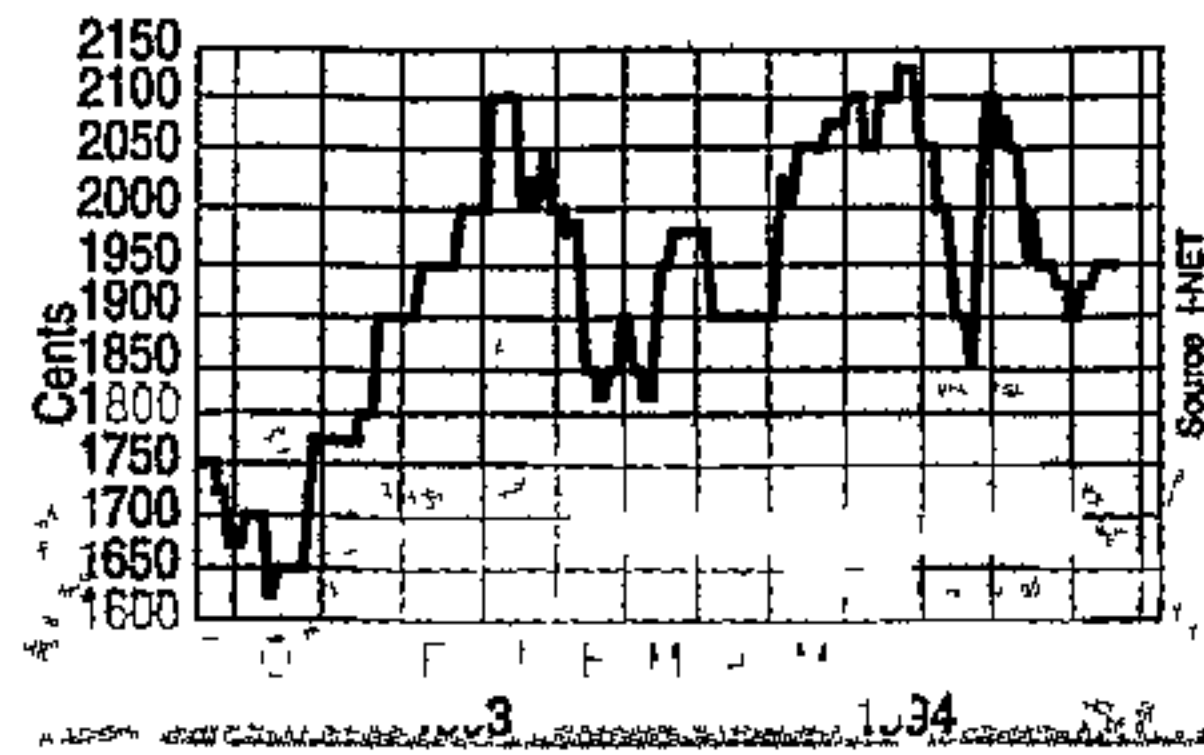
Chairman & CE: R D Hamilton

Capital structure: 10,8m ords Market capitalisation R45,9m

Share market: Price 425c Yields 1,5% on dividend, 1,6% on earnings, p e ratio, 62,5, cover, 1,1 12-month high, 475c, low, 195c Trading volume last quarter, 64 000 shares

Year to June 30	'91	'92	'93	'94
Investment inc (Rm)	3,6	3,0	2,0	1,2
Net income (Rm)	3,5	3,2	1,6	0,7
Earnings (c)	76,1	69,7	34,7	6,8
Dividends (c)	94,0	40,0	1067,0	6,2
Tangible NAV (c)	225	255	215	471

Tempora Investment



R793m, up 16% Investment income jumped 80% to R35,7m The biggest increase in value was the 84% growth by SA Brews Tempora's largest investment is in Cadbury Schweppes, with 7,6m shares (equivalent to 46% of year-end NAV), followed by 3,3m Dalys, 1,9m SA Brews and 1,3m ABI shares.

A rise in operating expenses and a marginally higher tax rate of 24% reduced the increase in Tempora's earnings to 78,5% at R26,97m Because of STC, the board increased cover from 1,2 to 1,9 times, and the dividend was cut

Last week Ettington announced a rights offer to raise about R43m for further investment Apart from the nonbeverage interests acquired from Tempora, Ettington holds 191m Lonrho Sugar shares At year-end the value of its portfolio stood at R51,5m, this week it had increased to R55,3m, giving a NAV of 506c The share's discount to current NAV is now 16% Neither share is expensive, given the quality of the underlying assets The new management of Ettington decided not to apply for the reinstatement of its listing on the London Stock Exchange

Marylou Greig

Strike costs Pick 'n Pay

Star 23/9/94

BY CHARLOTTE MATHEWS

Pick 'n Pay has reported a 38 percent decline in its bottom line in the six months to August after losing R30 million during its July wage strike

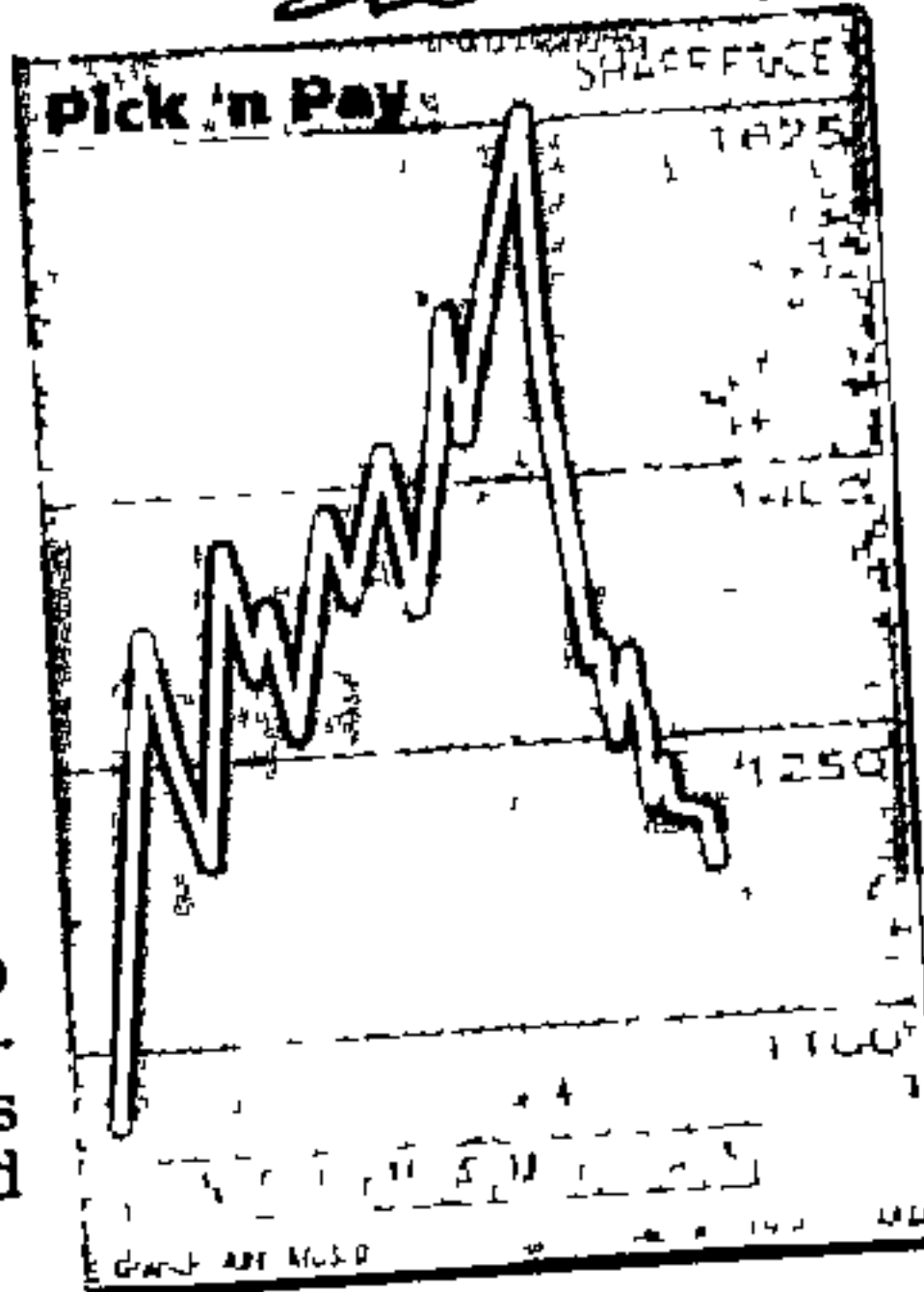
Chairman Raymond Ackerman said yesterday the period had been the most difficult he had known in 44 years of retailing

As well as the strike, two stores were burnt down in Bophuthatswana and trading was affected by uncertainty ahead of the election.

Bottom-line income was R26,8 million, against R43,4 million in the same period in 1993, which translated into earnings of 17,14c (27,75c) a share. The dividend is 7c (8,25c).

Turnover went up 6 percent to R3,4 billion and, says Ackerman, would have been nearly 9,5 percent better if it were not for the strike

The tax rate rose to 46,6 percent from 40 percent, reflecting the impact of higher secondary tax on companies



(STC). No STC was payable in the six months to August 1993

The purchase of 50 percent of the Score supermarket group with effect from March brought in a R0,5 million dividend

Expenses were held below budget and shrinkage was well controlled, even though slightly above budget, partly due to the strike, Ackerman said

The strike occurred at the height of the winter selling of textiles, leaving the group with

a massive stock which it could not sell and subsequently had to mark down

A similar situation prevailed in the hardware section

Only one store was opened in the six months to August, but four new Pick 'n Pay stores, two Boardman's and four Price Club outlets will be opened in the second half-year and six stores refurbished

Massive expansion in the franchising of Score and Pick 'n Pay stores is planned for 1995

Ackerman said the group would be very aggressive in the second half-year and would strive to make pre-tax income of R130 million, against 1993/94's R166,9 million — "but there is a very strong chance of us coming back more strongly than that"

The shares closed 50c down at R11,25 yesterday. Before the strike they were R16,25.

In view of the company's eminent position in the consumer market and its experienced senior management, it could be a buy at this level

Deal over 32% stake in Penrose

Star 23/1/74

■ BY CHARLOTTE
MATHEWS

Printing company DCU Holdings has bought 32 percent of Penrose Holdings for an undisclosed sum ~~185~~ (232)

The deal will make DCU Holdings, which owns Klem-Lloyd and Hull Publishing, one of SA's largest printing groups, says Penrose.

The announcement appears to end a protracted squabble in Penrose's boardroom about the direction the company should take after its purchase of insurance group Time Life, which was put up for sale only months after being bought.

Time Life MD Bill Haslam said yesterday the sale was likely to go through, despite the change of ownership of Penrose because negotiations were now at an advanced stage.

In terms of the Penrose deal, the composition of the Penrose board will change, including DCU Holdings' Dirk Uys replacing Albert Alletzhauer as chairman.

A shareholders' meeting will be called to approve the changes.

'Telkom privatisation just the ticket'

By ARI JACOBSON

THE privatisation of a local parastatal such as Telkom — would "solve SA's capital account problems overnight" and would be enough to allow exchange controls to be abolished, said Investec Asset Management MD Hendrik du Toit yesterday.

Du Toit speaking at the Cape Assurance Industry Liaison Committee (Calcom) conference at the Cape Sun Hotel yesterday said that Telkom shares would be offered to foreign investors at "attractive price earnings ratios" and could net SA up to R10bn

"Infrastructure stock is the thing for this country and Telkom is the answer"

Du Toit pointed out that the JSE, the country's share market, was not over-priced relative to global markets and felt that Diagonal Street was "under-owned by foreigners".

He warned "Do not underestimate the upside potential of this economy — even with all the risks attached".

For that reason he supported equity-linked investments and the property market moving into 1995, although bonds remained "risky". He further stressed a "cash war-

chest" for safety

However, everything being equal, he anticipated exchange controls to be lifted towards the end of 1995

"Controls can't be lifted now because, among others, the country does not enjoy a double tax treaty agreement with most foreign countries. Should exchange controls be lifted now, for example, everyone would take their capital out just to avoid paying tax."

On a more positive note Du Toit said that the country was entering the new SA phase at the "right economic time" ^{23/19/94} He said that "more trading part-

nerships were available" and the country had the spare industrial capacity to grow over the next two to three years "without having inflation running away"

"The problem is that interest rates may be tightened and capital inflows may be somewhat restricted"

He added that there were fears of cost push inflation (through spiralling wage increases) and a rapidly depreciating exchange rate

He added "This country has the potential to really lift fundamental demand — but at the moment we are not running with the hares"

Like a sick fowl

There is too much reliance on high-risk business

Neil Morris is nothing if not a survivor. As CE of Hunt Leuchars & Hepburn since 1987, he has needed to be. HLH is a group whose potential over the last decade has been marked with promise but whose history is punctuated by misfortune.

The company is even more unusual this year. In late July, Morris told shareholders in HLH and its most important listed investment, Rainbow Chicken, that earnings expectations for the first half of financial 1995 were "unrealistic." This comes soon after poor performances in 1992 and 1993, which were accompanied by real expectations of improvement and, ultimately, delivery of better days with a stunning result, though off a low base, in 1994.

It seemed HLH had shrugged off the calamities of Rainbow's almost unstoppable capital investment programmes, accompanied by the economy's shuddering full stop in 1990. The *FM* didn't dally in its assessment: "It's an unusual pleasure," this writer noted in July 1993, "to review two listed companies whose fortunes may just be on the verge of significant revival."

They were — sadly, though, only for a while. Since then, the group has been struck by two natural disasters simultaneously. It probably isn't helpful to say it, but this is the logical area of risk associated with any operation so dependent on nature.

In the case of HLH, the first of these disasters is drought. The second is disease. Since the tale is so unusual, it is worth tracing its anatomy.

HLH is one of those old companies which traces its roots back to early pioneering days in Natal. It was founded in 1850 and was family-owned and controlled until the late Eighties when it effectively fell into the Rembrandt Group. Before that happened, the families decided they needed to hand control of the company to professional managers.

If there is any single reason for HLH's fall from investor favour, it probably stems from that decision, allied with the earlier charge on to the JSE as a listed company. "There they were," chortles one analyst with a long memory, "a bunch of accountants with slide rules, present values and The Five Rules for Managers. What they actually did was entrench themselves at the expense of the owners. They certainly made themselves comfortable." (23)

His comment is a reference to HLH's venture into building a head office, known as the Glass House, one of Parktown's earliest commercial buildings. Under Chris Perry, first as CE and then as chairman, HLH's new corporate home breathed luxury and success. There was an office suite for every company. MD — irrespective of whether he already had an office within his own company — and lifts from the basement garages which passed through a substantial fresh-water pond filled with Koi fish.

It came at the wrong time. When Morris succeeded Perry as CE, one of his first jobs was to rationalise — the business euphemism for sack, reduce, withdraw, re-structure. Morris first sold the loss-making Woluter Steel processing group which Perry had bought from Jacobs HLH took a R22m loss.

Then he got rid of the Blake hardware group, from which Barlows formed Federated Blake (and, given Federated's substantial sizing down, Morris probably has cause to feel pleased with that decision). And he sold HLH's corporate head office to Graham Beck's Kangra.

This left HLH with just one of its three arms — timber, and principally its mining numbers operation, in terms of which it supplies props to the gold mines through a joint venture with Anglo — and a large pile of cash.

With the controlling families, the Hepburns and Hancock's steadily watering down their interests, HLH was a target for acquisition. Along came Anton Rupert and Rembrandt, while knights to the rescue, with R57.5m cash for the families.

Morris now found himself in reverse. First he had sealed down HLH. Now the new controlling shareholders wanted it to grow again. The acquisition list began in 1988 with Bonuskor, a company held by Volkskas Industrial Bank and which was offered to Morris, probably because Rembrandt was a major shareholder in a bank in need of cleaning up its act. Many analysts openly said they considered it an act of convenience for Rembrandt.

Unfortunately, Bonuskor was a curate's egg. It included some softwood interests, a tea estate near Barberton, citrus operations in the Eastern Transvaal, Transvaal Sugar, a cane mill and cane growing operations in Koman. Its gem was a 56% stake in Natal-based food and spice company Robertsons, which had been through a torrid time of its own — or rather, its owner's — making.

Robertsons was linked to American multinational Corn Products Corp (CPC), which decided to disinvest. In the process, the Mines Pension Fund acquired 30%. Seeing an opportunity, Morris proposed a takeover by HLH through the issue of convertible debentures and handsome cash payments to management.

That gave HLH total control of Robertsons. Interestingly, the convertible debentures held by the Mines Pension Fund still not been converted.

The acquisitions restored HLH to being a three-legged conglomerate. Another leg was about to be added — Rainbow Chicken, the living expression of Stanley Methven's organisational genius and his hard-headed flair for bloody-mindedness.

LEADING ARTICLES

A whaler turned taxi driver turned merchant seaman, Methven settled down on his father's small farm near Hammarsdale. In 30 years, he built up a huge personal fortune. Stories about Methven are legion and generally uncomplimentary (a hazard which invariably accompanies success). When he died in Monaco (riding a Vespa scooter) in 1986, he left a family endowed with R200m and a large shareholding in SA's biggest supplier of chickens.

HLH took joint control of Rainbow in April 1989. It effectively paid R192.5m for the 25% purchase, raising the amount through a rights issue underwritten by Rembrandt.

It couldn't have been an entirely happy arrangement for HLH. Laying out a large cash sum to buy into an operation and then being precluded from getting your hands around it is a recipe for impotence. Desmond Loch Davis, an old Methven family friend, remained chairman. John Geoghagan was MD. What happened next was to compound Rainbow's difficulties.

First, in a complex negotiation which culminated in March 1991, Premier's Gordon Uhan pulled off what one analyst describes as the master stroke of his career. He sold Bonny Bird, including 50% of Epol's annual feeds division to Rainbow for R244m taking Premier out of an area in which it had been experiencing acute financial misery.

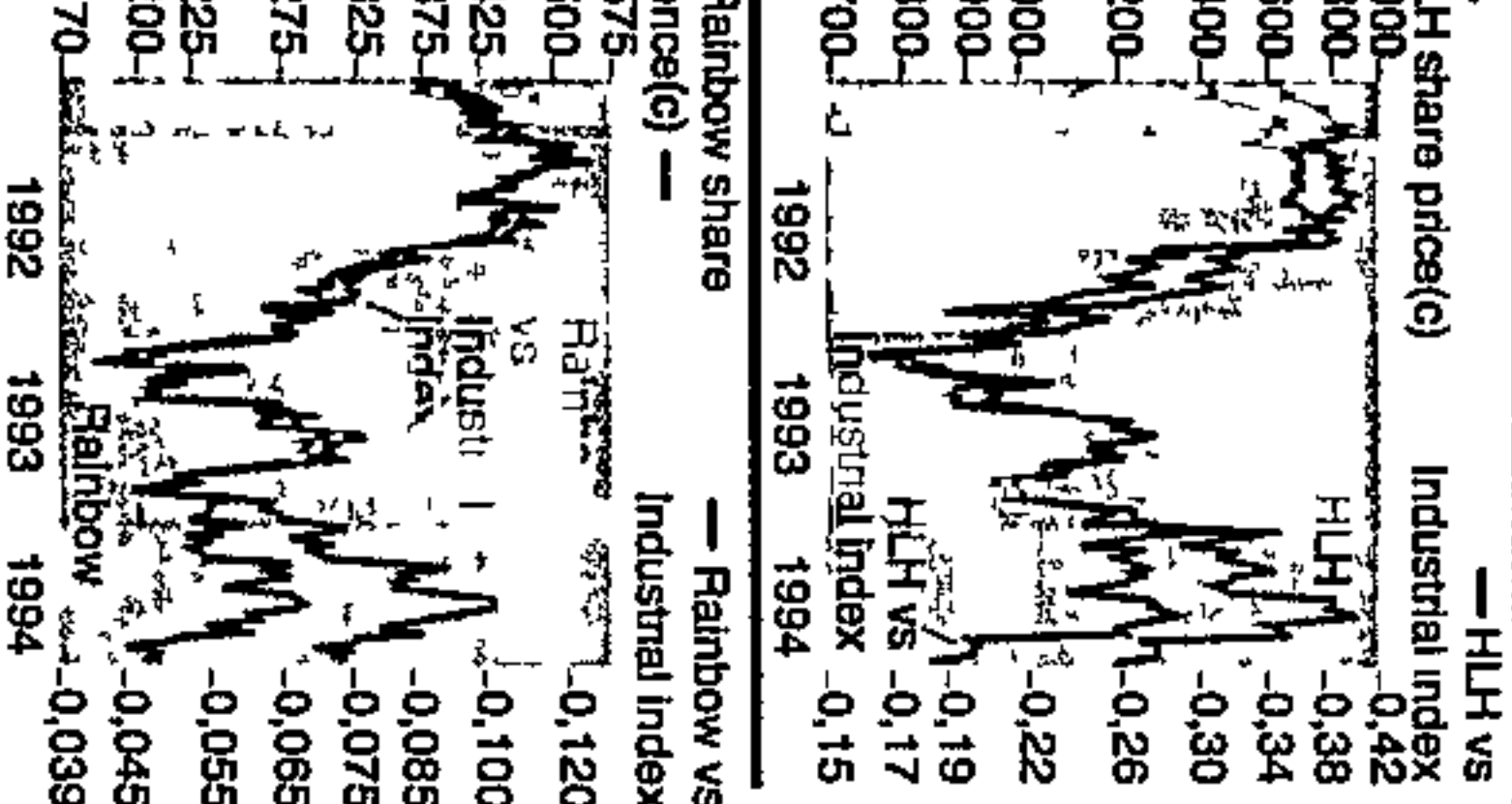
Second, the SA market for white meat, which had expanded exponentially for an unbroken decade, suddenly ground to a halt. Rainbow found itself grappling with the economic woes of its large capital expenditure programme — predicated on continuing growth in demand — and the inefficiencies of Bonny Bird. Morris defends the purchase. It made good sense, he says, in terms of buying substantial assets at fire-sale prices.

Maybe so but it didn't work that way. Methven's success was an operation which dovetailed perfectly with an expanding economy and rising demand for white meat. He didn't need to worry about marketing.

One unkind commentator described Methven's sales team as "order takers." When economic growth went into reverse, Rainbow's managers were thrown off balance. It was a new experience and they were unprepared. Bonny Bird added to the confusion.

Patently, Morris moved to bring change. Amid a welter of losses, Rainbow's rights issue gave Rembrandt the opportunity to take de facto control by underwriting the issues up the chain — through HLH and Hunnicor. Then in January 1993, a sharp notice in the press stated: "In view of the serious decline in operating conditions at Rainbow, HLH will, with immediate effect, take responsibility for management." This was followed by the appointment of Rick Griffiths as MD in September and a huge turnaround in the company's fortunes in its results for financial 1994.

STRUCK BY NATURAL DISASTERS



Morris, meanwhile was pressing ahead with expansion plans at Transvaal Sugar, where the company began constructing a new cane mill in the epicentre of high-yielding cane fields in the Onderberg region. The R430m mill will produce about 16% of SA's sugar. It was commissioned in March this year — just as the area struggled through its third consecutive year of drought described as the worst in living memory. "This happens once in 100 years," says Morris. The region has had three such years in a row. This is the first of the group's natural disasters.

The second is in hapless Rainbow. Just as it was recovering, a mutant of Newcastle disease — a viral respiratory infection almost invariably deadly in fowls — struck first in Natal and then across the country. Rainbow's mortalities, normally an average of about 8%, shot up to peak at 30%. The cost is high. Birds with a lifespan of 42 days die after about 28 days. "They eat the food," says Morris wryly, "then they die." Those that live don't gain weight as they should, so birds hit the market weighing less and earning less. (23)

There is evidence that Rainbow's emergency action, which included importing Europe's leading expert in Newcastle disease, is beginning to work. Mortalities are reducing and that means a steadily increasing supply. But the impact on earnings will be profound. Rainbow is unlikely to recover fully before financial 1996.

Fw 23/1/94

Between Transvaal Sugar and Rainbow, the effect on HLH is substantial. This is why Morris warned shareholders. There's no escaping the large debt burden. Interest-bearing debt is currently R655m (year-ago R330m), gearing as a percentage of shareholders' funds of R1,106bn is 59% (1993 31%, 1992 15%). It is starting to look like a group getting into debt over its head.

The extent of this debt — unusually high at the bottom of the interest rate cycle — means the interest bill will consume much of the earnings until an appreciable amount can be returned.

It can no longer be denied that HLH has a high-risk profile. It is seriously exposed to natural disaster. Cynics will say they expect the occasional one but getting two together is bad management. Though that is unfair, it highlights HLH's exposure to environmental factors way beyond its control. Morris says ruefully that he used to wax eloquent about Transvaal Sugar's theoretical ability to operate outside natural forces — irrigation instead of summer rains. The last three years have put paid to that.

Another concern is HLH's unenviable situation when compared with other conglomerates. "They are delivering steadily better earnings and good growth," says a research broker, "while HLH's earnings zigzag all over the place." Morris's problem is that he is cast in the role of promising better earnings later next year or the one after.

"People (investors) are getting impatient," says an analyst. "There are too many delays. We have been told too often not to expect too much, that next year will bring rewards. The time has come for the group to deliver."

With luck, Morris should be able to restore investor confidence in financial 1996 or certainly the year after. He needs the drought in the Eastern Transvaal to lift, traditionally perennial rivers to flow again, and good cane production this year.

It is imperative for Rainbow to get on top of its illness factor and combine more production with better demand. These are HLH's two keys.

Another development is the move to turn Robertsons into a more export-focused company. Morris says immediate expansion plans include a carefully structured foray into offshore manufacturing in south-east Asia with an established local partner. Exciting though this is, it is small beer compared with sugar and chickens. Morris's short-term problem is to get through financial 1995. He won't say what he expects but you can be sure the EPS will be bad, probably lower than 1994's. When that has come about, it will be time to introduce a strategy to reduce HLH's reliance on high-risk business. Until then, and disappointing though this is, the group is best watched from a distance.

Coke in R50m joint venture

SI Times (Buss)

By ZILLA EFRAT

25/9/94

THE Coca-Cola Company has formed a R50-million joint venture with a family of black entrepreneurs who have become one of its largest distributors in South Africa

The Kunene family built up its wholesaling and distribution business from the father's milk depot in the East Rand township of Vosloorus. In 1979 they ordered their first nine cases of Coca-Cola, last year they sold nearly 1-million

John Hunter executive vice president at Coca-Cola, says Fortune Investments Holdings has been formed with the Kunene family to hold a majority interest in Vinto Minerals Vinto Minerals, which sold nearly 7-million cases of Coca-Cola in 1993, will be managed by the Kunenes and employ about 300 people, with a bottling plant in Nelspruit

and a distribution facility in Lydenburg

Another distribution operation may be built in the Hazyview area to expand sales into rural areas.

In addition to their interests in the fast-food business, the Kunene family distributes milk, meat, poultry bread and maize

The only other black-controlled company within Coca-Cola's South Africa system emerged in 1987 when the Kilimanjaro Group bought the East London franchise. Mr Hunter says further opportunities to create black equity participation are being examined.

Coca-Cola announced its return to

South Africa in June National Beverage Services, which supported local bottlers after the multinational disinvested in 1986, now functions as a fully fledged division of Coca-Cola (232)

Mr Hunter says Coca-Cola's SA sales rank among the top 12 worldwide and make up 40% of the multinational's volume for Africa

He estimates that the livelihood of over 100 000 black South Africans, including 36 000 in the informal sector, are linked to the sale of Coca-Cola products

Meanwhile, more announcements are expected from Coca-Cola's major rival Pepsi next week. The local and international shareholders of New Age Beverages, which owns the SA Pepsi franchise, will be named.

Start 20/9/94

Another Coke joint bottling venture

■ BY THABO LESHILO

Coca Cola has launched its second joint bottling venture with a black majority partner in SA, the Vosloorus-based Kunene Brothers

The first such deal was struck when the Kilimanjaro group bought a majority interest in the Coke franchise in East London in 1987

The Kunenes run one of the largest Coke distributors in SA, selling almost seven million

unit cases of soft drinks last year.

The brothers and Coca Cola have formed Fortune Investment Holdings in which each has a 50/50 stake. The company has a majority interest in Vinto Minerals, which bottles and distributes Coke products in SA. (182) (232)

The parties declined to state the amount of their investment, but said Vinto was worth about R50 million.

Vinto's other operations in-

clude a bottling plant in Nelspruit and a distribution facility in Lydenberg. The new operation will be managed by Keith Kunene and his three brothers.

Other parties with a stake in the company are Cape Town's Peninsula Beverage Company and the Cruse family.

"Our association with Coca Cola is an example of the positive way the Coca Cola system operates in South Africa, and sends the right signals to the

business community here," Kunene said at the weekend.

Coca Cola executive vice-president John Hunter said: "The Kunene brothers bring with them proven ability in the marketplace and understanding of our customers and consumers, and a determination to make this opportunity work."

The company announced its return to the SA market in June after eight years away.

Aegis income helps to lift Momentum earnings

BIDAY 26/9/94

SAMANTHA SHARPE

MOMENTUM Life Assurers posted a 43% rise in earnings to 60,6c a share for the year to June, boosted by a full year's income from subsidiary Aegis.

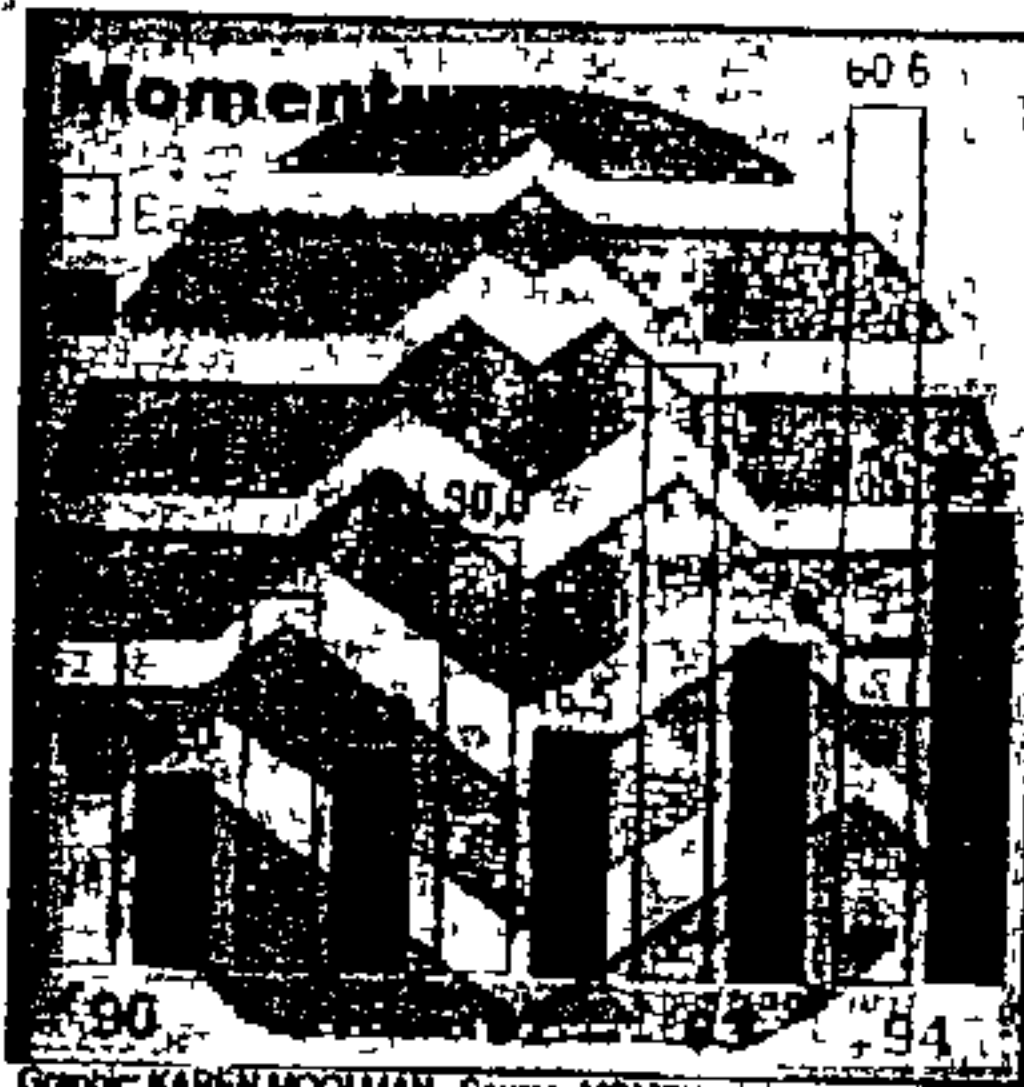
The group's net taxed surplus accelerated 54% to R81,4m, with the improvement in life insurance and asset management earnings the major culprits behind the rise.

Total premium income rose 17% to R1,3bn. The launch of several products and improved service saw new recurring and single premium increase 83% and 97% respectively compared with the previous year.

This translated to a total dividend of 32,5c, up 41% from last year.

Momentum Life CE Laurie Dippenaar said the average premium size was up 35%. This had a very positive effect on operational efficiencies, and was complemented by a lapse ratio that had halved to well below the industry average.

Other operational efficiencies en-



Graphic: KAREN MOOLMAN Source: MOMENTUM

sured the increase in management expenses was kept to less than 1%.

Momentum MD Neil Krige said ambitious targets had been set for new business premiums for Momentum Life and its subsidiary Momentum Health.

"Based on the results for the first quarter of the 1995 financial year they are on track to meet these targets, with Momentum Life expecting further improvements in operational

efficiencies in 1995," Krige said.

Momentum subsidiary Rand Merchant Bank's 25% increase in profits to R55,1m for the year to June filtered through to the life assurer's bottom line. RMB's contribution and the income from short term insurer Aegis — Aegis's earnings were accounted for a full year for the first time — were responsible for about half Momentum's incremental increase in profits. Subsidiary RMB Properties succeeded in turning a loss in 1993 into a profit for 1994.

Dippenaar said RMB Properties had also completed a number of profitable investments for third parties, and these had contributed to their sound performance.

Momentum Health's performance, which had completed its second full year of business, was "pleasing and in line with the original business plan".

A flow of new business was expected to continue at the current level and Momentum Health would probably raise additional capital by way of a rights issue this year.

It all comes together for Momentum Life

Star 26/19/94

■ BY CHARLOTTE MATHEWS

In the year to June everything came together for Momentum Life Assurers, chairman Laurie Dippenaar said at the weekend on announcing a 43 percent rise in earnings a share to 60,6c

Earnings growth was achieved despite an increase in the weighted average number of shares in issue.

Group net taxed surplus grew by 54 percent to R81,4 million.

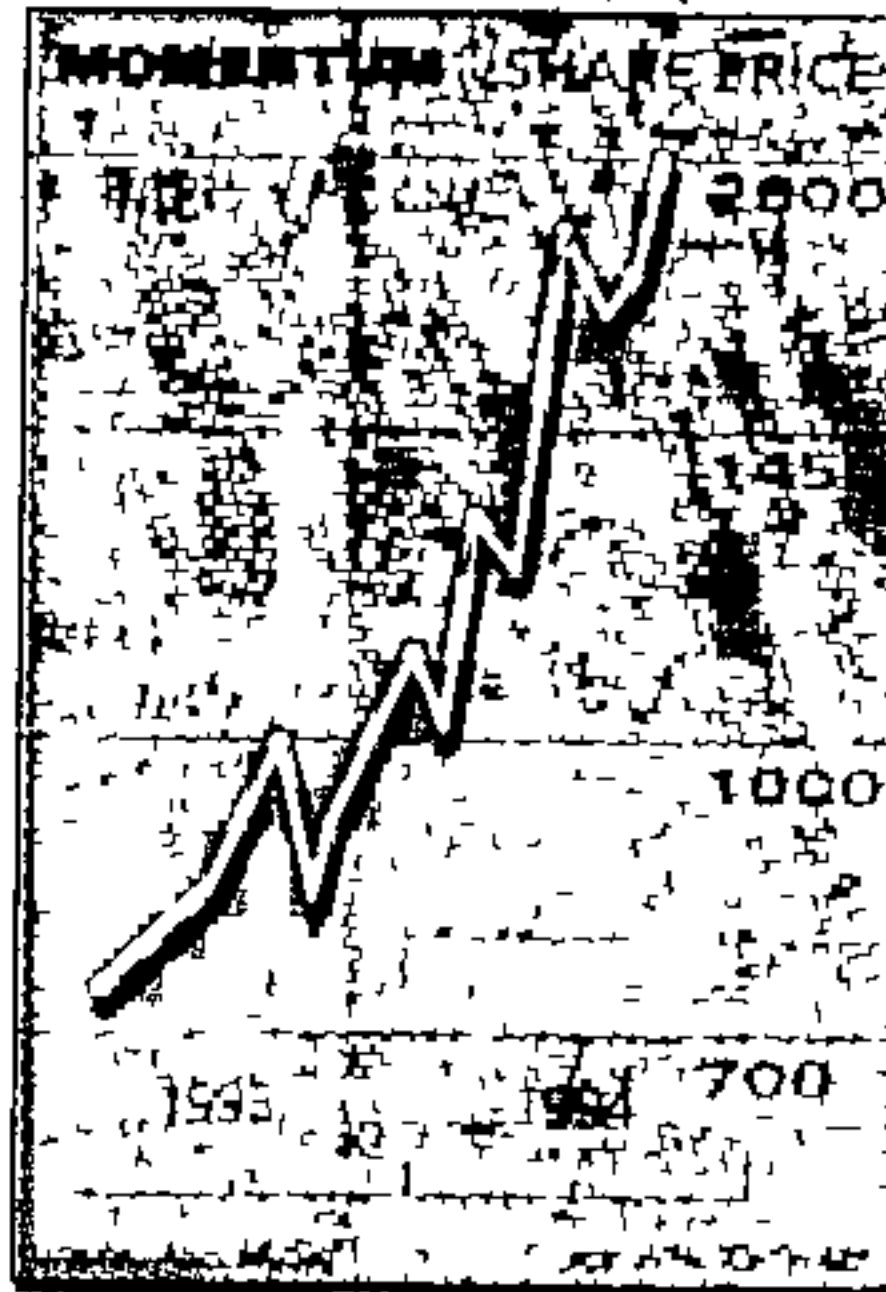
The dividend is up 41 percent to 32,5c on a slightly increased dividend cover at 1,9 times from 1,8 times.

Dippenaar said a policy on the level of cover would be established but it would not deviate significantly from the current level. (232)

The group, which includes a wholly owned Momentum Life, 70 percent of Momentum Health, 50 percent of short-term insurer Aegis and 100 percent of Rand Merchant Bank, RMB Asset Management and RMB Properties, now has R20,4 billion of assets under management.

Dippenaar said the actuarial statement, which would be published in the annual report, would show a 21 percent increase in the surplus of assets over liabilities.

On the life side, new recur-



ring premium as well as single premium business grew strongly, with annualised new recurring premium business 83 percent higher and single premium income 97 percent above the previous financial year.

Total premium income rose 17 percent to R1,3 billion.

Dippenaar said the lapse ratio had improved to about half the industry average, on any measurement, on tighter control of business written.

About 64 percent of business was now sourced from the middle-to-upper income market.

Momentum Health, now in its second year of operation, performed in line with its original business plan. Its products

had been well accepted by the market, and the flow of new business was expected to continue at the current level.

The contribution from Aegis was R14,4 million. This was above the previous year because earnings were accounted for a full 12-month period for the first time

Poor underwriting results being seen across the short-term industry were likely to affect Aegis's contribution in 1995.

RMB Asset Management continued to attract new funds, with the value of funds managed on behalf of clients up 71 percent to R6 billion for the year.

RMB Properties, which generates its income from management fees, property development and, in conjunction with RMB, structuring property finance, showed a turnaround from a loss in 1993 after a reorganisation.

RMB recently reported a 25 percent growth in profit to R55,1 million, of which R33 million was attributable to Momentum Life shareholders.

Dippenaar said the group intended to grow its unit trust side in the next few years. In the coming year, it would be difficult to maintain a growth rate of 43 percent, but he believed profit improvement would be satisfactory

Penrose sale called good for shareholders

Star 2/19/94

■ BY CHARLOTTE MATHEWS

The sale of the Alletzhauser family's stake in Penrose Holdings to DCU Holdings is a good deal for shareholders in the long term, says new director Gideon Engelbrecht.

"There is enormous potential in the company and the staff and equipment are already in place," he said at the weekend.

The new owners intend to meet the JSE shortly to discuss lifting the suspension of the company's shares.

Former chairman Albert Alletzhauser said he had been concerned to ensure Time Life was in safe hands to protect policyholders and sell his stake in Penrose in the interests of staff and shareholders.

He would now concentrate on clearing his name on the charges of theft brought against him for allegedly using Penrose funds to buy out Nationale Pers's stake in the company. (193) (232)

Alletzhauser said he had no intention of leaving SA once he had cleared his name.

He intended to stay on and would be looking for an acquisition, probably in the financial services sector, for R100 million to R500 million.

In a separate announcement, Adcorp said the staff of Penrose's financial communications division had accepted offers to join a new 25-strong company, Adcorp Graphics, focusing on financial, corporate and marketing design and reproduction.

Fintech reports income up 31%

BIDday 27/9/94

SELLO MOTLHABAKWE

STRICT cash management and the relaxation of trade sanctions by US cities and states helped electronics group Fintech raise its attributable income 31% to R15,9m for the six months to August, executive chairman David Redshaw said yesterday.

A turnover increase of 21% to R372,6m from R306,7m was accompanied by an improvement in operating margin from 4,7% to 5%

Operating income stood at R19,6m (R14,7m) with pre-tax profit at R20,6m from R16,4m. The company passed its dividend as it did in the same period last year.

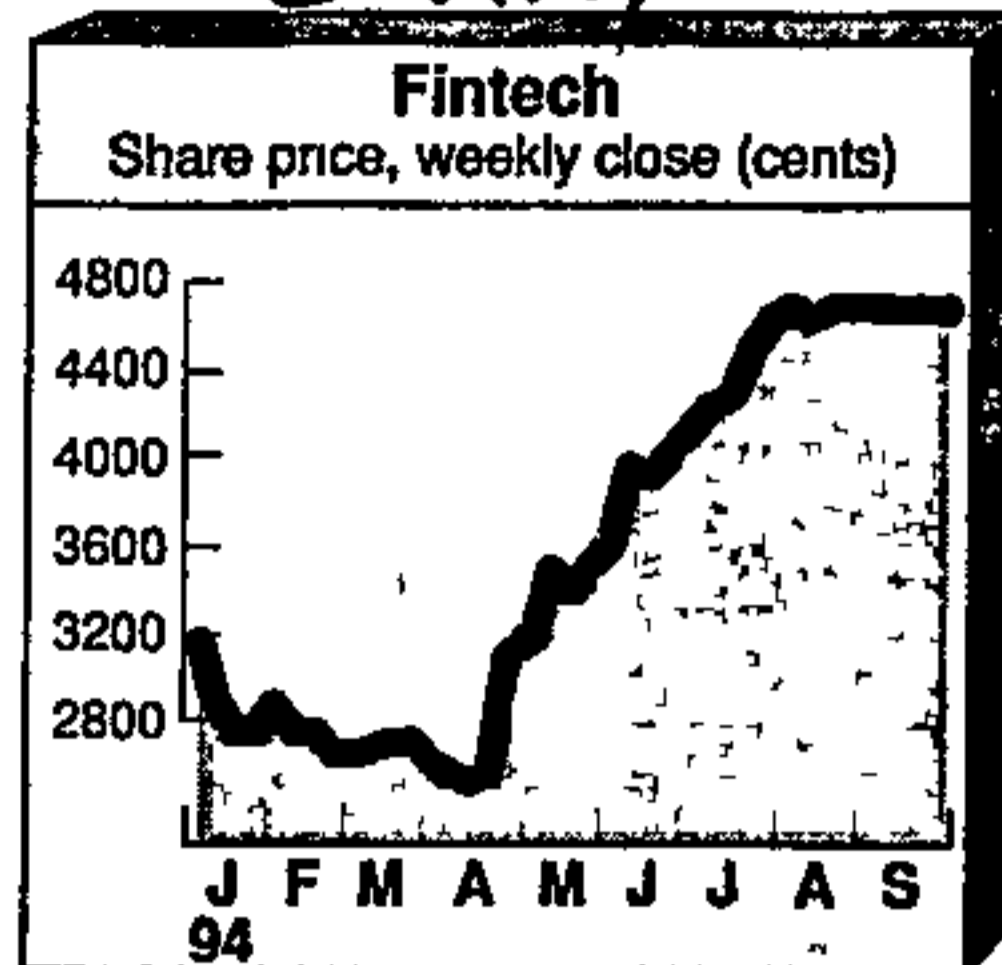
Retained income for the period stood at R15,9m (R12m) while the accumulated deficit of the period dropped from R145,2m to R124,7m. The deficit figure changed to R108m after the year's adjustment.

Earnings a share before adjustment for the transitional levy were 140,9c (103,2c) but changed to 134c after the levy.

Redshaw said subsidiary company National Data Systems (NDS) had contributed significantly to the overall improvement in results while the joint venture with Alcatel of France, Alcatel STC, had increased turnover and profit on the back of new product introductions.

NDS had renewed its exclusive distributorship with its partner, US company AT&T GIS, on a long-term basis, he said.

The French company had earlier this year increased its stake in Fintech STC Business Communications to 50%.



Redshaw said the removal of American city and state sanctions had enabled XeraTech to reverse last year's trend and introduce new-technology products with a commensurate improvement in results.

The company broadened its relationship with US-based Xerox Engineering Systems by entering into an exclusive distribution agreement for its specialised range of printers and plotters.

He said group prospects looked good although the economic recovery remained fragile.

But the solid order book the group possessed, coupled with the continuing potential which existed for XeraTech to continue its upward trend, meant medium- to long-term prospects remained promising.

The group expected full-year growth to exceed that achieved in the past financial year.

The Altron-owned company had in June this year reported it had cut debt to significant levels and had reserves amounting to R34m with which it was looking at possible acquisitions.

Thebe in venture with Interleisure

BIDay 28/9/94

AMANDA VERMEULEN

THEBE Investments has teamed up with entertainment group Interleisure to take cinemas to the townships, in the first stage of a move into the leisure industry that could see similar operations established beyond SA's borders.

The joint venture between Interleisure subsidiary Ster-Kinekor and Thebe subsidiary Moribo is called Ster-Moribo and has 26 cinema screens, making it the country's third-largest cinema chain.

Thebe MD Vusi Khanyile said the deal reflected the group's interest in the entertainment and media industries, but this did not mean that Thebe was focusing solely on these sectors.

The company was recently involved in the takeover of Citizen Bank, the creation of a merchant bank, and the launch of regional airline SA Express with Canada's Lardel Holdings.

Interleisure MD Mike Egan declined to put a value on the deal, but Ster-Kinekor MD Mike Ross said the cost of establishing each new cinema was about R3m. Ster-Moribo aimed to double cinema numbers within two years, representing an investment of about R78m.

The company launches its first cinema

complex in Soweto today, and other established complexes include those at the Kine, Carlton, Hillbrow and Highgate centres.

The initial focus was on the PWV, but Ster-Moribo hoped to move into Kwa-Zulu/Natal and the Cape within six months, and then beyond SA's borders.

Moribo chairman Moss Mashishi, who will be Ster-Moribo non-executive chairman, said the expansion plans depended on the rate of development in black residential areas. The new company was talking to developers for new sites, and would also have an option to take part in all future Ster-Kinekor developments.

Ticket pricing policy had yet to be finalised, but Mashishi said this would depend on the location of each complex.

Moribo — which also has a stake in the gaming industry through its 18% holding in scratch card business Games Africa — plans to apply for casino licences and a licence to manage a national lottery.

It was also interested in a stake in the local music industry, event management and the promotion of major concerts.

● Picture Page 3

Specialty raises income despite poor conditions

31 Day 29/9/94

AMANDA VERMEULEN

RETAIL clothing group Specialty lifted attributable income 33,1% to R8,4m in the six months to August despite inconsistent trading conditions, directors said

Stronger sales saw turnover also climb by a third to R279,3m and operating income grew 18,3% to R17,4m.

Lower finance costs of R3,8m (R4,5m) left pre-tax income 33% higher at R13,6m. Earnings a share increased 32,5% to 10,2c and an interim dividend of 2,8c (2,3c) was declared.

The directors noted earnings and dividends in the previous year were adjusted to reflect the five-for-1 subdivision of ordinary shares that took place in July.

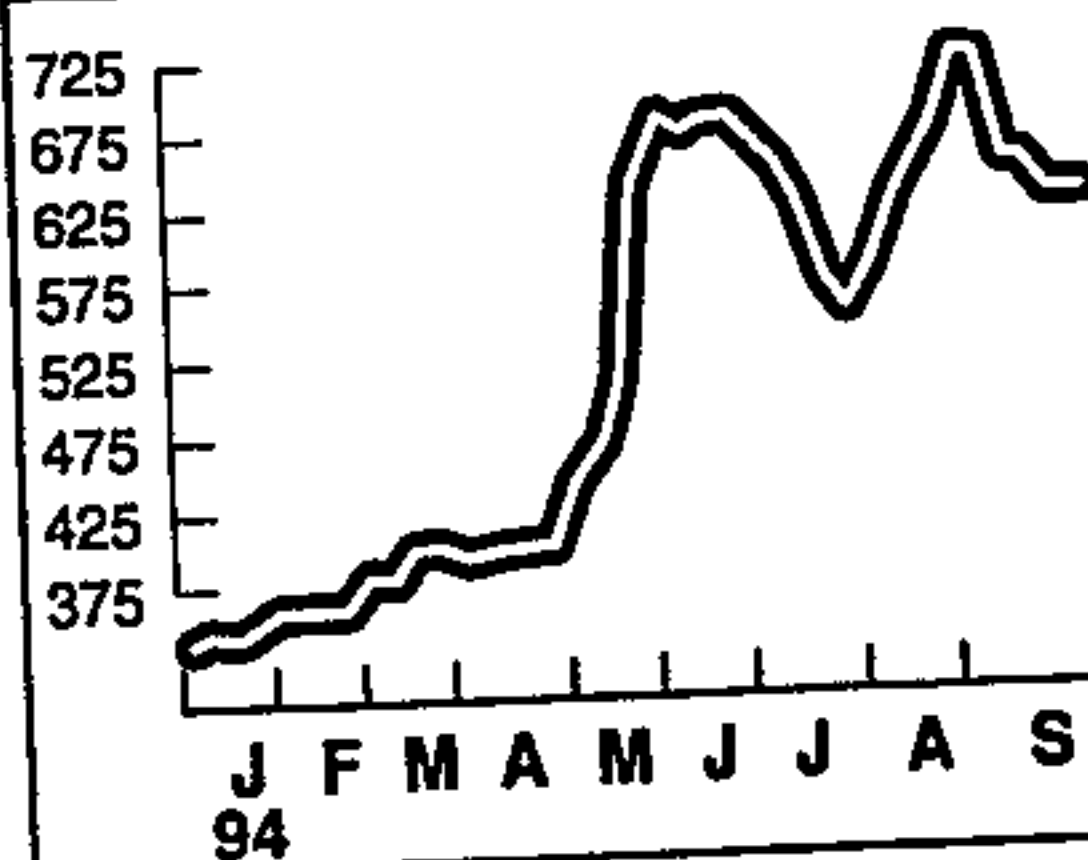
The directors said the group's Milady's chain increased sales 18% during the period, opened one new store and relocated a further four. (232)

The Hub improved turnover 17% compared with the previous period's increase of 11%.

However, the group's Mr Price chain outperformed the rest, increasing sales 78%. A further 12 stores were added to the chain

Cash sales as a percentage of total sales increased which, combined with a controlled 12% increase in stockholdings and tighter debt management, assisted in re-

Specialty Stores
Share price, weekly close (cents)



ducing finance costs and gearing.

Following the July share split, the group had placed 5,5-million shares to raise R35m, leaving the company well positioned for further expansion ahead of the expected upturn in the retail trade

Mr Price would open an additional 17 stores in the second half of the financial year, while Milady's would open one store, relocate two and expand a further four branches.

Specialty holding company Storeco reported a 32% increase in attributable income to R5,3m, while earnings a share increased to 20,3c (15,4c) and the dividend increased to 5,6c (4,6c)

Specialty Stores well ahead of budget forecast

BY CHARLOTTE MATHEWS

Specialty Stores, which owns Milady's, Mr Price and The Hub, improved profit ahead of budget by 33 percent to R8,4 million in the six months to August 1994, against the same period in 1993.

Joint chairman Stewart Cohen said yesterday the results were pleasing and a good indication for the full year.

Turnover grew by 33 percent to R279,3 million, including 18 percent sales growth at

Milady's, 17 percent at The Hub and 78 percent at Mr Price.

Operating margins at end-February were 8,2 percent, easing to 6,2 percent at end-August on the back of a rise in cash sales, now at 48 percent of turnover (25 percent of turnover in 1990).

The group aimed to improve operating margins to 14 percent by 1998, Cohen said.

Greater cash sales and attention to asset management reduced gearing to 41 percent

at end-August from 55 percent at end-February.

Lower gearing was reflected in a 15 percent fall in finance costs to R3,8 million.

Earnings a share were 10,2c from 7,7c in 1993. A capitalisation or cash dividend alternative of 2,8c (2,3c) has been offered to shareholders.

Storeco, which owns 63 percent of Specialty, had earnings of 20,3c (15,4c) and has declared a capitalisation award or cash dividend of 5,6c (4,6c).

Cohen said the company

was well placed to expand ahead of the expected upturn.

Within the next five years, he believed, both Milady's and Mr Price could expand to 200 stores.

There were no plans to expand The Hub outside Natal — expansion in each chain was driven by returns and capital was being spent on those stores that were doing better.

He was confident the group could achieve its forecast of R640 million sales for the full year and R25 million in profits.

(232)

Penrose plunges into the red

By Day 30/9/94
SAMANTHA SHARPE

LOW margins saw beleaguered printing and publishing company Penrose Holdings plunge R3,05m into the red for the six months to June compared with a loss after taxation of R1,54m over the same period last year.

The acquisition of Penrose Book Printers in March helped lift turnover nearly 90% to R17,87m

But low turnover margins and provisions for non-recovery on sales to neighbouring countries were primary culprits behind an operating loss of R2,8m compared with a previous R2,12m loss (232)

The loss after taxation translated to a loss a share of 14c, nearly double the loss a share in June last year. The dividend was passed

Newly elected chairman Dirk Uys said the extent of the loss attributable to traditional Penrose business was comparable to the loss made over the same period last year after allowing for increased finance charges of about R0,66m

No provision had been made for an

unfair dismissal claim instituted by the previous MD against the company because the directors believed no financial loss would arise.

Uys said business ventures stemming from the first half of the financial year would more than likely cause the second half of the year to follow its negative trend

But the new board had created enthusiasm among employees and clients, with a strategic, goal-oriented management approach able to stabilise results in the medium term and produce a profit in 1995.

He said the joint venture between wholly owned subsidiary RS-TM Financial Advertising and a Zimbabwean publishing company was under investigation by the board as was a claim by the Nederduitsch Hervormde Kerk van Afrika

The board was also looking at the validity of R0,77m in commission payments, which arose during the first half of the financial year.

B1 Day
**Wesco posts
301994
income rise**

MUNGO SOGGOT

WESCO Investments, which has a 50% stake in Toyota and a 42% stake in motor component manufacturer Metair as its main investments, posted earnings up 49% to 213,1c a share (148c) for the six months to June

Attributable income rose to R17,9m (R12m) on a turnover of R2,3bn (R2,2bn) No dividend was declared

Executive chairman Elisabeth Bradley said the improved results stemmed mainly from Toyota's higher after-tax earnings.

Demand for was strong, but Wesco's subsidiaries and associated companies had been hit by industrial action Manufacturers were trying to make up for lost production, she said

Group operating income was up at R92,7m (R87,8m), with interest and finance charges R33,96m (R32,9m)

Yesterday the share was unchanged at a previous close of R50 It hit an annual high of R60 on March 10, and was at a low of R37 on October 19 1993 (232)



Grinaker chairman Jan Robbertze ...
construction division out of the dog box

221% to 1 800c, a level recently achieved again after a somewhat sticky patch that may have had something to do with the sale of a portion of the group's holdings in the electronics sector — the mainstay of earnings in recent years.

What is interesting about the share's performance, however, is that it was backed largely by renewed interest in Grinaker's construction activities, which had been pretty much in the dog box since the losses incurred in 1992. True, background factors were favourable, with a year-on-year 143% gain in the JSE's Building & Construction index. But this pales into insignificance relative to the rerating that has taken place at Grinaker, where the implicit market capitalisation of its non-electronic interests has risen from R11m in October 1993 to R307,5m now.

And, whereas previously the electronics interests had accounted for R184m (94%) of Grinaker's R195m total market capitalisation, based on current share prices for Grinaker and Grintek (the holding company of the electronics subsidiaries), this ratio has dropped to 51% — R320,5m out of the group's total market value of R628m.

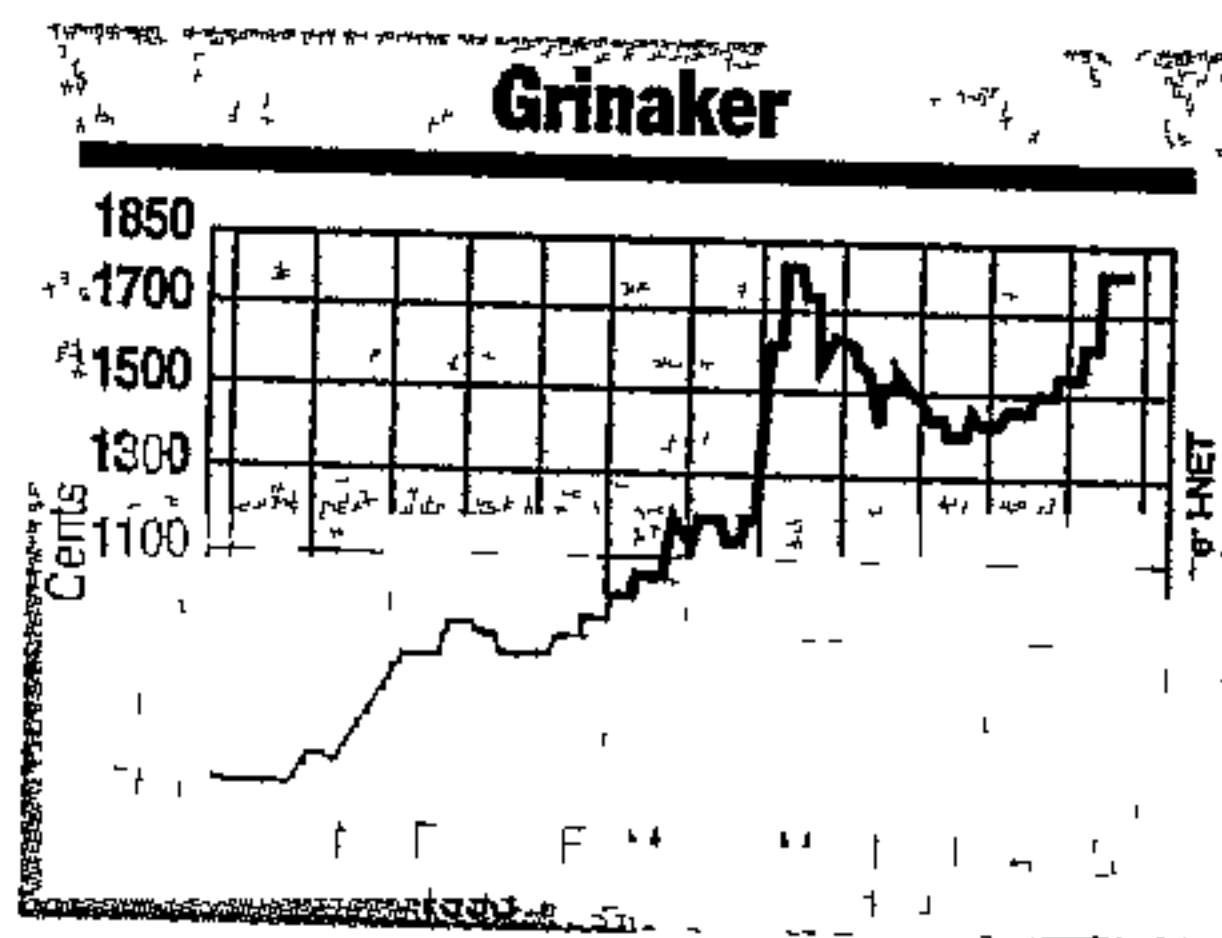
Part of the reason lies in that a year ago the non-electronics side of the business was grossly undervalued. The construction division had taken its bath, corrective action had been applied and it was clear profitability was being restored. Yet, if one deconsolidated Grintek, the p/e ratio applicable to the rest of the group (its construction division, a loss-making silica mining operation and head office) was a miserable 3,1 — suggesting, as we pointed out at the time, that progress in rehabilitating the construction division was not receiving due recognition from investors.

The question now, though, is whether the pendulum has not swung too far the other

way. Deconsolidating Grintek from the 1994 income statement left the rest of the group with attributable earnings of R11,3m. This was a material improvement on the R3,7m earned in 1993 (due entirely to construction, since losses attributable to silica mining increased further) but the p/e applicable to these interests is now 27,2 — rich by any standards (~~180~~ 232).

At least, that could be the conclusion if there were no grey horses in the race. In Grinaker's case, this takes the form of a R39m cash pile now sitting at the top of the group awaiting deployment. Most of the cash came from the sale in April of Grinaker's direct holdings in Grintek and Siltek, with a portion of its indirect (through wholly owned Grinaker Financial Services) stake in Grintek for R49,6m. This has added a degree of flexibility not seen in the group for years as, until the sale, the two top companies were net borrowers.

The official line at the time of this deal was that the cash would be held to finance additional working capital requirements, especially in construction if there was increased activity in mass housing. Whether such a need exists is debatable. The construction division was able to reduce net borrowings by almost R4m to R20,6m last year, bringing its net debt equity ratio down to a fairly conservative 23% (1993: 34%). Profitability seems to have been restored to respectable levels, judging by 1994's 22%



net return on equity (1993: 12%), suggesting further gearing capacity is available here if needed.

The electronics subsidiaries don't need extra cash. Grinaker Electronics and Siltek showed healthy net cash balances at year-end, which, consolidated into Grintek, amounted to R70m for this division.

So, on the face of it, Grinaker could, just as easily, use its R30m spare cash for an acquisition or expansion of activities, thereby justifying the market's renewed enthusiasm for the share.

Both divisions have budgeted for higher earnings this year, though it is noted in the operational review that the improvement from construction (where the major benefits from recovery have already been seen) is likely to be "moderate" until the longer term effects of government's policies become evident. The contribution from electronics will be affected by the dilution of Grinaker's holding in Grintek from 67,4%

to 58,6%, which will be effective for the full year instead of just three months in 1994, pointing to a bland outlook for the group unless it has something else up its sleeve.

Brian Thompson

GRINAKEER HOLDINGS
Construction improves

Sometimes it's nice to be proved right. But even so, the *FM's* comment last October that Grinaker's share price (then 560c) appeared to have more upward than downward potential should have rated at least a merit award in the Understatement of the Year stakes (~~232~~ 232).
By May this year, the price had rocketed

RMBH gets boost from associates

Biday 31/10/94

SAMANTHA SHARPE

RAND Merchant Bank Holdings (RMBH) more than doubled attributable earnings to R94,2m for the year to June after healthy contributions from subsidiaries Momentum Life and Rand Merchant Bank

The first time inclusion of associated companies NBS, Hollandia and Glenvaal Dewar Rand contributed R31,7m to the financial services group's bottom line and helped lift net income to R95,5m compared with a previous R44,4m.

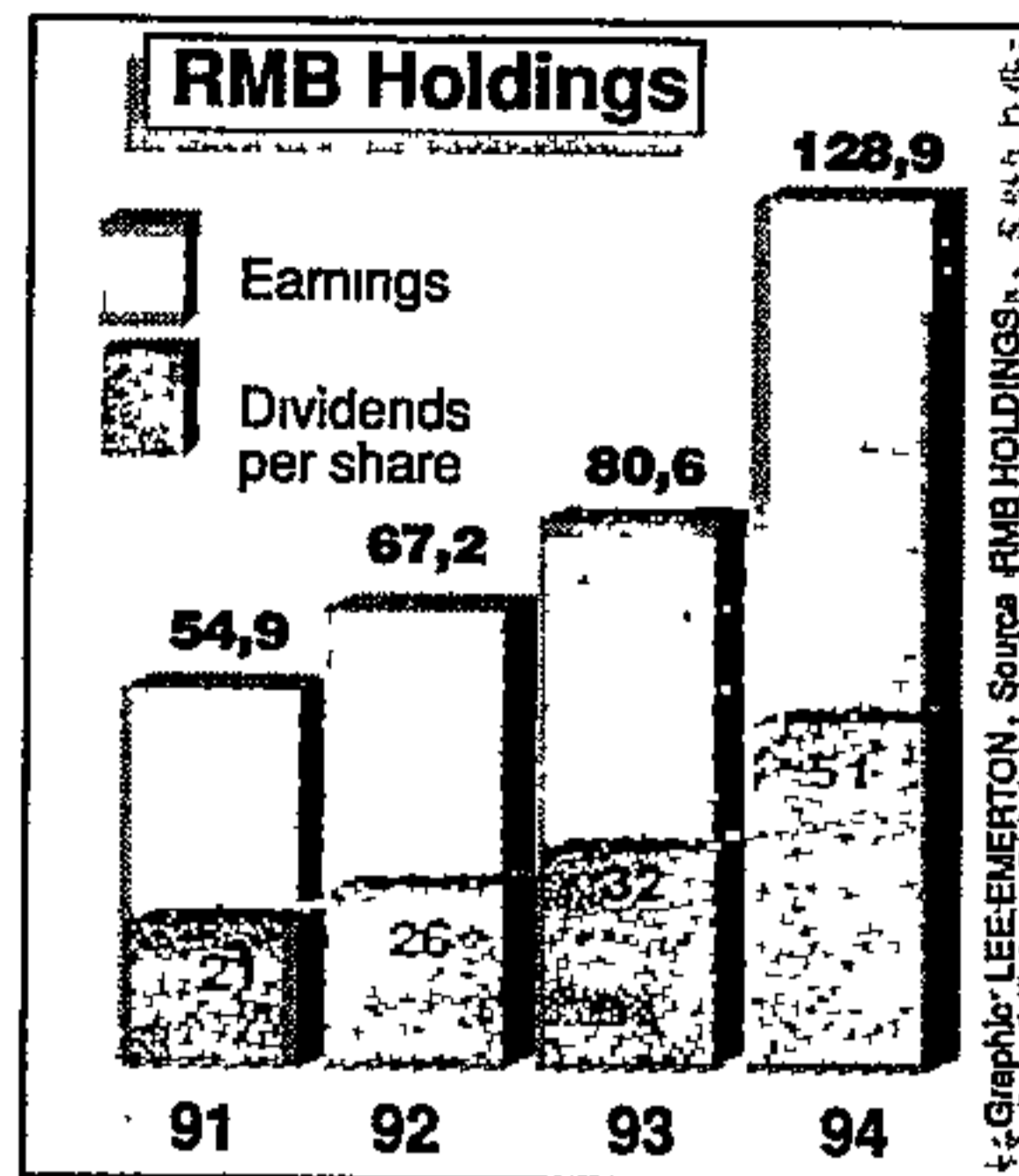
The surge in attributable income boosted earnings a share 60% to 128,9c, beating market expectations of growth in earnings of between 30% and 40%. The dividend rose to 51c (32c)

RMBH said it had gone through a period of consolidation following the unusually large number of acquisitions and restructuring in the 1993 financial year. (232)

The year to June saw only one merger, between Glenvaal and Dewar Rand, which resulted in the creation of the fifth largest insurance broking group in SA.

RMBH director Paul Harris said the 71%-owned Australian Gilt Securities remained a small contributor but was a launching pad to the international arena.

Subsidiary Momentum Life reported a 54% increase in net taxed surplus to R81,4m earlier this month, with the contribution of merchant banking acumen to the management of the life assurer a critical ingredient to its success



The inclusion for the first time of a full year's earnings from short-term insurer Aegis boosted Momentum's bottom line.

Momentum Assurers benefited further from the solid performance of its wholly-owned subsidiary Rand Merchant Bank, which lifted attributable income by a quarter to R55,1m for the year to June

NBS Holdings, the second largest contributor to profits, gained from the gearing effect of its share swap deal with RMBH. NBS reaped the benefits of healthy interest margins to report a 30% increase in earnings to 179,1c a share for the year to March.

Its bottom line included income from investment in associate companies.

Fund

□ From Page 1

The fund will be administered by Nedenterprise, a Nedcor group division, which provides financial assistance, expertise and advice to small businesses

Msele Financial Holdings GM Litha Nyhonyha said "While much has been said about black/white co-operation in business, very little has been done in practice

With the fund's initial guidance and financial support, the small businessman will be increasingly empowered to run his business to the point where he will be in a position to buy out the equity share held by Msele Nedventures"

Msele will help identify the most appropriate projects — Sapa

Nedcor, Thebe set up fund

UAL Merchant Bank said agreement in principle was signed in Madrid yesterday for the formation of a development capital fund — Msele Nedventures Limited

It is being formed by Nedcor, Thebe Investments' subsidiary Msele Financial Holdings and Deutsche Investitions und Entwicklungsgesellschaft MBH (Deg)

Msele Nedventures will provide finance and expertise to developing businesses in disadvantaged communities. The fund's initial financing will exceed R12m, with equal contributions from Nedcor and Deg

Msele Nedventures will address the lack of finance and management expertise in disadvantaged communities

Nedcor CEO Richard Laubscher said "Funding will not be limited to any one

sector of the community and the fund will help small businesses with the potential to grow, based on their performance to date. Non-franchised small business initiatives will be eligible for funding, ranging from R100 000 to R1m, with the average expected to be around R250 000" (232)

Deg management board chairman Rainer von Othegraven said "We consider this equity investment a contribution to the economic stability of SA and a sign of confidence in the reform process. It is our intention to enrich the infrastructure of the financial sector by making available a broader variety of capital resources, particularly equity capital, to small and medium-sized companies in SA"

□ To Page 2

\$100m allotted to Pepsi's SA launch

Biday 4/10/94

US SOFT drinks giant Pepsi-Cola and black-owned New Age Beverages (NAB) would spend \$100m over the next three years to re-establish Pepsi in SA, the companies said yesterday.

Pepsi said NAB — 75% owned by Egoli Beverages and 25% owned by Pepsi — would hold the exclusive bottling rights for the PWV, which accounts for half the 275-million cases of carbonated drinks sold annually in SA.

Production would start at a new plant in Johannesburg next month, and other flavours would be marketed as soon as local consumers took to the Pepsi taste. A JSE listing was also being considered.

Majority ownership of NAB would be transferred to SA shareholders over the next seven years, mainly through the issue of management and staff stock options. The transfer of ownership would be made via black-owned Kuyasa Trust.

Details of the venture's strategy to wrest market share from Coca-Cola, which currently holds about 90% of the SA market, were thin yesterday.

NAB relied instead on well-known per-

SELLO MOTLHABAKWE

sonalities to smooth its way into SA, with the launch timed to coincide with President Nelson Mandela's first state visit to the US since his inauguration.

Former Azapo president Khehla Mthembu is the CE with former SA Breweries and National Sorghum Breweries director Monwabisi Fandeso president and chief operations officer.

Shareholders include Kaizer Chiefs chairman and MD Kaizer Motaung, Price Forbes director Max Maisela and the female consumer pressure group Women's Investment Portfolio.

US backers, who have put in \$15m as start-up capital, include actor Danny Glover, singer Whitney Houston, OJ Simpson's attorney Johnnie Cochran and basketball star Shaquille O'Neal.

SIMON BARBER reports from New York that Pepsi also tried to persuade Mandela to appear at the launch event and offer his endorsement. This did not go down well with his advisors, who thought Pepsi was trying to exploit the President.

Group Five could see boost due to US claim

SAMANTHA SHARPE

CONSTRUCTION company Group Five's changed accounting policy — which helped lift its earnings from R1,5m to R17,8m for the year to June — could see a large slice of its \$65m claim on a US contract feed through to its bottom line

The company said in its annual report that it had been forced to write off the money on a contract it had undertaken with US engineering group Williams Brothers for the Texas Highway Authority

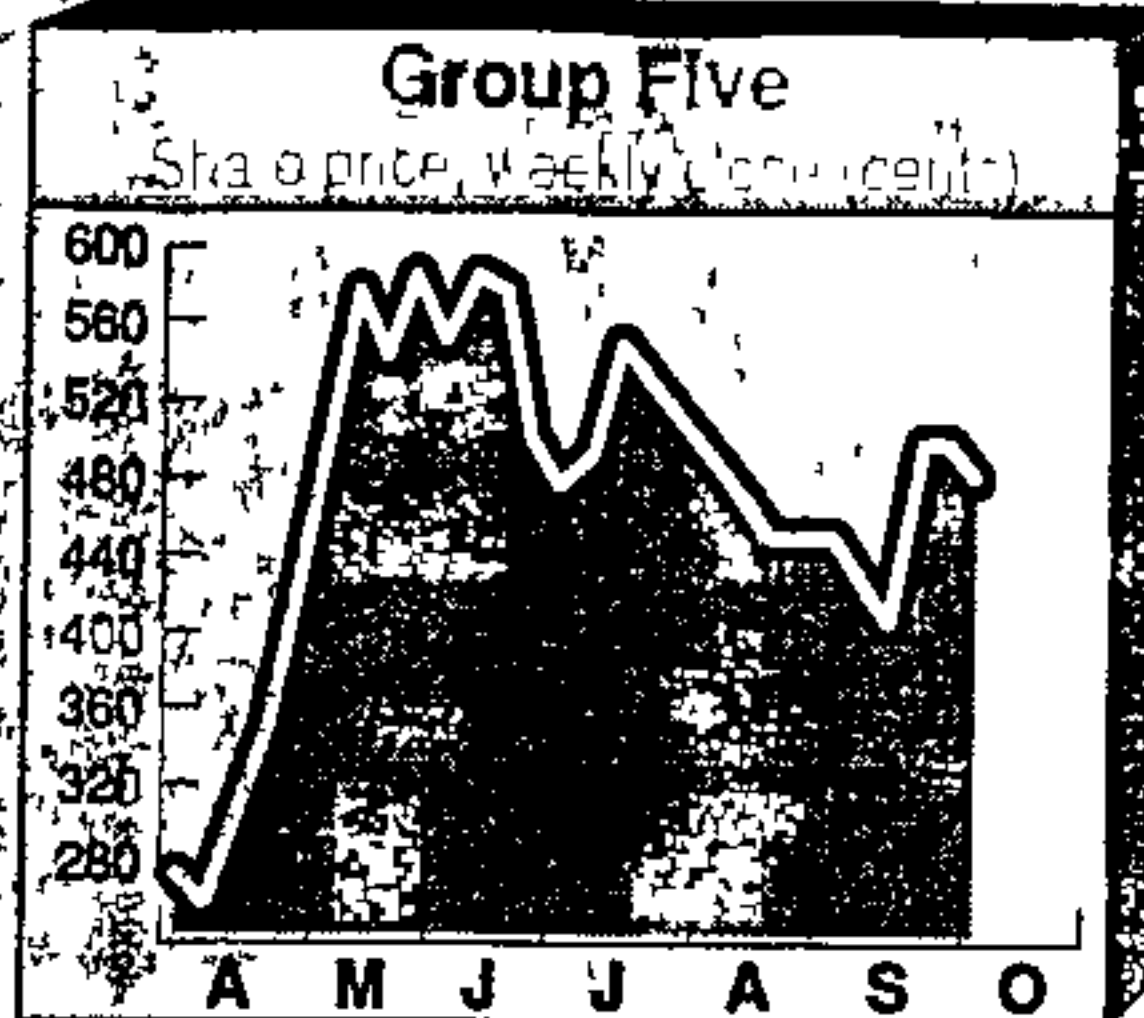
The companies had since lodged a claim against the authority, arguing that most of the losses stemmed from delays due to changes instituted by the authority

If the claim is successful, the cash recovered — though an extraordinary item — could be brought into Group Five's operating income, following the company's accounting policy changes

Chairman Theunis Kotzee said the amount recovered would be less than \$65m, as it was unlikely that the whole claim would be successful, and Williams Brothers would also take a portion

"While it is unlikely the full loss will be recovered, the group is hopeful of a meaningful settlement which would be posted to the bottom line"

Group Five reported a 12% increase in earnings a share to 43,6c on a comparative basis for the year to June, with the change in accounting policy necessitating re-



worked earnings figures to put them in line with last year's earnings to June. Turnover rose 17% to R1,85bn, with income before interest and tax up 31% to R50,4m

Group Five was hit by losses in its property division, following the sale of unused properties, write-offs on low cost housing land and trading losses in commercial property operations

But its construction companies had seen their order books for this year significantly healthier than last year.

The group's involvement with the doomed Fancourt golf project could also see a positive outcome

Fancourt's purchase by overseas investors could see the group recover some of the R18m owed to it in the next 1995 financial year

M&R forecasts strong growth

B. B. 4/10/94
EDWARD WEST

CAPE TOWN — Construction, transport and engineering company Murray & Roberts expected a modest, but higher than inflation, improvement in earnings in its financial year to end June 1995, CE Andre van der Colff said yesterday.

Speaking at a function to mark the release of the group's annual report, he said the M&R was planning strong earnings growth in real terms in 1996 and 1997. Its strategic aim was to double its size in 1993 by 2000.

The group had entered the new financial year stronger in terms of its balance sheet, cash position and cash flows. By year end total assets had climbed 10% to R5,87bn, while borrowings had climbed 3% to R948m. Net borrowings to permanent capital had fallen to 19% from 26%.

Operating cash flow had climbed 51% to R633m while available cash had climbed by half to R419m.

The group planned to expand its international trading operations to 20% of group turnover by 1998. In the past year international trade amounted to 12% of the group's R7,77bn turnover.

Shipping group in banking venture

Biday 5/10/92

SAMANTHA SHARPE

DURBAN-based shipping group Grindrod Unicorn (Grincor) and financial services group Russell Marriott and Boyd Trust (RMBT) had banded together to establish a new force in the merchant banking industry, RMBT said yesterday.

The group would start out with initial capital of R25m funded jointly by RMBT and Grincor

The new bank's CE Kevin Moore said Marriott Merchant Bank would focus on the industrial markets in KwaZulu/Natal, although it had financial services offices in Johannesburg and Elangeni

Moore said the creation of the bank had been driven by the demand of its own client base, with assets under management of about R2,5bn warranting some form of banking status for the group

Any financial services institution handling assets of this size required some form of "licence" and authority to establish a bank in terms of the Banks Act was a means of accomplishing this, he said

While there were no immediate plans for a listing, a decision to do so would be driven by the bank's need for capital and the choice of public or private funding would be made three or four years down the line, he said

He said the birth of the merchant bank had resulted in a change in the structure of RMBT, with RMBT Holdings and Grincor holding a 68% and 32% share in Marriott Holdings (232) (233)

Marriot Holdings would in turn hold a 100% stake in Marriott Merchant Bank

Grincor chairman and chairman of the new Marriott Holdings group, Murray Grindrod, said the investment was a sound long-term one, but was unlikely to have any material effect on earnings a share or net tangible asset value in the current financial year

The strategic diversification of the shipping and transport group into merchant banking and property services was in line with international trends in shipping

Marriott Holdings CE Michael Mun-Gavin said the development was a natural extension of the range of financial services currently offered by RMBT

Mun-Gavin said he was confident the new merchant bank would be able to provide specialist services, focusing on the property industry and related asset and fund management services

The developments were a milestone in the growth of the RMBT group whose origins dated back to 1862

Violence hits Vivo bottom line

VIOLENCE and poor trading conditions have put paid to National Sorghum Breweries affiliate Vivo Breweries' hope of showing a profit for this financial year, executive director Israel Skosana said yesterday.

Skosana said the company had in the past year been unable to access its traditional market in the townships and hostels.

However, it should return to profitability in the stabilised political and economic situation. Prospects were boosted by a multimillion rand joint

venture agreement between Canadian-based carbonated drinks company Cott Retail Brands Inter Africa and African Beverages Corporation.

SELEO MOTLHABAKWE

Skosana was tight-lipped on the company's joint venture with Czechoslovakian brewer Ostravar Bavaria, saying the foreign company would raise its 25% stake in Vivo to 49% when it suited the parties without necessarily putting the ideal of black economic advancement at risk.

GOLD FIELDS OF SA

For 7/10/94

On the edge of profound change

(232)

Activities: Mining house Principal interests in gold mining but also involved in platinum, coal, base metals with some exposure to finance and property

Control: Rembrandt, Liberty and Driefontein Cons

Chairman & CEO: R A Plumbridge

Capital structure: 96,4m ords Market capitalisation R12,1bn

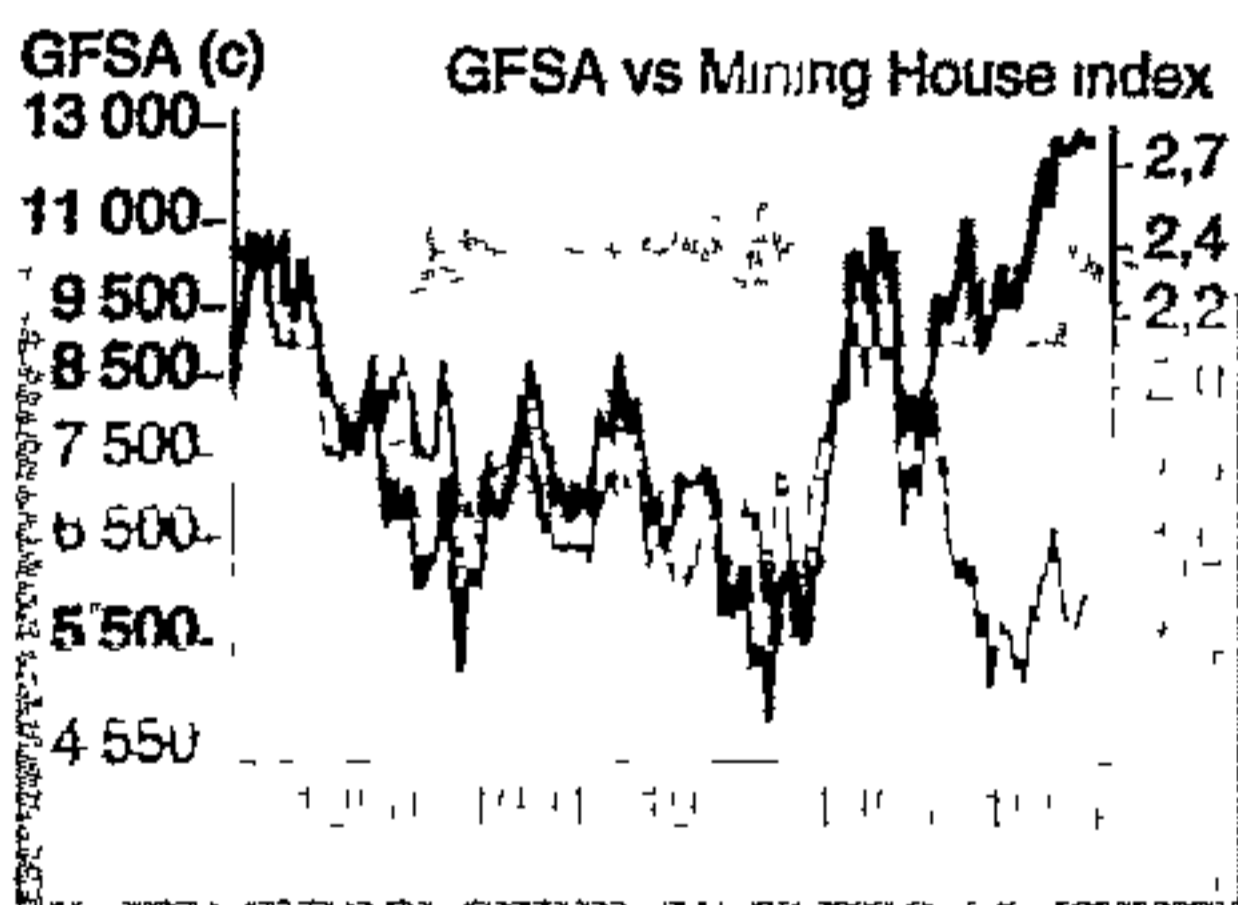
Share market: Price 12 600c Yields 1,7% on dividend, 2,9% on earnings, p e ratio, 34, cover, 1,8 12-month high, 13 000c, low, 7 200c Trading volume last quarter, 1m shares

Year to June 30	'91	'92	'93	'94
Investments				
listed (Rm)	1 716	1 765	2 098	1 556
unlisted (Rm)	1 120	997	1 646	1 274
Investment inc (Rm)	285	289	262	364
Other income (Rm)	212	215	193	153
Earnings (Rm)	314	302	290	357
Earnings (c)	328	314	301	370
Dividends (c)	200	200	200	210
Tangible NAV (c)	9 227	9 038	13 147	13 693

There is no denying that change is upon the great mining houses of SA. After years — decades is probably more accurate — of benign inertia, the floodgates have opened. A profound transformation is in progress. Nowhere will it be more significant when it comes than at Gold Fields of SA, one of the country's greatest mining businesses.

Already the Corner House has gone, at

Gold Fields



least in its former structure, Johnnies is labelled as the house to carry the banner of black economic empowerment into the next century. Who would have thought five years ago that such mutations were remotely possible? And, after the successful shareholder revolt in Randgold, the eyes of the investment community are now focusing on GFSAs.

If there is one thing chairman Robin Plumbridge has accomplished with conspicuous success, it is the unshackling of UK control (formerly exercised through



Plumbridge . his departure may be the trigger

ConsGold) In the process, he has made management and himself safe from predation by employing a shareholder control structure of unusual ingenuity (see organogram). A senior CE confesses he admires Plumbridge's architecture "It works," he says in a tone which betrays awe.

But Plumbridge will turn 60 in April next year and GFSAs has always enforced retirement at that age. Apart from the succession intrigue this must be invoking, his departure — if he does go — may herald a sea change in the life of the house.

Essentially, GFSAs is controlled by Rembrandt and Liberty. At operating level, it will be impossible for any restructuring to take place without the co-operation of Anglo American Corp which holds 25%. After years of impregnability — and who would not be behind the ramparts of 15 grams a ton? — the main shareholders might want to restructure and perhaps shift it into the international arena.

The potential for mergers within SA seems remote because of the extraordinary concentration of financial power which would result. An alternative is a link with, perhaps a purchase of GFSAs by, an international mining house. This possibility highlights the huge differences between SA and foreign houses in the manner in which they approach mining.

American Barrick, for example, started in 1983 and long treated with disdain by SA mining house managers, now has a market cap of US\$7bn, serious money in anyone's lexicon. Much of Barrick's profits arise from intelligent hedging but its rise results just as much from the approach to its mines: a tiny head office, freedom for operational managers, the absence of a massive fee structure. Tied to this is the way gold mines are rated overseas. By comparison, SA mines are undervalued. The rating differential will narrow over

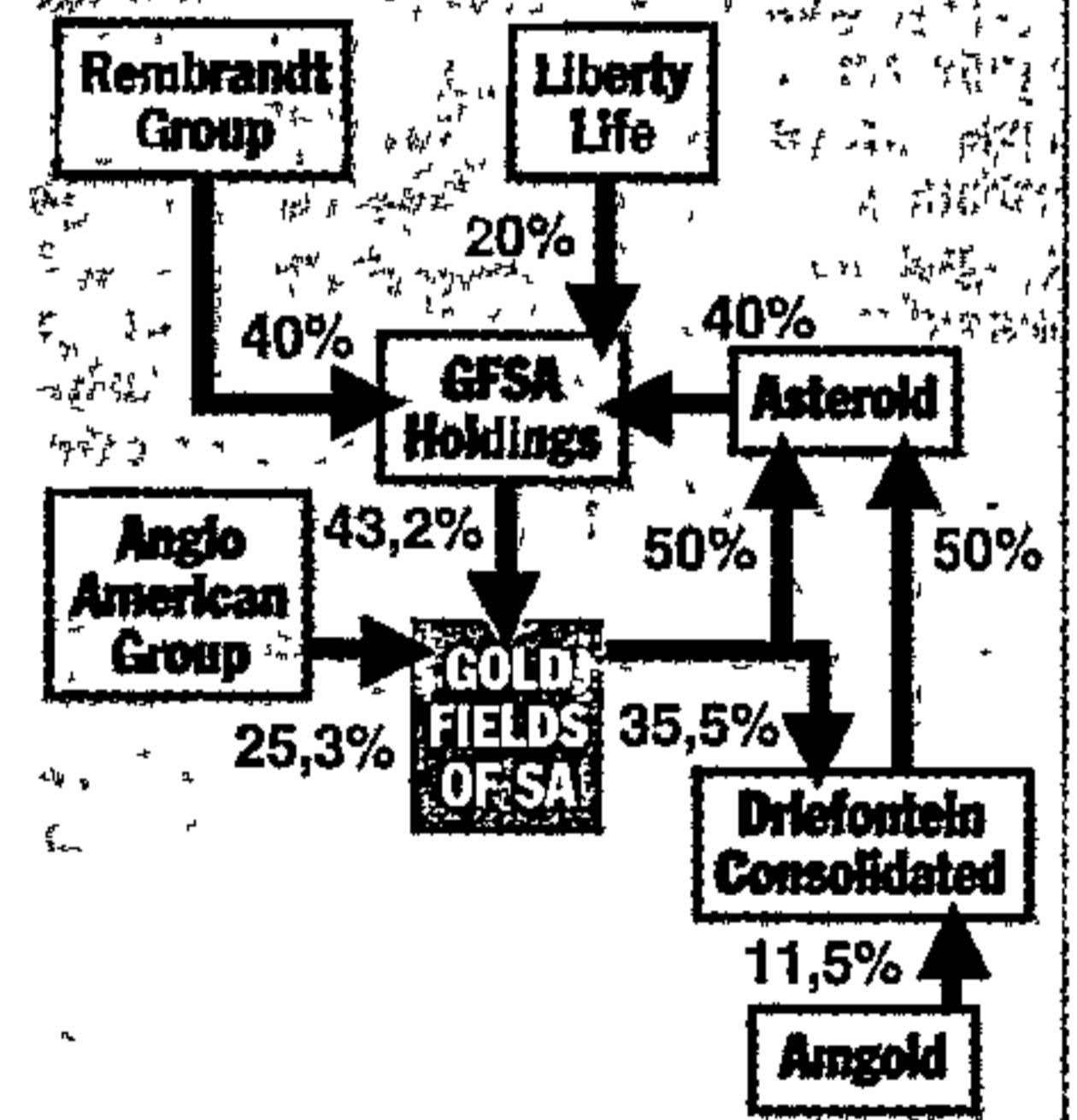
time but its disappearance depends on the continuance of SA exchange controls.

Meanwhile, GFSAs had a good year in financial 1994. Investment income rose 39% to R364m and costs were well contained at R183m (1993: R176m). Tax was low at R9m and after deducting R13m in pref dividends, attributable profit was R357m. That translates into 370c a share and the dividend was increased marginally to 210c. It had been 200c for five years, hardly inspiring for shareholders.

As an aside, I note GFSAs's earnings from "fees and other sources," presumably management contracts with its mines, is now at R153m, 27% of total income.

All of this disguises, however, an im-

GOLD FIELDS' CONTROLLERS



portant aspect of GFSAs's results over the last year. After a good 12 months — Plumbridge refers to his pleasure at reporting a strong recovery in earnings — shareholders' equity nevertheless declines to R2,54bn from 1993's R3,028bn.

This fall of R488m mirrors the decline in reserves and that comes, in turn, from the need to write R663m off the carrying value of GFSAs's investment in Northam Platinum.

Much has been written about this project and the group's management of it, little of it good, and GFSAs's executives must be sick of being castigated for it. Unfor-

P.T.O.

Supporting earnings was a 15% decline in finance costs to R3,8m, thanks to tight asset management and firm control of debtors and stocks

The interim cash flow of R6m is healthy and gearing is down substantially at 41% from the year-ago 49% and 55% at year-end. Had the private placing of 5,5m shares, which raised some R35m, occurred before end-August, gearing would have fallen to 7%. Chiappini concedes that with the current expansion, it is expected to near 20% at year-end.

With 17 Mr Price stores and one Milady's store to open before year-end and the seasonal nature of the business — 70% of profits are earned in the second six months — Specialty is on track for its tenth year of real earnings growth.

With the market forecasting earnings growth around 30% (EPS of 28c), the share is unlikely to weaken much. Nevertheless, like other counters within its sector, it remains expensive

Marylou Greig

MIDWITS/TARGET

Long range potential

Handwritten: m 7/10/94
Activities: Mining holding company with interests in mineral prospecting companies

Control: Anglovaal 53,8%

Chairman: C S Menell

Capital structure: 321,6m ords Market capitalisation R4bn

Share market: Price 1 250c Yields 0,08% on dividend, 1,7% on earnings, p e ratio, 60,4, cover, 2 12-month high, 1 500c, low, 815c Trading volume last quarter, 6m shares

Year to June 30	'91	'92	'93	'94
Turnover (Rm)	104,3	99,6	90,6	150,4
Pre-tax profit (Rm)	78,7	80,9	75,6	105,0
Tax (Rm)	34,9	27,3	16,0	31,4
Attributable (Rm)	46,6	54,1	63,9	66,6
Earnings (c)	14,5	16,8	19,9	20,7
Dividends (c)	6	7	7,8	10

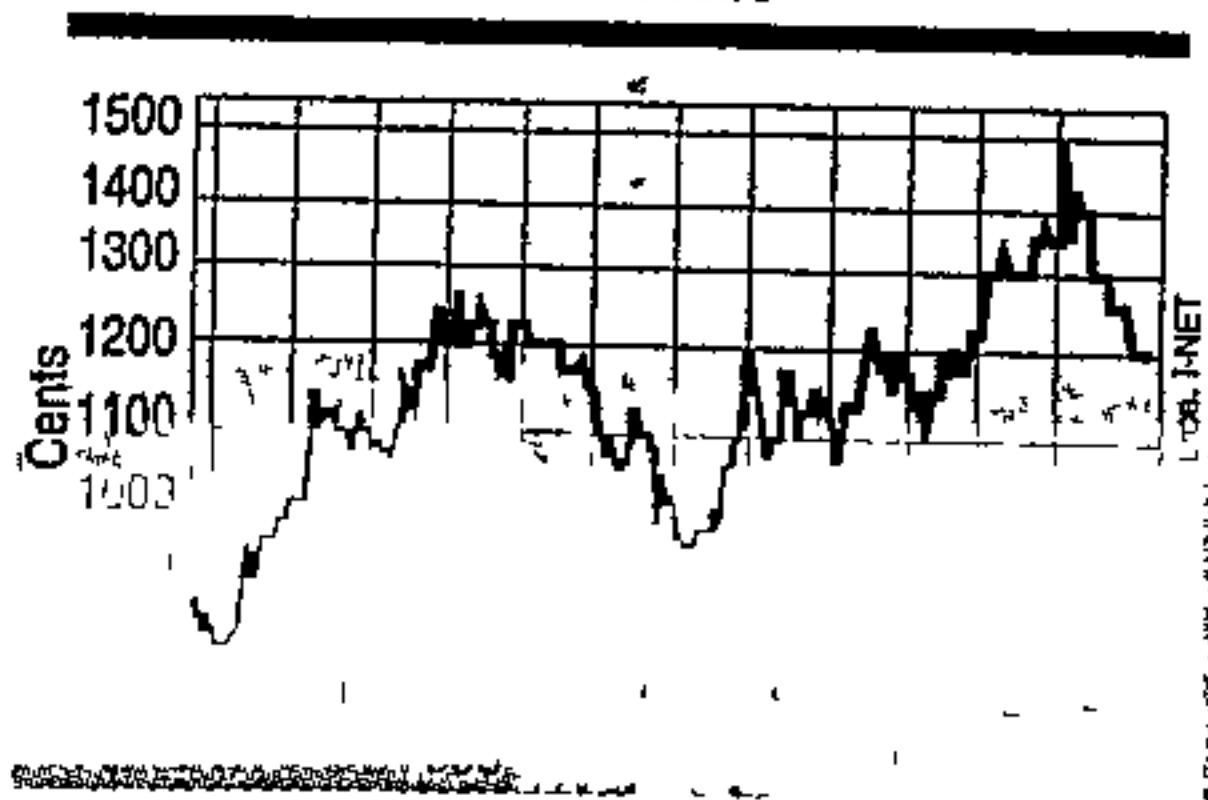
Tucked into mining house Anglovaal is Middle Witwatersrand (MidWits), a small but important mining finance company which holds a portfolio of listed counters, more notably, however, it holds positions in potential new developments which, if they come about, will secure its future for many decades *(232)*

The company is probably fairly valued if the conventional method of calculating NAV is applied, the portfolio of listed investments is concentrated almost exclusively in mining-related stocks

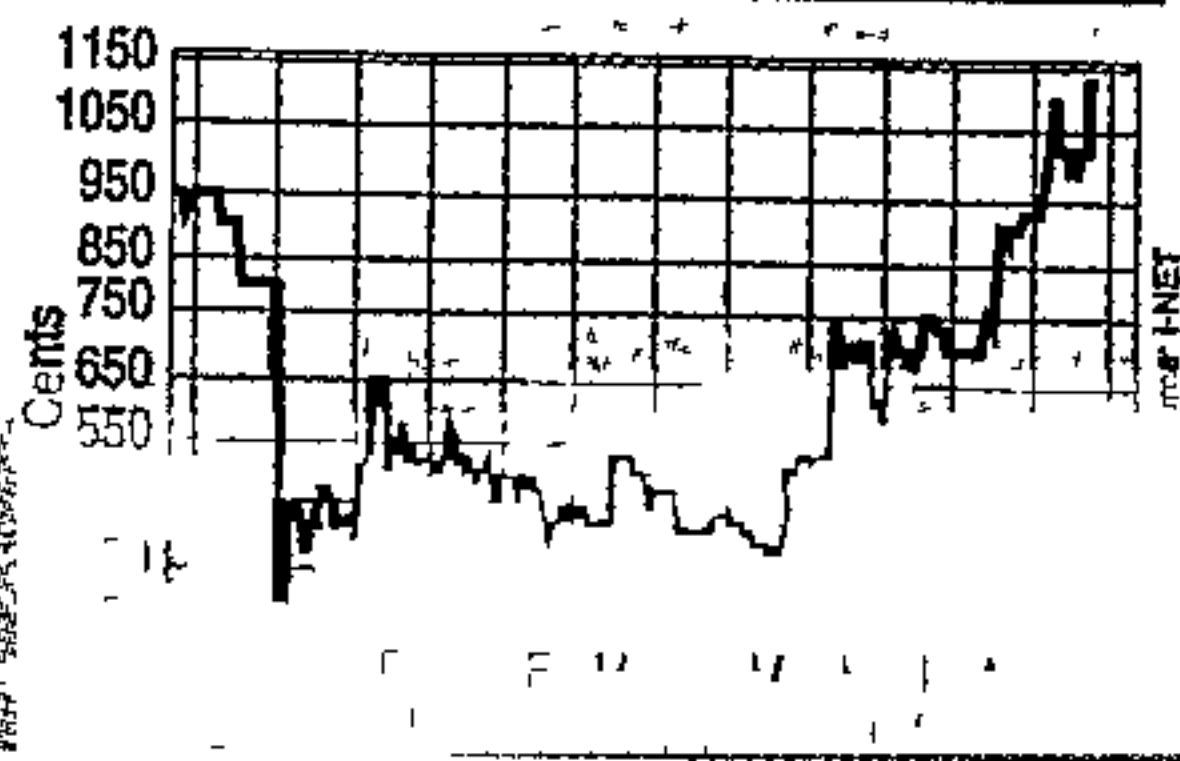
However, this ignores three important keys. The first is the large exposure to unlisted Saturn Mining, Anglovaal's vehicle for participating in the Venetia Diamond Mine in the Northern Transvaal, operated and managed by De Beers. The importance of MidWits's 65,5% holding in Saturn is underscored by Venetia's royalty payment of R64,5m in 1994 (1993 R9m). The scope for steadily increasing value depends on the extent to which De Beers is able to regain control of the world diamond market and with that, when Venetia's full production can be sold.

The second key lies in the Slaaihoek

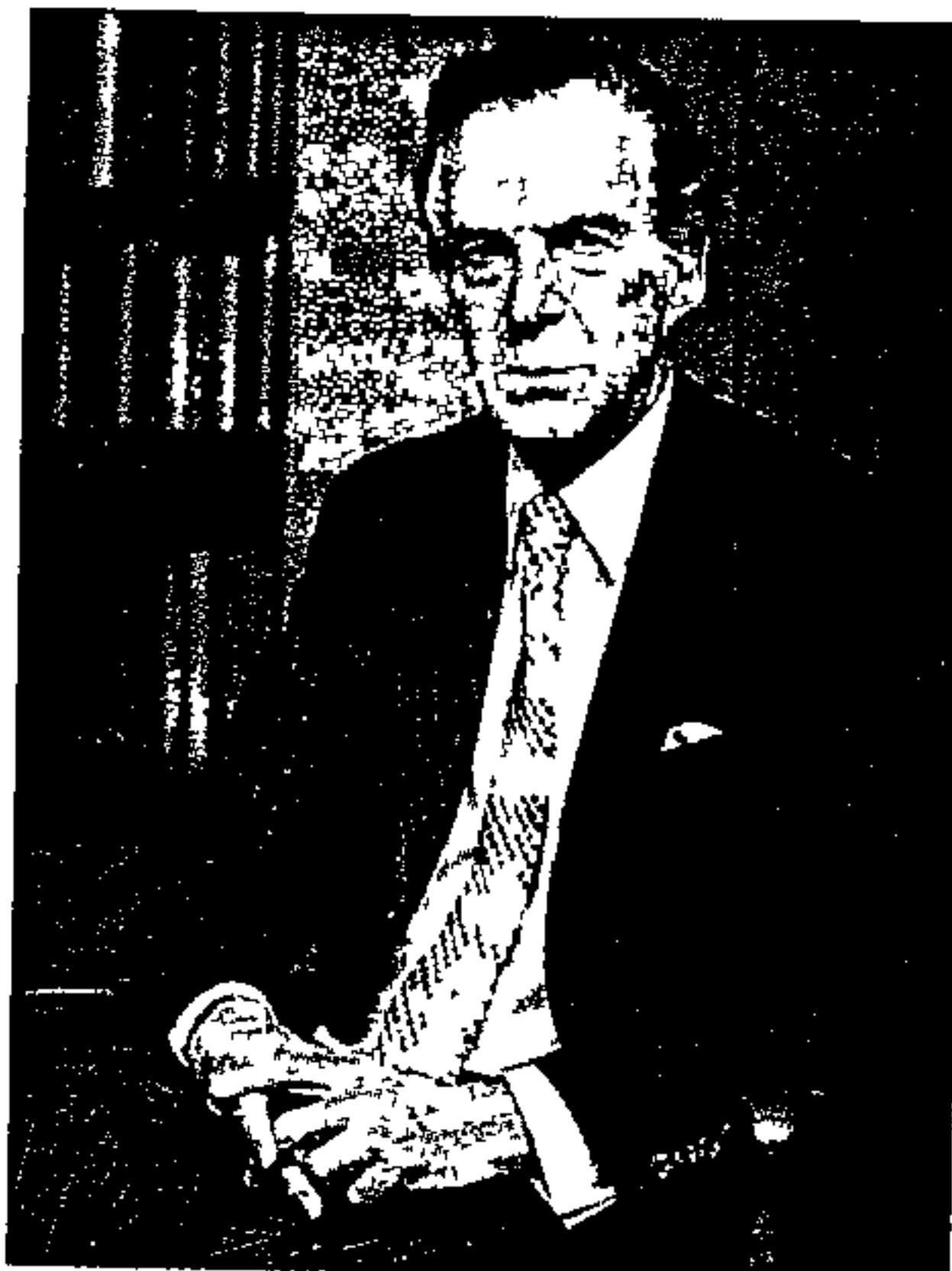
Mid Wits



Target Exploration



Handwritten: m 7/10/94
 project, now the subject of a detailed exploration programme. Not much is known about Slaaihoek other than that the farm, 50 km from the trout-fishing village of Dullstroom and not far from Waterval Boven, is host to an intrusion of magma of unknown origin but with similar characteristics to the Bushveld Igneous Complex, source of SA's fabulous platinum and chrome deposits. The Slaaihoek deposit contains about 10 Mt of ore believed to



MidWits chairman Clive Menell spending more on exploration

grade about 0,5% recoverable nickel along with traces of cobalt, platinum and copper. R80m is budgeted for the initial examination, which includes an exploration shaft sunk to about 400 m.

This project illustrates another feature of Anglovaal's long-range game plan which is to acquire — as cheaply as it can — mineral rights which it can store for the future. Given the new government's anxiety to exploit these resources, that may not be possible indefinitely, but the house's scheme is good for the present. Slaaihoek is, in some respects, a repetition of its capture of the Sun project in the northern Free State. And this is MidWits's third key **Target Exploration**, in which MidWits holds a 23,6% stake, owns important mineral rights contiguous to, and north of, Loraine Gold Mine where it is investigating in great detail two reef horizons of considerable complexity.

It has completed the first phase of the programme, and has moved to the use of shafts provided by Loraine to gain access below the reefs through a long descending incline. Interestingly, different reefs branch out from a common shore line, a feature which gives the deposit close similarities with JCI's South Deep project. In keeping with Anglovaal's policy, Target is proceeding with unusual care and caution. If this mine is ever developed, the likely capital cost will approach R2bn — good reason for prudence *(232)*

It will be two years at least before management has anything of gravity to say about the Target area. Even then, Anglovaal may persist with its general reluctance to tell minorities what's cooking.

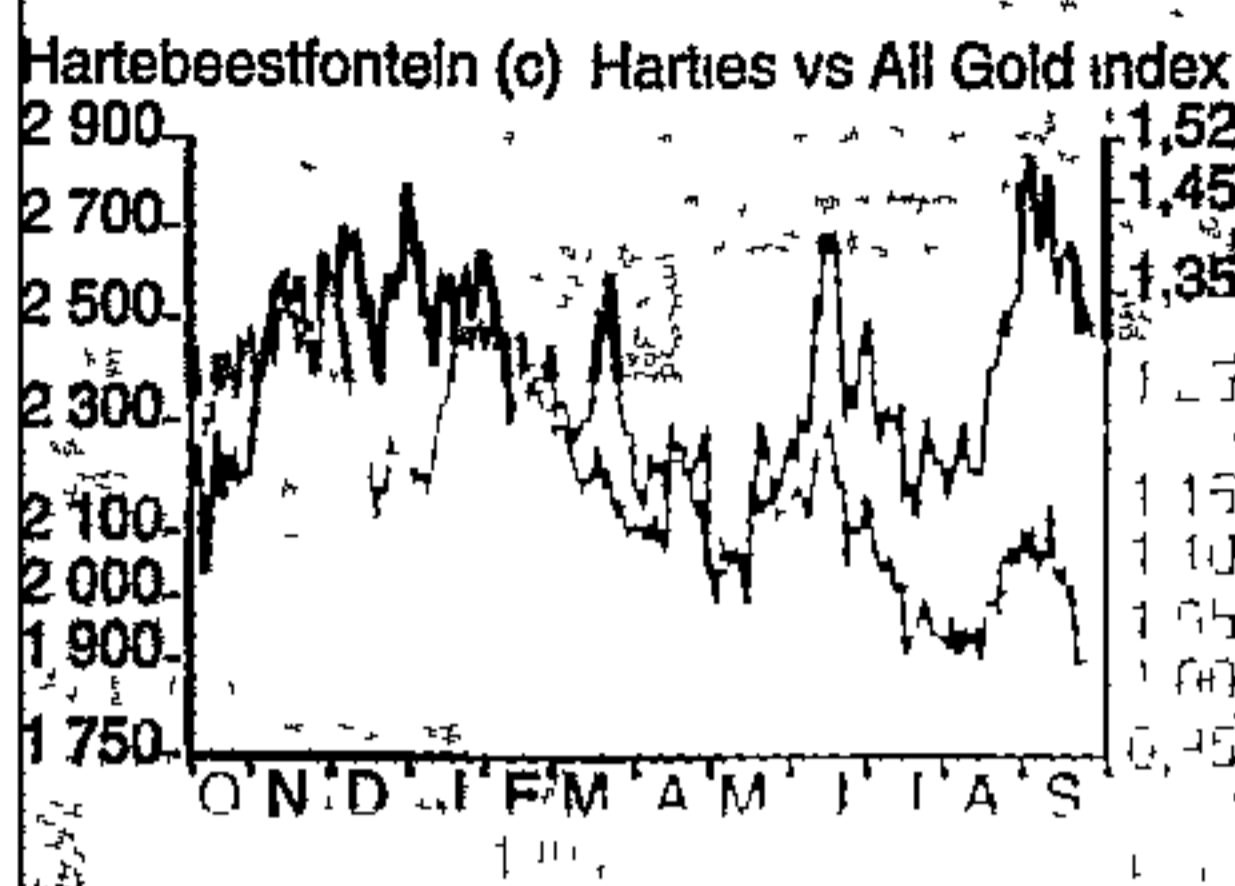
MidWits soldiers on with a strong balance sheet and practically no borrowings. However, the 1994 report reveals that, despite vastly increased income, mostly from Venetia, exploration activity consumed a substantial R37m (1993 only R7m), the bottom line is EPS of 20,7c (1993 19,9c) and a dividend of 10c, a lot better than last year's 7,8c.

It is impossible to avoid the conclusion that MidWits has considerable long range potential for those investors determined to stay in touch with mining developments and prepared to shrug off protracted lead times.

David Gleason

Fun 7/10/94

Hartebeestfontein



cipally — as, indeed, it always is — on the house's Klerksdorp producer Hartebeestfontein (Harties).

This is a stable, solid performer whose results clearly demonstrate its enormous profit generating ability when the gold price moves upward (215) (232)

That aside, press comment has focused in recent weeks on chairman Basil Hersov's announcement that Harties will produce about 20 000 t less over 1995 from underground sources (less than 1%) coupled with a fall in grade to 8,3 g/t from 1994's 8,9 g/t — about 7% less.

However, their origin is simply that, as the mine ages (it has been in production for 40 years) so there is an inevitable drift away both from higher grade areas and from the shafts. This combination (of increasing distance and falling gold content) means something has to give. The silver lining is that the mine's life has been usefully extended: previously analysts calculated it to be between 10 and 11 years. Now it is, says Hersov, "Somewhere between 12 and 16 years"

1994's results speak eloquently of a company which employs good mining techniques and implements strong management disciplines. The gold price helped too: working profit of R403m compares with 1993's R237m. By the same token, the contribution to the fiscus rocketed to R212m from the previous year's R100m; interestingly, the company paid dividends of 160c a share from earnings of only 152c, though Hersov explains the dividends were declared before the announcement of the 5% transition levy

In passing, my eye fell on the fees this

company pays to Anglovaal in 1994 these added up to R17,9m compared with 1993's R14,5m. It is a lot of money; enough to raise once again questions about the way the SA mining industry is structured.

Zandpan mirrors Harties, since it derives most of its income from its investment which originates from the merger of Zandpan's mineral lease area with neighbour Harties in the early Seventies.

Zandpan holds nearly 20% of Harties' equity and, though the company holds a number of other investments in listed mining counters, these account for comparatively little. The share should track Harties accurately when differences occur, these present arbitrage trading opportunities to professional market users.

The third gold mine in Anglovaal's stable is the remarkable Barberton district producer, Eastern Transvaal Consolidated (ET Cons), effectively an amalgamation of three operating mines which go back more than 100 years (the Agnes section was first worked in 1883).

The deposits are of the Archaean variety, very different from the Witwatersrand and a lot more difficult, and the ores have complex roasting requirements to overcome their refractory arsenical content.

Nevertheless, these problems are well known, and this makes the 1994 result rather disappointing: average recovery grade fell from 10,2 g/t to 9,4 g/t. Not even the higher gold price combined with increased milled tonnage could compensate entirely for this. The net result, after a doubling in the tax bill to

R10,8m, is EPS of 12,5c compared with 1993's 12,3c. Dividends of 14c were declared before the transitional levy was imposed.

Over 1995 and 1996, capital expenditure is scheduled to be R47m, substantially higher than normal. In the absence of a profound improvement in the gold price and in recovered grade, investors must assume the company's results will be average.

Finally, there is Village Man Reef, which stretches back to 1889 and is situated in the heart of Johannesburg. Now solely a dump treatment operation, chairman Rob Wilson says at the present gold price it is unlikely the company will continue its operations "much beyond June 1995".

Over the years there has been desultory talk about the potential for dewatering and re-opening the mines of the Central Rand



Harties' Hersov ... less production from underground

ANGLOVAAL GOLDS

Longer life for Harties

Of the four Anglovaal gold companies to release their 1994 financial reports, investors' attention will be concentrated prin-

Rand Mines, before it fell apart, had constructed one such plan and it will be interesting to see what the new management at Randgold makes of this.

Meanwhile, it seems certain another formerly great mining company will turn up its toes next year (215) (232) David Gleason

Metro's aggressive expansion continues

AMANDA VERMEULEN

THE Premier Group's wholesale operation Metro Cash & Carry is to merge its Botswana business with Sefalana Holdings to form a R650m-a-year cash and carry operation, the latest step in its aggressive expansion plans.

The merged company — Metro/Sefalana — would be listed on the Botswana Stock Exchange in February, becoming that country's largest listed company. Metcash would put R18m into the new Botswana operation, finance director Dudley Rubin said yesterday.

Metro/Sefalana was expected to report attributable earnings of R21m-R24m for its first year, representing a large slice of Metcash's earnings. Metcash posted earnings of R68,2m for the year to April.

Metcash and Sefalana would each hold 40% of the company, with the public and institutions holding the rest.

In terms of expansion plans unveiled by Metcash chairman Peter Wrighton this year, the R1,7bn group — which has about 190 outlets in southern Africa — plans to expand its building interests to take advantage of the expected growth in housing.

It recently opened a store in Maputo and concluded an agreement with a Zimbab-

wean group to establish an operation in Harare. A store has been opened in Israel with another planned for Tel Aviv this month. There are also offshore operations in Russia, Portugal and Malawi.

Metcash CE Carlos dos Santos said the Israeli operation would give the group a springboard into the Middle East.

SA expansion would concentrate on servicing the expected increase in black business and consumer spending. Dos Santos said the group was investigating opportunities for township spaza shops.

The group's share price has almost doubled in the past year, increasing to R11,25 from R6,20 last October. (23) (232)

The Botswana operation would start with 17 stores, but Rubin said there were opportunities for expansion. Metcash has had an interest in Botswana since the 1970s. It is conducting due diligence studies and waiting for both countries' exchange control authorities to approve the deal.

Metcash will run the company and will have equal representation on the board. Former Metcash senior GM Neil Robertson will head the operation.

WOOLTRU

Fri 7/10/94

Unlocking the energy

Fresh strategies have restored the capacity for growth

33

232

Wooltru deputy chairman and CE Colin Hall has a missionary zeal. He is convinced he has uncovered a way of unlocking additional energy from directors and employees that will boost the fast-growing organisation's profits for many years. He is as excited about this as he is about the large earnings improvement posted in the 1994 financial year — so much so that he now spends about half his time running courses and training trainers from all parts of Wooltru.

Sceptics may be chuckling about Hall's obvious enthusiasm for his new and unconventional approach. After all, there are not that many CEOs who delve into the mysteries of left-brain rational thinking and the more creative and caring right-brain as it applies to conventional business management. To some outsiders, it may seem somewhat spurious. But, judging by the latest results, it's no laughing matter for competitors. It is Hall who is doing the laughing — all the way to the bank.

Only a year ago, the share price was equivalent to 820c (the share was split 10 times in April), it is now 1 800c. This year group sales increased 20%, pre-tax profit 57% and EPS 58%. Of course, it was not only Hall's teachings that lay behind this. An important factor was the pace at which the Woolworths chain has recovered from its poor 1992 financial year. The other two retailing divisions continued to do well. Select Retail Group (SRG) turned in another vigorous performance, Massmart recorded impressive profit gains that were helped by its acquisition of Dion in August 1993. But Woolworths was the real profit booster.

Woolworths' results should be put into perspective, though. Its 1994 pre-tax profit

of R150m was a 118% improvement on 1993's R68,8m. And the 1993 pre-tax figure was 71% higher than the R40,2m of 1992. Yet in 1991 it was no less than R138,6m, in 1990 it was R147,4m, almost the same as the 1994 pre-tax profit.

For those whose memory of the Woolworths slump two years ago has been dimmed by the passage of time, it's somewhat sobering to contemplate, for instance, that sister company SRG — a good example because its growth has been entirely organic — has grown pre-tax profit from R58m in 1990 to R147m in 1994. Annual compound growth was 26,2%. If Woolworths had grown at the same pace since 1990, its 1994 profit should have been about R370m. Even at 17% annual pre-tax profit growth (about the same as that achieved by Edgars and Foschini), the 1994 figure would have been R276m.

Had Woolworths performed as well as SRG, then Wooltru's share would now be standing on an even better rating than its current 26,5 p/e. That is about the average for the stores sector, which is led by Foschini (31,6 p/e) and Edgars (29,3 p/e). But the market evidently took the view that Woolworths would recover swiftly. And investors plainly believe the group has substantial earnings potential in the short and long terms.

Now that Woolworths is recovering so well, how does the market justify this standpoint? Hall has firm views on the subject.

He reckons that six or seven years ago, the group was highly rated mainly for nostalgic and emotional reasons. He says it was then a somewhat unthinking, paternalistic, white, male-dominated, autocratic, chauvinistic and dependent business that listened slavishly to what Marks & Spencer in the UK had to say. Nevertheless, he says, it had developed a successful formula for its time.

However, instead of allowing the business to become a learning one that was

responsive and growing, the old formula was entrenched and the chain persisted with obsolete practices. The shops were not being upgraded fast enough, far too little was being spent on software or on people development, and there was no marketing strategy. "We were," says Hall, "busy liquidating market share."

In retrospect, the Woolworths earnings fall of 1992 seems to have been the catalyst which, quite rightly if Hall's views correctly represent the situation, spurred far-reaching change. The earnings collapse happened two years after Syd Muller was appointed MD of Woolworths. It was a sobering experience for all. But management worked assiduously at the new strategies and what was a tired looking chain has been turned into a new business.

At an early stage in this process, new faces were introduced

at the top. Farrel Ratner, a merchandising specialist, and Carol Grolman, best known for her skills in marketing and credit control, were enticed from Edgars at attractive remuneration packages. Ian Sturrock, responsible for finance, administration, information systems and the credit card, was recruited from Rusfurn. And the Woolworths board was restructured.

The chain now has a marketing philosophy and clear strategies. Roughly R500m has been spent over the past three years on installing information technology software in every outlet. Systems have been improved and buying procedures modernised. Stores have been upgraded.

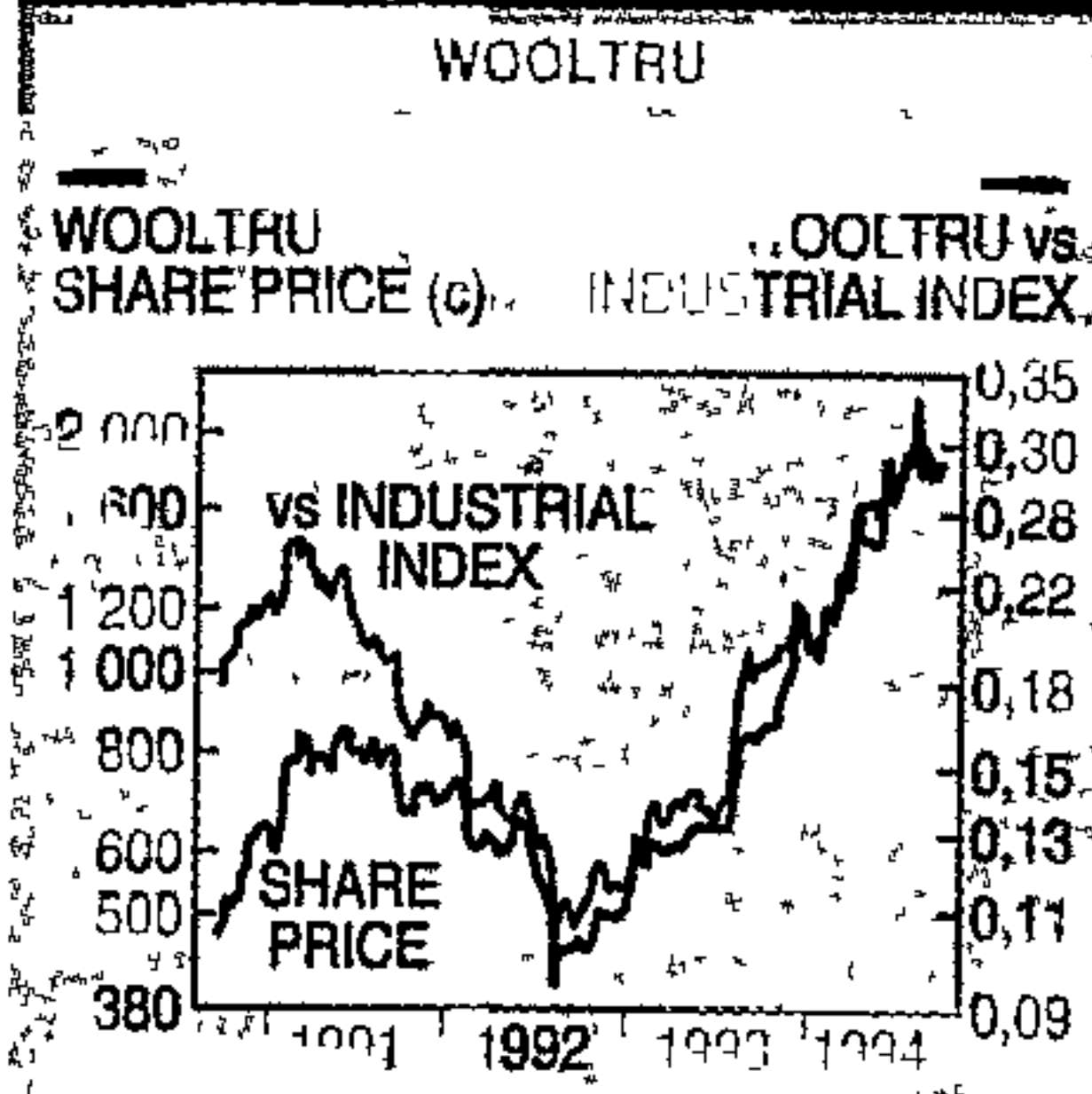
Competing with the world's best retailers, this year Woolworths won the US-based Institute of Store Planners award for the best store design in the world. A charge card has been introduced and it helped spur Woolworths' turnover in the last quarter. Says Muller: "We've put in place a compelling business vision that was needed to enthuse and energise the business. I don't think the organisation has ever been in better shape."

At the end of financial 1994, adds Hall,



Hall .. new and unconventional approach

POWERFUL RECOVERY



COMPANIES

FNB Botswana buys out rival

FIRST National Bank had strengthened its foothold in southern African through the acquisition of the largely Zimbabwean state-owned Zimbank Botswana, the bank said yesterday.

FNB subsidiary FNB Botswana said it had taken over all the assets and liabilities of the bank, which was operating at a loss, for a "nominal" amount.

FNB senior GM and FNB Botswana chairman Peter Thompson said while Zimbank had been operating at a small loss, the major culprit behind the loss was high bad debt provisions.

He said Zimbank had stopped trading with effect from October 1, with all its assets and liabilities transferred to FNB Botswana. But the bank's shell would continue to exist.

The Zimbank takeover would allow FNB Botswana to increase its market share, he said. It would also mean the bank could

SAMANTHA SHARPE

absorb Zimbank's skilled staff, a scarcity in Botswana, into FNB Botswana.

The transfer of staff would facilitate the growth of FNB Botswana, he added.

Cyrian Tambo, former MD of Zimbank Botswana, said recently the bank was up for sale because of changes in its corporate strategy. This was brought about by changes in SA, he said.

"Zimbank was set up four years ago to exploit the banking opportunities that were being created by the increasing trade between Zimbabwe and Botswana," Tambo said.

The political changes in SA would see a boost in trade between Zimbabwe and SA, to the detriment of Botswana, he said.

He said the economy was already over-banked and the presence of FNB Botswana and Zimbank Botswana was unsustainable.

Wall Street

NEW YORK. — US stocks posted solid gains in light trading, lifted by recovery rallies in auto and technology stocks amid optimism over upcoming quarterly earnings reports.

The Columbus Day holiday that closed the cash treasures market kept action subdued but stocks nevertheless extended their rebound for a second-straight session.

The Dow industrials finished up 24 points, or 0.63%, to 3 821.32. Volume dropped to about 212 million from Friday's 284 million

Advancing issues outnumbered declines by about 2 to 1 on the New York Stock Exchange, with 1 417 up, 733 down and 679 unchanged. — Sapa-AP

Privatisation possible route for SA roads

(232)
By ARI JACOBSON

CERTAIN sections of SA's roads could be privatised in the future and a smart card used to collect payment, said Engen's CEO Rob Angel at the Conference on Asphalt Pavements for Southern Africa (CAPSA) which began yesterday at the Cape Sun hotel

CT 11/10/94
Delivering the keynote address Angel said "in my opinion it's by no means unrealistic to envisage sections of trunk and main feeder routes owned, maintained and managed by local private enterprises"

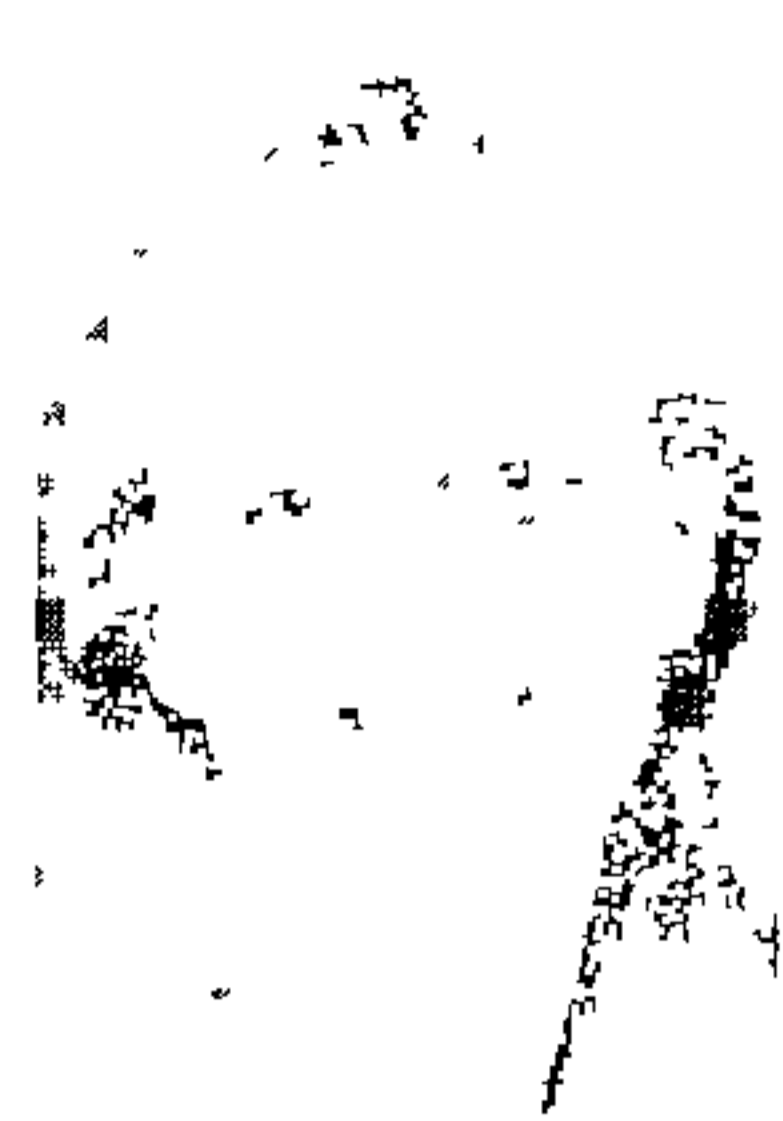
He said that revenues would be derived from "tolls" and should be sufficient to cover operating costs, gradually redeem investment borrowings and "eventually meet profit expectations"

Angel said this need not mean that there would be a toll plaza "at every half-baked village"

"With some ingenuity in the design, it should be possible for a series of road section owners to collaborate to collect fees from road users"

Angel said that fleet and hire companies could be invoiced against "vehicles logged passing"

"Private operators of cars and trucks could utilise smart cards," he said



Linda Dollman has been appointed manager, retail banking, for Standard Bank's Constantiaberg area.



Rodney Manicom has been appointed marketing director of Wasteman.

Multi-billion rand buyout of major US paper maker

Sappi now a world player

BY DEREK TOMMEY

One of South Africa's top industrial companies has taken over the largest coated wood-free (CWF) paper producer in the United States in a multi-billion rand deal.

Pulp and paper company Sappi announced last night that it is acquiring control of SD Warren Company for \$1.6 billion or just over R5.7 billion.

This is the largest investment by a South African company in the United States and elevates Sappi into the top ranks of the world's paper makers. It makes Sappi South Africa's first genuinely multinational industrial company.

But Sappi's executive chairman, Eugene van As, emphasises that this acquisition will not reduce Sappi's commitment to developing its South African operations on which it is spending R1.4 billion. It is considering also spending a further R200 million at Enstru and Usutu.

Cash provisions

Sappi was not using any South African currency to acquire Warren, he said. All but \$250 million of the money required is being provided by American bankers and insurers and a Swiss banker.

"After having been the pariah of the world for so long, it was pleasing to see some of the best banks in the world competing to do business with us," said Van As. Warren, which is owned by Scott Paper Company, the



Top table . . . The Sappi team at yesterday's press briefing.

world's largest tissue producer, is market leader in the United States in CWF papers - which is the fastest growing segment of the paper and pulp market.

Its four mills have a capacity of 1.25 million tons of paper a year and it owns nearly 1 million acres of timberlands in the north-eastern United States. Warren came on the market earlier this year when Scott put it up for auction after announcing that it intended to concentrate on marketing tissue.

None of Warren's direct American competitors could bid for it owing to that country's anti-trust laws, while most other American paper

manufacturers who might have been interested were heavily in debt and lacked the financial muscle.

This left the field open to foreigners. Initially 10 foreign firms expressed an interest but ultimately the number of bidders, including Sappi, dropped to three.

Van As said he believed one of the bidders had made a higher offer than Sappi, but Sappi was awarded Warren because its offer was in cash and was fully-underwritten.

Motivation

Discussing the motivation for the acquisition Van As said the world paper market is con-

solidating. If Sappi were to remain a major operator it had to become a global player in certain markets by the year 2000.

The Warren acquisition will make Sappi the world's leader in the CWF market while the R1 billion modernisation programme at Saalecor will reinforce Sappi's lead in the dis-solving pulp market.

Sappi is financing the purchase with some American techniques. "It is a different setup from here in many ways," he said. He and Sappi's financial staff had been on a 90 degree learning curve in the past four months. Sappi is putting up \$250 million of the \$400 million being

paid for the equity portion of Warren. Sappi's R250 million is being raised against the security of its European assets. Van As said Reserve Bank approval will be needed. This will give Sappi 70 percent of the equity.

Partners

Sappi's banking partners - DLJ Merchant Banking Partners and UBS Capital - will subscribe for the remaining \$150 million of equity. They will invest an amount of \$37.5 million in ordinary shares, \$37.5 million in perpetual Plk (payment in kind) shares and would underwrite an issue of \$75 million redeemable Plk shares.

Van As said Plk shares were something like preference shares but with the dividend being paid in new shares and not in cash.

Debt financing will be provided through a fully underwritten bank facility of \$1.1 billion provided by Chemical Bank - the third largest bank in the US.

This will comprise \$630 million in senior debt and \$375 million in a senior-subordinated debt from the DLJ Bridge Fund which will be refinanced in the high yield (or junk bond) debt market by Donaldson Luhn and Jenrette Securities Corporation.

None of the debt instruments carries any recourse to the shareholders.

The balance of the cost is an assumed debt of \$120 million which carries a low rate of interest.

Van As said that Warren has passed through a number of bad years which saw its pre-tax profit drop from \$200 million in 1988 to \$100 million in the past year.

This was partly the result of the downturn in the business cycle which led to large scale dumping from Europe and Warren shooting itself in the foot.

It embarked upon a cost-cutting retrenchment campaign a little while ago which destroyed staff morale and led to many experienced workers leaving.

As a result, it has not yet received any benefit from the \$1.6 billion investment which it made in new equipment in the past three years.

He said Sappi should be able to significantly increase production at Warren, and this and the sharp increase in paper prices recently should result in it becoming far more profitable and generating considerable cash.

Had the acquisition occurred this year the effect on Sappi's earnings would be neutral. It will have a positive effect on Sappi's earnings in 1995-96 and if the current trend in the paper price cycle continues into 1997-98 as expected, the positive impact will be substantial.

He pointed out that production of CWF paper is static in a growing market. There were no new CWF paper mills under construction and even if a start were made now to build them, it would be three years before they could reach production.

Company now world market leader

Sappi expands into US with \$1,6bn deal

BIDay 11/10/94

AMANDA VERMEULEN

SA paper and pulp group Sappi yesterday announced the acquisition of US-based paper company S D Warren for \$1,6bn, making it the world's largest producer of coated woodfree papers. The transaction represents the biggest investment yet in a US company by an SA concern.

Executive chairman Eugene van As said the deal, which gives Sappi 70% of the equity, had been entered into with US-based Donaldson Lufkin & Jenrette (DLJ) Merchant Banking Partners and UBS Capital, and would be financed entirely from overseas sources (199) (232)

DLJ Partners is a wholly owned subsidiary of Donaldson, Lufkin & Jenrette, a Wall Street securities firm and a wholly owned subsidiary of one of the largest US insurance and asset management firms, The Equitable Companies

UBS Capital is a wholly owned subsidiary of Union Bank of Switzerland

Sappi's share was suspended in Johannesburg on Friday and in London yesterday morning at the request of directors. The purchase price was \$1,48bn in cash plus existing Warren debt, amounting to \$120m, which will remain in the business

The purchase will be financed by a stand-alone leverage transaction. Sappi will invest \$250m in Warren equity

The remaining equity capital will come from DLJ Partners (\$125m) and UBS Capital (\$25m)

Debt financing will be provided through a fully underwritten bank facility provided by the Chemical Bank (\$1,1bn) and the senior subordinated debt from the DLJ Bridge Fund (\$375m) to be financed in the

high yield debt market by Donaldson Lufkin & Jenrette Securities Corporation

Sappi, which is borrowing \$200m from UBS against the security of its European assets, plans to raise a long-dated Euro-bond to repay this loan

Although Warren is being financed on a stand-alone basis and there is no recourse to Sappi for the Warren debt, Sappi intends to consolidate Warren in its financial statements. This will result in Sappi's debt ratio increasing to about 1.25:1 at February 25 next year. It is expected this ratio will decrease to below 1:1 within 18 months

Its UK, German and SA fine paper operations, combined with the Warren acquisition, give Sappi 15% of the world's coated woodfree paper production capacity

Warren, based in Pennsylvania, was owned by the Scott Paper Company, the world's largest tissue producer, and contributed 25% of Scott's turnover. Last year Warren reported \$1,1bn turnover with earnings before interest and tax at \$108m

The acquisition, which almost doubles Sappi's forestry ownership to 700,000ha, is still awaiting Reserve Bank approval and anti-trust clearance in the US

Sappi had been able to make the successful bid for the company on the back of a more fully financed and underwritten offer than the other 10 interested parties. Anti-trust legislation in the US also prevented any of the major US companies from making a bid for Warren

The Warren acquisition represents another expansion move in Sappi's publicised

□ To Page 2

Sappi

BIDay

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□ From Page 1

bid to become a world player by 2000.

In 1990, the company bought a European-based company, Hannover Papier, elevating it to the third largest European producer of coated woodfree paper.

A R1bn modernisation of the group's Saiccor plant in Natal was expected to be commissioned in January 1995, and would enhance the company's position as the

world's largest dissolving pulp producer. Warren, which had invested \$1bn in the past six years in upgrading machinery, gives Sappi the opportunity to expand into a market of growing demand but static capacity for coated woodfree papers, said Van As. The company would concentrate on consolidating its investments, but in the long term would consider acquisitions in Southeast Asia. (199) (232)

US acquisition propels Sappi into global top 20

PAPER and pulp group Sappi's \$1,6bn acquisition of US paper company Warren would propel it into the ranks of the top 20 paper and pulp earners in the world with a projected turnover of R10bn, analysts said yesterday.

The Warren deal, the latest in the company's series of acquisitions since the beginning of the decade, was part of its aim to become a global player by 2000.

Sappi's dissolving pulp operation in KwaZulu-Natal is the world's largest, with a R1bn investment in the plant expected to come on line early next year. The group also planned a further R3bn investment in its other SA interests.

Warren has placed Sappi as the world's largest producer of coated wood-free papers, with 15% of the world market. The group has also made several European acquisitions: five mills in the UK in 1990, and German company Hannover Papier in 1992.

Analysts said yesterday the Warren deal was well timed. Not only was the world paper and pulp market experiencing an upturn in prices, but coated wood-free papers represented the fastest growing of all the paper industries, increas-

AMANDA VERMEULEN

ing by at least 5% annually.

In addition, Warren had invested \$1bn in new plant equipment in the past six years, creating the capacity to meet the growing demand. Warren was also fully integrated with pulp production, while most other major producers had to buy pulp. One analyst said this would give the company higher margins, and make it more competitive.

Another point in Sappi's favour was that the world paper and pulp market, typified by an approximately eight-year cycle, was looking at good growth in demand and prices over the next three to four years.

Sappi suffered a setback in 1992 when the Scandinavian currencies collapsed. Overnight, Finnish and Swedish pulp producers went from being the world's most expensive to among the cheapest. Sappi's UK ventures had also been plagued by the British recession.

Sappi cut costs at Hannover Papier, and said in its 1994 report that it had expanded market share in Europe while gaining an export foothold in the US and Far East.

Improved prospects for the European and UK inter-

ests, combined with the Warren acquisition, which Sappi executive chairman Eugene van As said would have a neutral or positive affect on earnings, were expected to push turnover to about R10bn.

Analysts said share price predictions were difficult to make because of the industry's cyclical nature.

But one said the deal was unlikely to boost the share price, which closed yesterday 4,2% or 250c off at R57 — but in a generally weak market. Rather, the deal would justify the share price which reached a R63 high on September 5.

Another analyst said, however, the share was "likely to outperform the market in the medium to long term".

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Sappi's US acquisition 'not a threat' to Mondi

AMANDA VERMEULEN

SAPPI's acquisition of US paper company SD Warren did not pose a threat to Mondi, SA's other major paper group's chairman Tony Trahar said yesterday.

Sappi and unlisted Mondi, owned by Anglo American Industrial Corp (Amic), operated in different markets.

Trahar said while Sappi was making a major push into the US, Mondi was focusing on the European market. Mondi would concentrate on uncoated wood-free products, newsprint and packaging, while Sappi was now the world's largest producer of coated wood-free paper.

Trahar said the company was always looking at possible European acquisitions or investment in new plants.

He said Sappi would not wish to list at the peak of the approximately eight-year cycle that characterised the world industry. World paper and pulp prices began increasing last year, and analysts said yesterday the upswing was likely to be maintained for three to five years.

One analyst said a Mondi listing would probably occur in the next 18 months to two years to take advantage of the growth trend in the cycle.

A listing in 1996, providing prices continued to grow until about 1997 or 1998, would

give the company an opportunity to give shareholders earnings growth, and to finance any future projects. It would also assist Mondi in financing offshore projects if exchange controls had been abolished.

Mondi held a 5% stake in Mondi Europe and analysts said one plan could be the expansion of its holding in the company. But until exchange controls were abolished, Mondi would have to consider following Sappi's lead by financing offshore ventures through the junk bond market.

However, one analyst said Mondi's relatively conservative accounting policies made this an unlikely course.

While SA's paper and pulp companies would benefit from a general improvement in the world economy, markets in Southeast Asia, where countries were becoming increasingly sophisticated and demanding more paper products, had particularly good growth potential.

But this opportunity could be hampered if Russia, which had the potential to be a major producer, improved its infrastructure and moved heavily into the market, an analyst said.

JCI

FM 14/10/94

Waiting for the knife

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Activities: Mining house with interests in gold, platinum, coal and base metals as well as industrial and property investments

Control: Anglo American Corp 40%

Chairman: P F Retief

Capital structure: 148,7m ords Market capitalisation R15,54bn

Share market: Price 10 450c Yields 1,9% on dividend, 5,9% on earnings, p e ratio, 17,0, cover, 3,1 12-month high, 12 200c, low, 6 125c Trading volume last quarter, 1,2m shares

Year to June 30	'91	'92	'93	'94
Investments				
Book value (Rm)	1 756	2 248	2 357	2 744
Market value (Rm)	8 252	9 761	10 744	15 149
Performance				
Investment Inc (Rm)	351	370	357	559
Other income (Rm)	95	94	59	255
Attributable profit (Rm)	418	440	433	748
Earnings (c)	283	298	293	505
Equity earnings (c)	391	388	394	616
Dividends (c)	132	132	132	200
Tangible NAV (c)	6 100	6 886	7 595	10 707

Of all the SA mining houses, Johannesburg Consolidated Investments (JCI, affectionately called Johnnies) must be one of the most fascinating. Founded in 1889 by the magnate Barney Barnato, its history is inextricably linked with the development of SA's mining industry. And an unusual transformation awaits it in 1995.

JCI is controlled and largely owned by Anglo American Corp but run by men who are fiercely independent. It is no secret that JCI executives clashed with their masters at 44 Main Street and the rumoured conflict last year over UK platinum refiner Johnson Matthey must have played some part in finally prodding Anglo to unbundle its senior sister. When Charter decided to sell its dominant stake in Johnson Matthey, JCI stepped in to pick up some of the holding — in opposition to Anglo's expressed wish that it should not. JCI and Anglo bumped heads in other areas too, notably other parts of Africa.

It isn't surprising that something had to give in this awkward relationship. And give it did, but not until Anglo — some commentators say Harry Oppenheimer — decided JCI provided the perfect vehicle for black aspirations for successful entry into mining. So this mining finance giant will

be dismantled during calendar 1995 to create three new companies: old JCI as the repository for gold, coal, ferrochrome and antimony interests, structured to provide black entrepreneurs with the opportunity to take control, another to house the substantial industrial and property interests, a third embracing JCI's platinum interests (tipped to be called Amplats). JCI's important holdings in the unlisted diamond trading companies will probably be warehoused within Anglo.

JCI's business is constructed around mining — this sector accounts for 55% of the total net value of R15,8bn — though it also has a large investment in industry (R7bn or about 44%). The mining operations encompass almost every aspect of the SA industry and the house is the largest producer of platinum and platinum group metals in the world. In financial 1994, it returned what chairman Pat Retief calls "a substantial improvement in performance." Attributable profit rose 73% to R748m. EPS soared to 505c (1993: 203c) and the dividend was lifted 52% to 200c.

To complain about certain aspects makes me seem a party pooper. Nevertheless, some areas of JCI's performance leave a lot to be desired. Nowhere is this more evident than in the mining operations. On platinum assets of almost R5bn, for example, equity earnings are R114,5m or a return of 2,3%. This indicates the market has priced platinum stocks too high — or investors expect glittering commodity prices.

This trend is evident throughout JCI's results, though some areas are notably better. The diamond interests — legacies of

Barnato's major involvement in De Beers and Solly Joel's close relationship with the Oppenheimers — carry a net value of R1,3bn and produced earnings of R104m, a return of 8%. The gold mines show an equity account-

ed return on capital of 5,9% (R94m from R1,6bn).

The investment in coal is a different matter. On the face of it, the result is good and much better than in 1993 — R23m compared with R2,5m. But this disguises what may be a rather serious situation.

Group sales in 1994 were 6,64 Mt. This includes JCI's 50% share of sales out of the enlarged Arthur Taylor Colliery (which it shares with Total Exploration) of 1,89 Mt, and JCI's 40% entitlement to Middelburg's output of 5,77 Mt (Middelburg is operated by Randcoal). This gives the coal division a profit of R3,46/t. If capex of R23m is taken into account, the coal sector actually produced zero. It hardly seems worthwhile and may explain JCI's chagrin at losing the tender for Randcoal to Trans-Natal. Bringing Randcoal into the JCI fold would have enhanced this sector's profitability and may have con-

tributed significantly to a strengthening of managerial talent.

It is important to return briefly to JCI's gold mines. It manages two mines of high quality, Randfontein Estates and Western Areas (reviewed in this section), though Randfontein is ageing and the grades from the South reef, crucial to its future, are disappointingly below expectations. At a third mine, H J Joel in the Free State, JCI took the brave course of restructuring operations after earlier plans proved unsuccessful. It has emerged from a trying period with an enhanced reputation.

However, the really important development is the South Deep Exploration (Soudex) project, a new gold mine in the making. All the evidence is that this is being particularly well managed. The market obviously believes so because the share price has moved almost R50 (to R69) in a year. Proposals to merge Soudex with neighbour Western Areas are awaited. Western Area's substantial tax base will be used for the benefit of investors.

Of the industrial investments, JCI's



Retief .. a substantial improvement in performance

WHERE THE PROFITS COME FROM

	1993		1994	
Minerals & mining	212,1	36,4	224,5	43,5
Industrial & property	232,0	39,8	277,1	47,3
Fees, interest & realisations ..	84,0	14,4	237,1	22,0
Tax adjustments	54,3	9,4	17,5	1,5
	582,4	100,0	816,2	100,0

Fun 14/10/94

The system was predicated on the theory that it would, firstly, reduce labour needs and so all the high costs associated with a labour force whose productivity leaves much to be desired, secondly, the speed of development would be such that smaller reserves could be mined and, as a result, less capital would be tied up

What stood against it were the depth of SA mines and the unusual hardness and abrasiveness of the Witwatersrand rock. And it was a method which reduced mining flexibility. The vaunted cost benefits failed to materialise. Since the withdrawal of trackless mining, costs at JCI mines are falling, gold yields are rising and greater mining flexibility has been restored. Elements of trackless mining have been retained, especially at H J Joel where ore transport is still handled in this way.

At **Randfontein Estates**, the West Rand producer which is JCI's flagship, an exceptional performance over financial 1994 justifies chairman Kennedy Maxwell's understated description of a "very satisfactory result". Net earnings rose 33%, despite a more modest rise of only 19% in the average gold price and a reduction in tonnage mined. Dividends nearly doubled to 280c (1993 145c).

The main contributor was the higher grades mined from Cooke No 3 shaft. Mining analysts do not believe this can be sustained. Neither does Maxwell. While gold output may decline in the near term, the mine's future hinges on the Doornkop subvertical shaft and South Reef development in that area, where grades are below expectation.

Western Areas is really JCI's magic mine. Its remarkable restoration has much to do with the introduction of a management philosophy of running individual mining areas as free-standing projects. First results became evident in late 1992, when yields from the South division improved substantially.

Net earnings (after capex) are 373c (91c), the dividend of 310c is 12.5 times greater



H J Joel's Maxwell positive change can be wrought

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(1993 25c) The stock has jumped from R1,70 in October 1992 to R73. The 1994 result would have been better had a winder drum shaft not broken. The insurers rejected the claim in the first round but subsequently paid up R35,6m.

Both have huge cash reserves. Randfontein holds R153m net of borrowings, dividends and tax payments. Western Areas has a net R62m. These can be used as defence against lower gold prices.

The big news for Western Areas, however, is its imminent merger with neighbour **South Deep Exploration** (Soudex), which is developing what is described as one of the largest unmined ore reserves left in the Witwatersrand system.

Preparations for the sinking of the first surface shaft are well advanced and the project has been given an impressive start by JCI's ability to gain access to areas underground through Western Areas' shafts. This has enabled thorough evaluation of the reefs in South Deep's lease area and the design of back-fill programmes which will lend great stability to tight mining programmes in shaft areas.

Merging the two companies will enable shareholders to benefit from the tax shield conferred by Western Areas. It also raises old arguments about the ring fencing imposed by the tax regime on the mining industry and the effect this inevitably has on new mine development. Terms of the merger proposals are still to be announced.

JCI'S GOLD MINES

	Randfontein	Western Areas	H J Joel	Soudex
Trading stats:				
Capital Structure (ords)...	122,3m	40,3m	196m	39,4m
Market cap (Rm)	6 390	2 962	1 215	2 719
Price (c)	5 225	7 350	620	6 900
12-month high (c)	5 850	7 450	750	7 025
12-month low (c)	3 500	2 450	165	2 500
Trading vol last quarter	9m	1,9m	10,4m	122 000
Chairman	K Maxwell	K Maxwell	K Maxwell	K Maxwell
Year to June 30 1994:				
Revenue (Rm)	1 302	634	139	7
Costs (Rm)	911	451	133	0,1
Tax (Rm)	172	7	—	0,1
Attributable (Rm)	376	233	3	n/a
Grade (g/t)	*5,79	7,01	5,73	n/a
Gold produced (kg)	32 262	15 877	3 567	511
EPS (c)	307	373	—	—
Dividends (c)	280	310	—	—
* Underground sources only				

P.T.O.

JCI GOLD MINES

Encouraging reports

If there is any thread common to this year's annual reports from JCI's gold producers, it is the plunge in the importance of trackless mining, a system evolved with much fanfare in the mid-Eighties and which has now faded into obscurity.

Trackless mining involved widening stopes to accommodate the machinery being employed. Since it means mining more rock which contains no gold (waste), it means management accepted the inevitable dilution in the gold grade. It also meant a substantial increase in the use of trackless (rubber-tyred) mechanical equipment to drill, load and transport ore.

African Life income soars under new ownership

BY CHARLOTTE MATHEWS

African Life, which saw control pass to a consortium of black interest groups in April, reported a 51 percent increase in total income in the six months to September to R130,2 million against the same period in 1993.

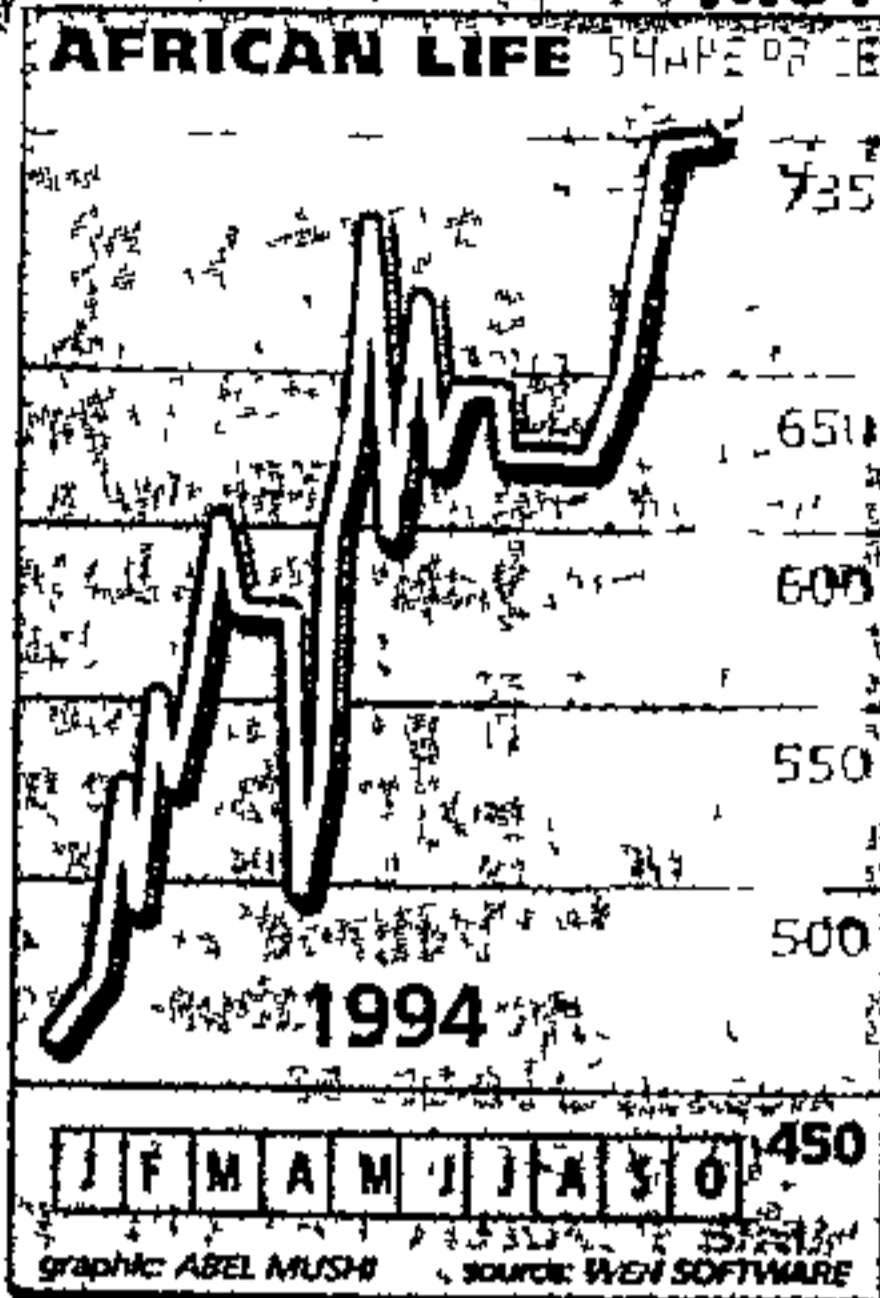
Single premiums trebled to R21,8 million on buoyant sales of the group's recently introduced guaranteed plan product while recurring premiums were 40 percent higher at R93,3 million. Together these divisions contributed to a 56 percent rise in total premium income to R115,1 million. Total benefits paid were 47 percent higher.

New business

New business rose by 58 percent in the six-month period, reflecting strong support from insurance intermediaries.

Investment income rose by 21 percent to R15,1 million, reflecting growth in investments to R388,9 million from higher equity prices and inflows from policy sales.

African Life chief executive Bill Jack said expenses in this period grew less than the increase in recurring premium



Income but this percentage was not disclosed at interim stage.

In line with industry practice the group's earnings and dividends for the six months were set at half the preceding full year's figure. Earnings were 13,8c (11,1c) a share and an interim dividend of 9c (7,4c) a share was declared.

Jack said the rate of lapses (policies surrendered within the first 18 months to two years after inception) had stabilised recently and was turning better. However, he declined to name an exact figure because this was not common

practice in the industry and because there were different ways to measure lapses.

A sharp rise in current liabilities on the balance sheet to R78,1 million from R25,1 million arose mainly from the accounting policy used to show derivatives entered into to protect the portfolio, Jack said.

The change in control of the group had brought in some new business and there was some more potential business, Jack said. It had raised the group's profile, made it easier to do business and improved management's morale.

Improved morale

But African Life had to take steps to harvest these opportunities, such as putting together a good employee benefits division once the right people could be found.

For the full year, growth in both policy sales and investment income were expected to continue, resulting in healthy real advances in both earnings and dividends.

The group's shares edged down 35c to close at 700c on the JSE yesterday, having risen steadily since the sale of Southern Life's controlling stake to Real Africa Investments.

AVI

Heavy spending ahead

Activities: Holding company for Anglovaal's industrial interests

Control: Anglovaal 60%

Chairman: B E Hersov MD J C Robbertze

Capital structure: 31,7m ords Market capitalisation R6,50bn

Share market: Price 20 500c Yields 1,1% on dividend, 6,3% on earnings, p e ratio, 16,0, cover, 5,7 12-month high, 24 000c, low, 155 000c. Trading volume last quarter, 184 000 shares

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	200,1	250,7	157,8	320,8
LT debt (Rm)	278,7	105,7	168,4	290,8
Debt equity ratio	0,17	n/a	n/a	n/a
Shareholders' Interest	0,46	0,58	0,54	0,58
Int & leasing cover	16,9	n/a	8,0	7,5
Return on cap (%)	20,7	13,9	17,6	14,2
Turnover (Rm)	7 386	7 958	8 319	9 667
Pre-int profit (Rm)	732	660	788	860
Pre-int margin (%)	9,8	8,2	9,5	8,9
Earnings (c)	825	907	1 083	1 283
Dividends (c)	150	165	195	230
Tangible NAV (c)	3 419	4 840	5 237	7 605

It is unreasonable to complain about a company which has become so monotonously predictable with its consistent earnings growth pattern — a position envied by many industrial companies — and financial 1994 is no exception to AVI's ninth-year record of real earnings growth

A balanced portfolio which avoids reliance on any one sector, strengthened by acquisitions to ensure dominance in its markets, is a key to the group's success

However, the results throw up some surprises, particularly in AVI's nonlisted interests. Diversified Holdings, encapsulating its engineering and textile interests, was a strong performer albeit off a low base, with earnings up 34%.

This came from a strong performance from Bearing Man and the return to profitability by Mooi River Textiles from the substantial loss of the previous year. AVI



AVI CE Jan Robbertze . benefits of a balanced portfolio

chairman Basil Hersov says further real earnings growth is expected, as engineering interests benefit from increased fixed investment and the performance of textiles continues to improve.

National Brands, AVI's maker and distributor of branded fast-moving consumer products, finally succumbed to reduced consumer spending after years of strong advance. This is particularly so of the Associated Biscuits division. Though NB sales were up 27%, this was mainly because of the R411m Willards Foods acquisition during the year. Lower interest received (cash resources were used to finance acquisitions) resulted in pre-tax

profit down 3%. A full year's contribution from Willards should reverse the decline this year, though price cutting from competition over market share may squeeze margins

Of the other divisions, Consol's earnings were affected by lower sales volumes. Excluding acquisitions, the turnover increase of 13% is reduced to 5%, indicating

lower volumes and on-going pressure on margins. Consol remains the largest contributor to AVI's bottom line, and improved demand for its products during the final few months of the financial year suggests better earnings this year

The strategy of consolidation rather than growth adopted by Gri-

naker Construction in 1993 proved a success. Solid contributions from other subsidiaries such as Siltek, boosted Grinaker's earnings 38%

Irvin & Johnson's performance was again affected by difficult local and international markets. Hersov says the foundation has been laid, however, for potentially stronger profit growth in the current year

Increased demand for associate Anglo-Alpha's products is reflected in the 24% increase in turnover. It will be interesting to note the effect on performance of government's decision to disband the cement producers' cartel.

Easing interest rates and a net reduction in AVI's cash resources resulted in a 12% decline in investment income to R112m. The R12,7m increase in interest paid was, however, partially offset by the decline in the effective tax rate from 34% to 28%

The balance sheet remains solid, with gearing a conservative 14%. Net cash resources of R196m are down R345m, after the payments of R205m and R411m by Consol and National Brands for their respective acquisitions

Capital spending absorbed R415m during the year. Capex of R1,4bn is planned for the next three years, much of it going into modern capital equipment and technology — made all the more necessary by the newly negotiated Gatt treaties. AVI has proposed a 10-for-one share split, presumably in an effort to make the stock more marketable.

The share has been consolidating at around R210 for the past six months. Prospects of earnings growth of 20% puts the counter on a forward p e of 13,6, not unduly expensive in the current market. However, with the dividend cover at a parsimonious 5,7, the yield is only 1,1%, offering little attraction on income grounds.

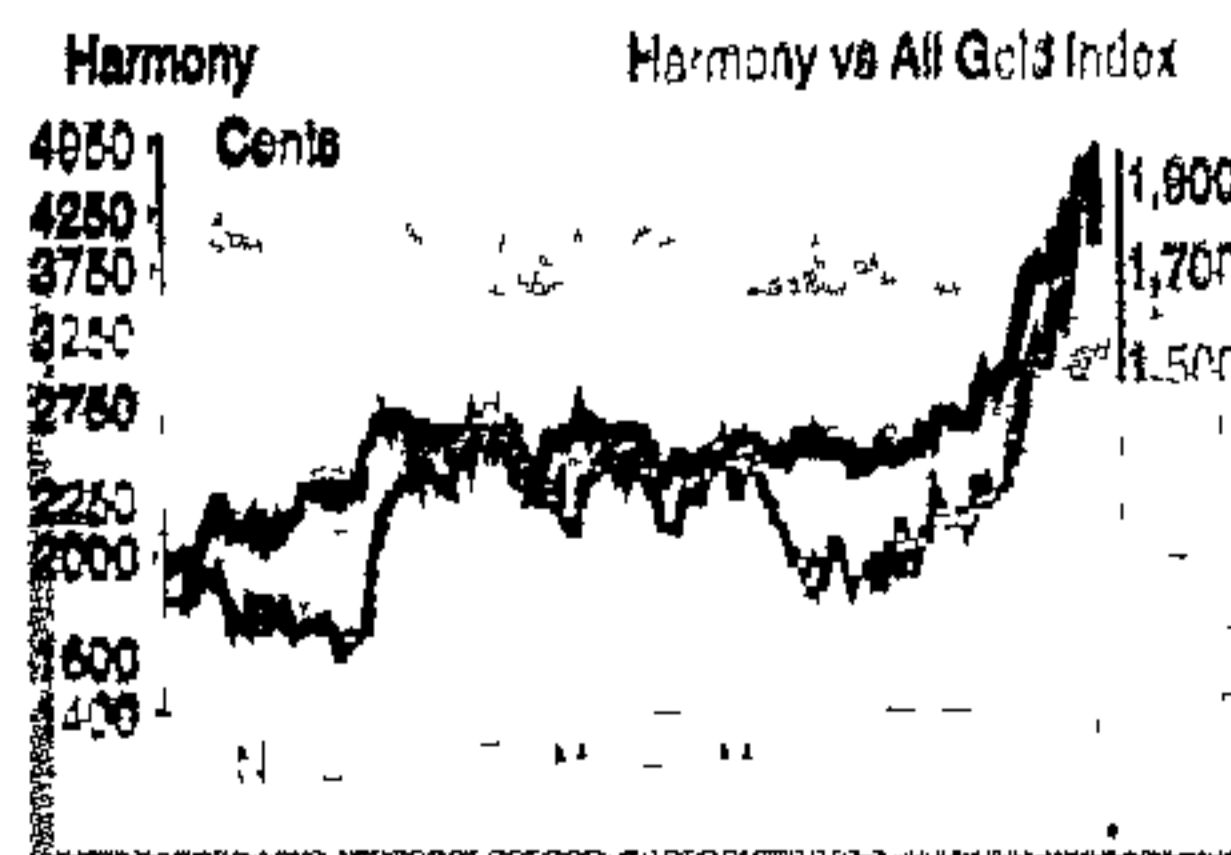
Marylou Greig

BLYVOOR/HARMONY

New opportunities

After all the fuss about Randgold and the momentous changes which have swept across the remnants of the old Corner House, reviewing the annual reports for two of its gold mines may seem fairly passé.

Harmony Gold Mining



DIVISIONAL BREAKDOWN

	Turnover %		Attrib earnings %	
	93	94	93	94
Diversified Holdings	13	13	21	24
Consol	26	25	27	26
Grinaker	27	29	5	5
I & J	20	18	11	10
National Brands	14	15	25	23
Anglo-Alpha	—	—	8	9
Holding Company	—	—	3	3
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

SAPPI

FM 14/10/1994

Vote of confidence

The deal shows again that top SA managers can compete with the best

is on a pre-multiple of about 21, a number that seems rather high (232).

In his defence, however, Van As says Sappi's approach was based on Warren's cash-generating ability, which is high last year. Warren produced cash of \$200m from pre-tax and interest earnings of \$108m (which suggests very high depreciation allowances).

Another feature of the Warren deal is why its parent has been so anxious to sell it. Scott Paper originally bought Warren in 1967 and there's nothing in the record to indicate it was an inept purchase. On the contrary, Scott itself has gone through some difficult years, in a bloodbath, its new CEO Al Dunlap reduced its head office by 1,200 people and he has made it clear he intends that Scott should return exclusively to its original core business.

Questioned by the FM about his positioning of Sappi, Van As says the size and nature of global paper and pulp markets are such that it is unlikely any one company will ever dominate these completely. Sappi's managers have selected two specific areas — dissolving pulp, used primarily as the base for chemical textile manufacture, and woodfree coated papers — in which the company can become a global leader. And it is clear Sappi deliberately chose to buy an existing business rather than go the greenfields route. "We have no desire to add to international capacity in this area," says Van As.

The Warren deal catapults Sappi into the first league of world pulp and paper manufacturers. It also changes Sappi's profile and turns it into one of SA's biggest industrial companies on the latest standings, Warren will increase Sappi's annual turnover to around R10bn, putting it up

there with leaders such as Malbak and Tiger and making it, probably, the sixth largest in the country, with pre-tax profits of about R500m. Sappi will rank with Amic.

The financial elements of the deal are complex and intricate, and make use of financial instruments never applied in this country. Of the total purchase price, \$1,48bn is payable in cash, the balance of \$120m is debt in Warren, which will be taken over by the new owners.

To finance this huge sum (R5,27bn converted on the commercial rand rate), Sappi is supported firstly by Union Bank of Switzerland (UBS) which has provided \$250m secured against Sappi's European assets (Hannover Papier in Germany). Of the balance of \$150m which is being injected as equity, UBS Capital and New York securities firm Donaldson, Lufkin & Jenrette (DLJ) will together contribute \$37.5m as well as a further \$37.5m in what is called perpetual preferred stock. The remaining \$75m will be redeemable preferred stock.

These preferred stocks — quantity called perpetual and redeemable "Piks" by Sappi (meaning payment in kind) — are unusual in the sense that, while they carry a fixed interest coupon, they do not receive cash payment. Instead, the value of the paper increases by the notional interest coupon and the total amount is eventually redeemed when an Initial Public Offering (a listing, in SA language) is made.

However, Piks also confer on holders the right to take up, without charge, pre-specified percentages of the company's common stock on listing. It is thus a device which American institutions find so attractive and which contributes to the large returns recorded by them on their investment portfolios. This arrangement leaves Sappi with about 70% of the equity, in a holding company still to be formed.

A further \$375m is being raised by DLJ through the medium of what is called high yield paper. Van As says this will carry interest at a fixed rate of about 11.5% and is redeemable in 2004, provided all bank loans have been repaid. Formerly, these stocks were pejoratively called "junk bonds" a term now distinctly out of favour in Wall Street.

Finally, a syndicated loan of \$630m has been underwritten by Chemical Bank, the third largest in the US, this will carry a coupon 1.5% above American bank rate. The deal is the largest single transaction Chemical has ever taken on as the sole underwriter.

Warren's assets comprise four mills, two in Maine one each in Michigan and Alabama a research facility of unusual ability and which Van As describes as crucial to Warren's long-range successes, and about 400,000 ha of forests in north east US. The company's payroll is 4,400 and Scott has warranted net tangible assets of \$1,565m at transaction date (of which \$75m will be in cash).

Last year Warren's pre-tax and pre-interest profit was \$108m on sales of \$1.1bn, which is an uninspiring trading margin of under 10%. If tax is included — and Sappi finance director Bill Hewitt says it's of the order of 30% — this gives Warren net earnings of about \$75m. What that also suggests is that the purchase price



Continued from Page 20

The sheer size of the deal has taken analysts by surprise. "I thought the figure of 1,6bn was a bit high when I first heard it," says one pulp and paper specialist. And it raises a number of issues that need deeper consideration. First among these is that the deal demonstrates — if this is necessary — the extent to which SA has been readmitted to the world financial community. Van As says Sappi was able this time to choose its partners from being a supplicant, top SA companies are now wooed abroad.

Securities firm DLJ for example, is a wholly owned subsidiary of The Equitable Companies a New York-based insurance company with assets, it is said, of \$130bn. It is on the line in this deal for more than \$400m, which it is either underwriting, placing or subscribing directly. CE John Chasny — he is from the SA town of Senekal and he left the country in 1954 — tells the FM his firm believes the Warren deal is a "good transaction. It is also a remarkable expression of confidence in an SA company by American financial institutions".

The deal will have a profound effect on Sappi itself. Clearly, its executives are determined the company should span the globe, though Van As is careful to downplay any suggestion that his ambition is to be dominant. But Sappi now has a strong presence in North America, which complements its position in Europe achieved through the Hannover acquisition. And as an SA company Sappi is already a major player in the southern hemisphere where the only real opposition in its niche areas comes from Fletcher Challenge in Australia. In effect, this leaves only South East Asia asked about this, Van As says he believes an investment in that region will follow 'in due course'.

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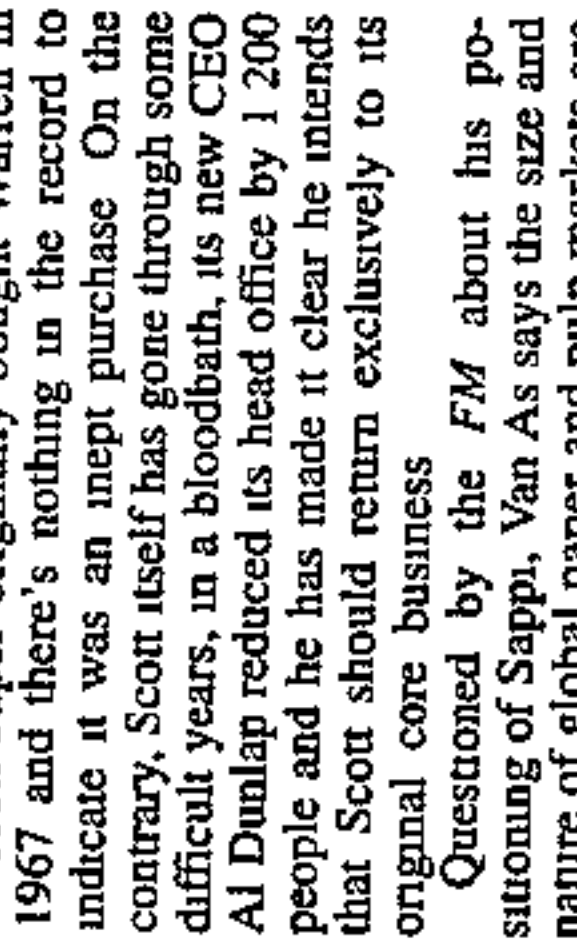
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Still, the impact on Sappi's gearing ratio is considerable. The current borrowing ratio is 0.41 (that is, for every rand in shareholders' funds, there are 41c of borrowings). Taking on the debt burden associated with buying Warren pushes that ratio to 1.25 — a figure many will consider dangerous, since it implies huge vulnerability to economic cycles.

Pulp and paper companies are notorious for their poor gearing ratios. In Sappi's case, it was at the low end of the scale before the Warren deal, with the fourth best ratio in a list headed by Kymmene with a debt-equity ratio of a colossal 3.0. After Warren, Sappi's gearing rises to more than 1.0 but still on a par with the majority of producers.

And it is more than a little interesting to see what the deal does to Sappi's world rankings before Warren. Sappi held 35th position in the table of pulp and paper revenue earners. The list is dominated by American giant International Paper, with an annual revenue of nearly \$14bn. After Warren, Sappi rises to 24th place.



Source: SAPPI

Warren an unlisted Pennsylvania company was wholly owned by Scott Paper, described as the world's largest tissue manufacturer. It dominates the American market for coated woodfree papers (used principally for high quality magazines, company annual reports and similar products), with a 27% market share and production capacity of 1.2 Mm/year. Since the US market is so large, Warren's command in North America also makes it the world's biggest coated woodfree producer — a role it now automatically confers on new owner Sappi.

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The transaction underscores the ability of SA's best managers to compete internationally. On this occasion, Sappi entered an auction in competition with some powerful players and was able to put together a deal which succeeded largely because of the big cash element secured up front. That says something of the high regard in which the company is held.

A big question in the market will be whether Sappi has got the timing right. The last overseas acquisition it made — Hannover Paper — was secured when Sappi figured the paper and pulp markets had bottomed. On that basis, it put a lot of paper into European institutions (with the help, it should be added, of its merchant banker, SG Warburg). Unfortunately, it was wrong the pulp market scraped along on the bottom for another year before it turned and it left some European fund managers with a sour taste.

This time, however, the evidence of a turn in the market is clearer already, pulp prices have soared from their low of \$350/t to the present \$700, a doubling in less than a year. And it suggests that Sappi's timing — moving into a company which almost cannot help do well and with products which aren't so tied to the commodity cycle — may be impeccable on this occasion.

Finally, another problem of timing. When will Warren be listed? There's not much doubt this route will be followed — some of the financing has been structured with just this in mind — but Van As needs to judge finely the extent of duration of the present upturn in the paper cycle. The chances must be for a listing on the New York exchange either in late 1996 or early the following year, in order to leave investors with profit potential.

An alternative, of course, might be to merge Hannover with Sappi Europe and Warren, and then to list the combined group simultaneously in London, Frankfurt, Paris and New York.

Whatever route is followed, Sappi has become a truly multinational pulp and paper giant. Much of this has to do with Van As's personal vision of the group's future. Van As joined Sappi as MD of Sappi Kraft in 1976, he became CE 18 months later, so he's been in the hot seat for 16 years — certainly long enough to have impressed his own value system on the company.

Van As (55) has taken Sappi from production of 850,000 t of pulp a year in 1978 (and taxed profits of R16.9m) to last year's 1.6 Mm of pulp and, in a poor year, a profit of R145m. Van As is married and has two children. He was educated at King Edward VII School before going to university — which he didn't complete. It obviously hasn't been a handicap from being a management trainee at Olivetti. Van As has forged a group which is now a major world player.

What Warren's deal does to Sappi's world rankings before Warren. Sappi held 35th position in the table of pulp and paper revenue earners. The list is dominated by American giant International Paper, with an annual revenue of nearly \$14bn. After Warren, Sappi rises to 24th place.

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LEADING ARTICLES

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Nevertheless, a key feature of the deal is that lenders have no recourse of any kind in any circumstances to the equity holders. Warren's own assets stand as the sole collateral for the borrowings. This raises the nice point that, since Sappi is unencumbered by the deal, reflecting the debt burden in its accounts may give an inaccurate picture. Van As's problem is that he's always been at pains to insist that Sappi does not have off-balance-sheet financing, changing this policy now will invite accusations that he's doing so only because it suits him (232).

Still, the impact on Sappi's gearing ratio is considerable. The current borrowing ratio is 0.41 (that is, for every rand in shareholders' funds, there are 41c of borrowings). Taking on the debt burden associated with buying Warren pushes that ratio to 1.25 — a figure many will consider dangerous, since it implies huge vulnerability to economic cycles.

Pulp and paper companies are notorious for their poor gearing ratios. In Sappi's case, it was at the low end of the scale before the Warren deal, with the fourth best ratio in a list headed by Kymmene with a debt-equity ratio of a colossal 3.0. After Warren, Sappi's gearing rises to more than 1.0 but still on a par with the majority of producers.

And it is more than a little interesting to see what the deal does to Sappi's world rankings before Warren. Sappi held 35th position in the table of pulp and paper revenue earners. The list is dominated by American giant International Paper, with an annual revenue of nearly \$14bn. After Warren, Sappi rises to 24th place.

Source: SAPPI

Boltons posts earnings rise on turnover jump

MUNGO SOGGOT

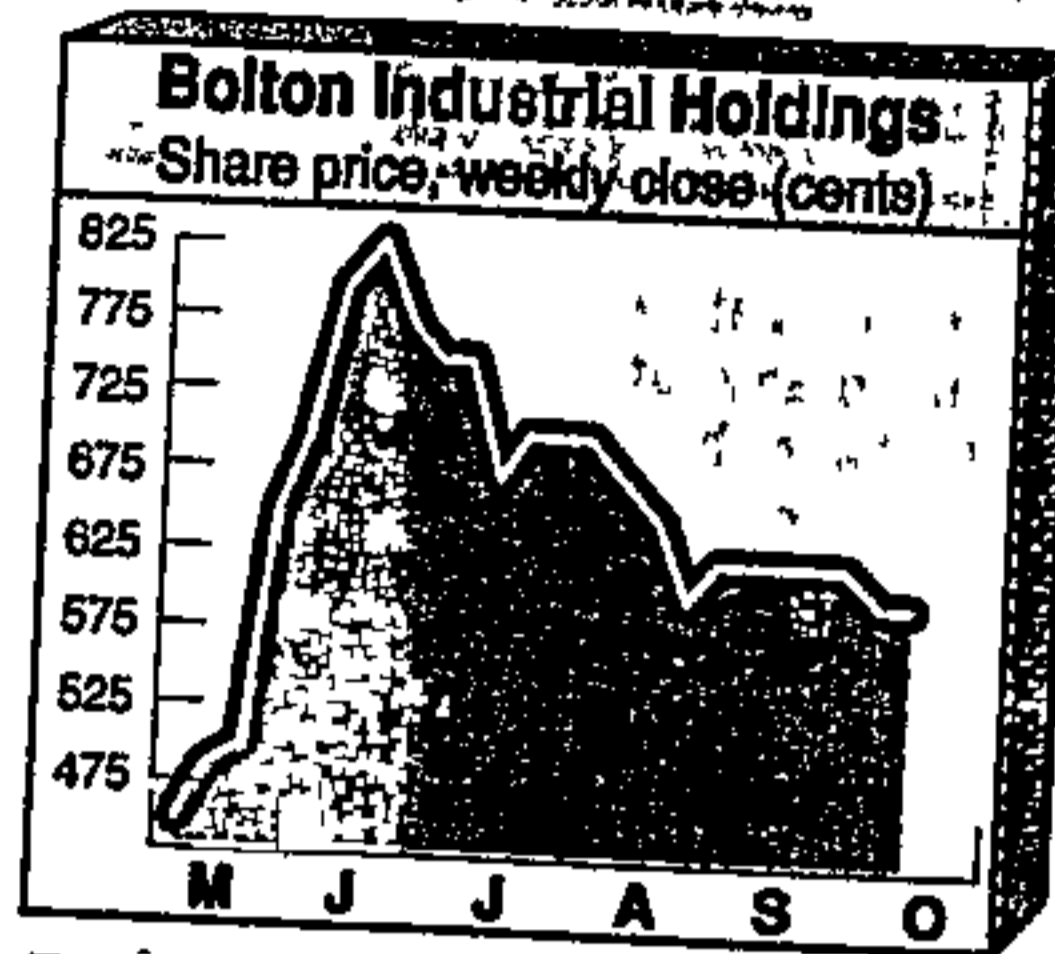
BOLTON Industrial Holdings (Boltons) and its subsidiary companies have posted an increase in earnings for the six months to August after a significant jump in turnover.

Boltons derives its income from a 36,4% stake in road transport group Cargo Carriers (Cargo) and a 74,1% stake in footwear manufacturer Bolton Footwear (Bolwear).

Earnings a share rose to 47,6c (39c) on turnover of R235m (R199m). Attributable profit rose to R2,5m (R2m). An interim dividend of 9,5c was declared, compared with last year's interim dividend of 5c a share.

Bolwear saw earnings a share climb to 8,6c (6,5c). The company's turnover was up at R135m (R109m), with attributable profit improving to R1,7m (R1,3m).

Operating profit increased 42% to



R6,42m (R4,51m), and an interim dividend of 2,5c (2c) was declared.

The group said its manufacturing division had achieved a satisfactory increase in profits, while the retail division had boasted a significant increase in profits.

Losses from Searles Homes — which had been sold — had been eliminated.

The group would finance its approved R4,4m capex bill for the next

six months from its own resources. Finance costs would increase over the next year but would be offset by the benefits of additional capacity.

Cargo posted a slight increase in earnings to 17,8c a share (16c) and declared an interim dividend of 2,2c.

Attributable profit was up at R3,55m (R3,20m), while the company's turnover rose to R100m (R90,78m) and a dividend of 2,2c a share was declared.

The company said the whole industry was reaping the benefits of higher transport volumes.

But the increase in volumes would demand further capital expenditure, which would be financed from internal resources. The equipment would be commissioned in the latter part of the current financial year.

Boltons, Bolwear and Cargo were yesterday all untraded at their previous respective prices of 600c, 150c and 100c.

Southern Sun reaps the benefits of restructuring

SI Times (Buss) 16/10/94

By CIARAN RYAN

THE restructuring of the Southern Sun hotel group has started to pay off, with occupancies rising to 70% from 55% two years ago

This is showing on the bottom line earnings jumped to R47-million in the year to March from R17-million in 1993. The group will pay no tax for several years due to massive tax losses built over the last 10 years. Ron Stringfellow, the hotel group's managing director, says earnings will increase again in the year to March 1995.

Occupancies in August and September, normally quiet months, peaked at 70% compared with the industry average of 55%.

The hotel group should enter a new growth phase once casino licences are issued in the next few months. The Lotteries and Gambling Board released its interim report this week, paving the way for legalised gambling under strict conditions.

Southern Sun has joined forces with the National African Federated Chamber of Commerce and the Foundation for African Business and Consumer Services to form the Casino Holding Company, to pitch for new casino licences.

The holding company equity will be split 50-50 between Southern Sun and its partners.

"We expect to be a major force in the casino industry in due course," says Mr Stringfellow. "We have the financial backing of SA Breweries, so we are well poised for future growth."

Southern Sun was delisted by parent SAB two years ago because of its dismal performance. Mr Stringfellow, former managing director of Zimbabwe Sun Hotels, was brought in to



RON STRINGFELLOW expects further increases

(232) (232)

restore the group to health.

He restructured the 10 000-room 55-hotel group into five brands. Holiday Inn Garden Courts, Holiday Inns, three- and four-star Southern Sun Resorts, four- and five-star Southern Sun Hotels and the no-frills Formule One chain.

A total of 24 hotels were converted into limited service Holiday Inn Garden Courts, and another built

from scratch, competing head-on with Safren's City Lodge group. Hotel restaurants were franchised to independent operators, room service was curtailed and conference facilities disbanded. This resulted in lower operating costs which were passed on to guests in the form of lower tariffs.

Only three Holiday Inns remain — Jan Smuts, Sandton and Pretoria. The

group's 13 Southern Sun Resorts are still feeling the strain, says Mr Stringfellow, but the expected inflow of foreign tourism will have an immediate impact on performance.

"We now have three game lodges, which research tells us is where the market of the future is," says Mr Stringfellow.

Of the original Southern Sun Hotels, only five remain. Flagship of the group is the Sandton Sun Hotel, which was augmented with the addition of the 230-room Sandton Sun Towers last year. An additional Holiday Inn Garden Court is under construction in Sandton.

There are now eight Formule One hotels in the group and two under construction, with occupancies of more than 80%.

Return on assets is still "unacceptable" but growing, says Mr Stringfellow.

The group invests up to R50-million a year in hotel refurbishments. Major refurbishments of the Sunnyside Hotel and Elangeni Sun have been completed. A refurbishment of the Cape Sun is also under way.

Safren poised to benefit from economic recovery

B/D Day 17/10/94

EDWARD WEST

CAPE TOWN — Safmarine and Rennie Holdings (Safren) should continue to show earnings growth in the year to June 1995 as the R5bn-a-year group would benefit substantially from the economic recovery, executive chairman Buddy Hawton said in the annual review.

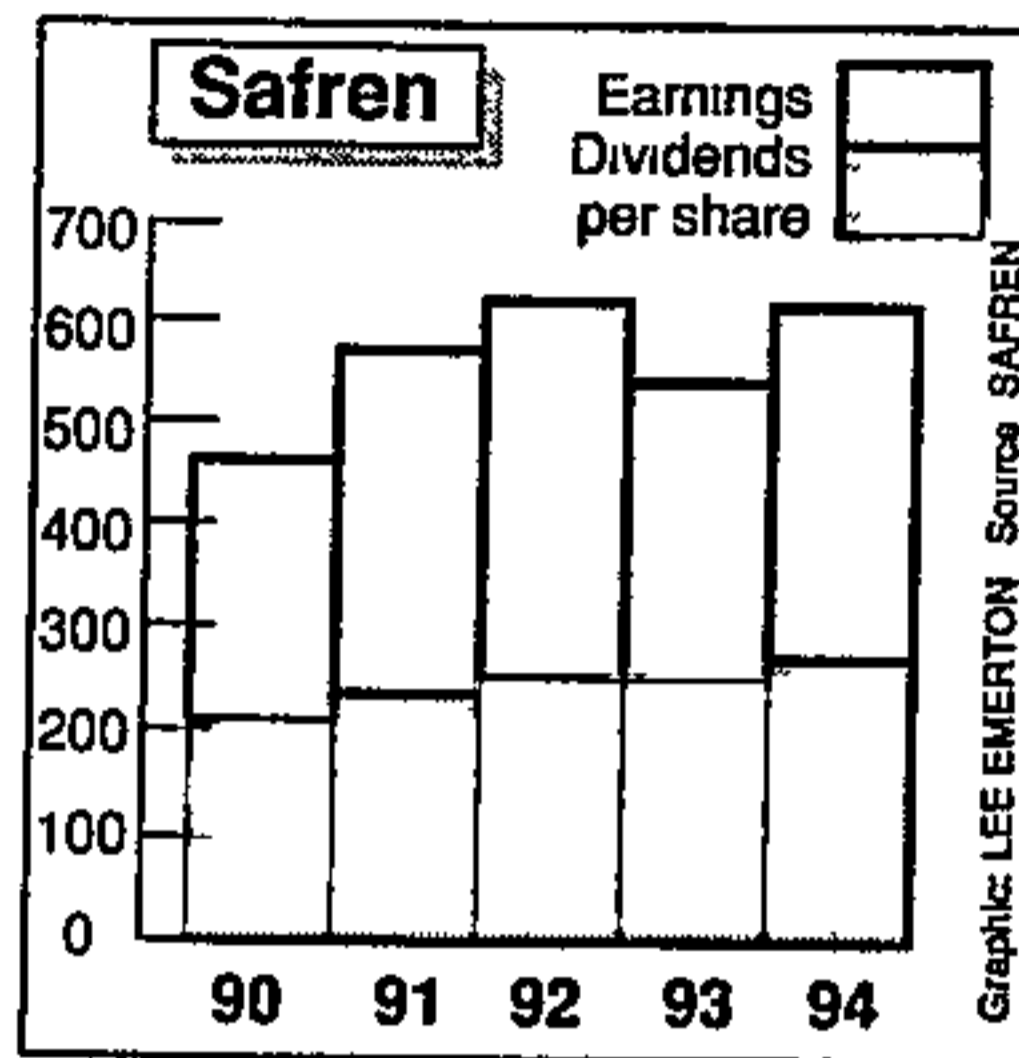
The investment programme undertaken in recent years and proposed development plans enabled Safren to look positively to the future and to the expected increase in international trade as prospects for global markets improved.

The group was also well placed to optimise its network in the sub-continent and profit from a well established infrastructure, which, although developed in a hostile environment, was well able to adapt to the changed circumstances.

Capital expenditure of R372m was authorised for the current financial year, principally to acquire ships and containers and to refurbish resort operations. The expenditure, together with the acquisitions and developments over the past two years, would give the group a broader earnings base, he said.

In the past year Safren's attributable income increased 21% to R158m.

Expectations that SA's economy would continue to grow would have a beneficial effect on Safmarine's liner



services. The Far East berth, characterised by rates erosion, would remain of particular concern, should trade growth not match the increased supply of vessels being placed on this berth.

Little change was reflected in US imports, but steady north-bound trade growth had been achieved by the liner services. The volume of exports to Europe remained disappointing, but market share on that trade increased after the withdrawal of two competitors.

The European trade section was well placed to handle volume increases without adjusting vessel capacity. Inadequate freight rates persisted on the Mediterranean trade, but Safmarine's position stabilised with the introduction of calls to west Africa and market share was improving, with favourable prospects for the current year.

Bulk shipping markets continued to show signs of revival, but these were not expected to be material in the short term. The bulk shipping division was well placed to benefit from a shipping upswing in the second half of the decade.

The economic upturn and the introduction of the General Agreement on Tariffs and Trade, with the resultant lowering of import duties and surcharges, would favour import growth. But in the short term this was expected to be diminished by SA's limited foreign exchange reserves and a weakening currency.

Resorts and casinos operation Kersaf Investments' results were affected by unrest in the Northwest province in the third quarter of the year. The group believed that casino licences should be linked to the establishment of substantial tourism infrastructure developments and that a proliferation of licences would be to the detriment of industry expansion and job creation.

Kersaf's earnings were expected to be acceptable in the current 12-month period, with the changes in the competitive environment for gaming activities expected this year unlikely to materially affect earnings.

The Rennie Group's freight, travel and storage operations had identified substantial expansion opportunities. The group was projecting results for the current year to be higher than those in the year under review.

UPD losses likely to affect Premier figures

BIDAY 18/10/94

BEATRIX PAYNE

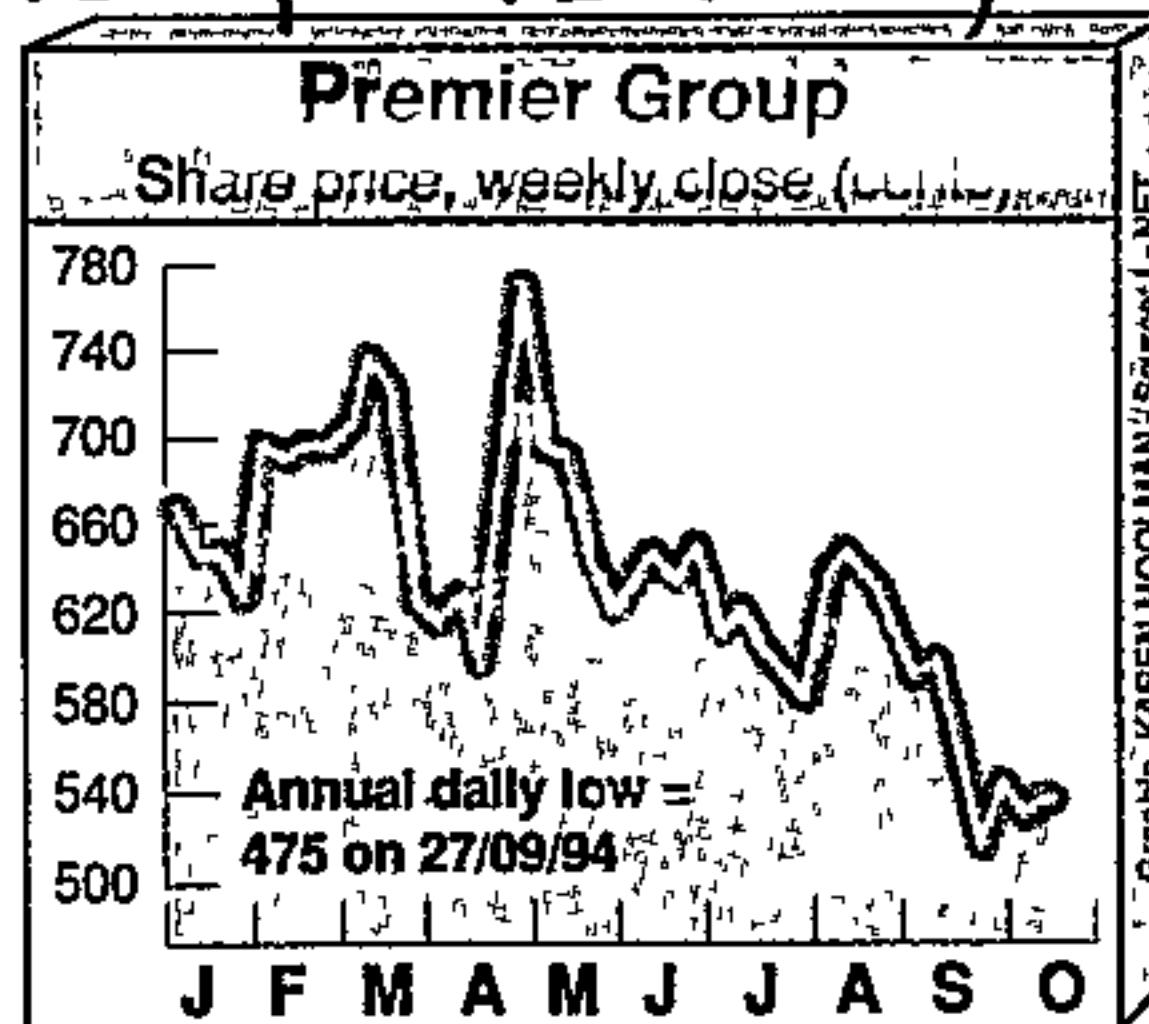
THE Premier group was expected to report a 5%-15% loss in earnings for the six months to October in the wake of losses at its distribution subsidiary, United Pharmaceutical Distributors (UPD), analysts said yesterday.

Earnings for the year to April were likely to remain at last year's levels as the group's retail-related subsidiaries benefited from increased consumer spending

UPD former executive chairman Norman Knight was arrested at the weekend on six counts of fraud and theft totalling roughly R40m. The group warned shareholders last month that UPD had incurred an operating loss of R18m during the previous four months (232) (133)

Outgoing chairman Peter Wrighton said yesterday the group would not comment on the full effect of the losses at UPD until the subsidiary's interim results to October were released in December

"Earnings to April are unlikely to change, but that depends on the extent of the write-offs at UPD," a top analyst said, estimating that the group might have to write off above-the-line losses of R25m. The group's results for the year would hinge on the extent of the write-offs, he



said

The group reported an 11% rise in earnings to R259,1m for the year to April.

Another analyst said the group was likely to report a 10%-15% slide in earnings for the six months to October, attributable predominantly to the losses in UPD and the food division.

Premier's retail-orientated subsidiaries were likely to pick up during the second half. The group was likely to show earnings growth of no more than 5% at year end and was likely to regain much of the ground lost at the interim stage, he said

Nampak in talks to acquire UK company Polysystems

AMANDA VERMEULEN

PACKAGING group Nampak yesterday announced it was negotiating to acquire 100% of Polysystems, a wholly owned subsidiary of UK packaging giant Bowater, in a deal valued at £8m.

Nampak chairman Brian Connellan said negotiations would probably be concluded in three weeks and, if successful, would see Nampak's recent UK acquisition, BloMocan, acquire 100% of Polysystems.

The discussions were subject to Reserve Bank approval, although no SA funding would be used in the deal, and it could see the merger of Bowater's Polysystems business with BloMocan in return for equity in BloMocan. Nampak would also provide the management to run Polysystems.

This would dilute Nampak's holding of BloMocan but Connellan said Nampak would still have a controlling stake of between 60% and 65%.

The joint annual sales turnover of the merged BloMocan and Polysystems, which both manufactured blow-moulded plastic containers for dairy and oil products, would be about £26m, of which Polysystems would contribute £5.5m.

Bowater first became involved in a partnership with Nampak seven years ago when it acquired the entire holding from Nampak's former partner in SA company Brown Davis & McCorquodale

Nampak's acquisition of BloMocan in a £22m deal was facilitated through raising funds by way of a 13.2-million share issue on the JSE.

From the share issue, about 4.4-million European Depository Receipts (EDRs), each representing three new Nampak shares, were listed on the Luxembourg Stock Exchange and placed with international investors by West Merchant Bank and Standard Bank of London.

The EDRs were freely tradeable but the underlying shares could not be accessed by EDR holders for three years.

Connellan said the two acquisitions would not have a short-term effect on Nampak's earnings or net asset value, and in the long term would have a minor effect on the R4.5bn-a-year group.

But the transactions were indicative of its plans to become a global player.

Connellan stressed that the group would move only in markets in which it could contribute technical expertise.

He said Nampak was on the acquisition trail, but there were no further deals on the cards.

But the group's low gearing, strong balance sheet and strong cash flow left it well-positioned to make further acquisitions.

according to an alphabetical rotation list of lawyers, subject to the following

(a) The Director of the Board may, in highly exceptional circumstances and on receipt of written representations in which satisfactory reasons are advanced, approve the appointment of a legal representative of choice

(b) A legal representative who is not able to accept an instruction will forfeit his/her turn and his/her name then goes to the bottom of the list

(c) The Director will have the right to remove the name of a lawyer from the list if he/she is of the opinion that it is not in the interest of the Board to retain such name. Prior to the name being removed, the lawyer concerned shall be afforded an opportunity to make representations. A name so removed, may be restored to the rotation list on application and representations

(d) Practitioners will have to indicate that they are prepared to accept legal aid instructions in criminal matters and to carry out such instructions according to the rules contained in the Legal Aid Guidebook. Lawyers may apply to the Director for their names to be placed on the rotation list in respect of areas where they do not have full time practices

(e) Legal Aid officers in different parts of the country are now required to keep accurate records of the distribution of legal aid instructions amongst legal representatives. The registers in which such records are kept will be available during office hours for perusal by legal practitioners and others

Finally, the whole question of legal aid and the system currently in practice will be discussed at a consultative legal forum which will take place on 11, 12 and 13 November 1994

Disbursement of State resources to the arts: formula applied

*11 Mr M F CASSIM asked the Minister of Arts, Culture, Science and Technology

Whether the Stumpf formula in respect of the disbursement of State resources to the arts is still operative, if not, why not, if so, (a) what is the present level of such disbursement and (b) (i) in what manner and (ii) through whom is such disbursement made? N471E

THE MINISTER OF ARTS, CULTURE, SCIENCE AND TECHNOLOGY

Yes, the Stumpf-formula is still operative

(a) The present level of such disbursement (1994-95 financial year) is 45%

(b) (i) My Department has up till now been responsible for applying the subsidy formula (so called Stumpf-formula) to the amount made available to the Performing Arts Councils by the Department of State Expenditure. After my Department has divided the grand-in-aid for the Performing Arts Councils according to the Stumpf-formula, the Department of State Expenditure After my Department has divided the grant-in-aid for the Performing Arts Councils according to the Stumpf-formula, the Department of State Expenditure is informed accordingly

(ii) The thus divided grand-in-aid is then allocated to the budgets of the Provinces concerned, after which it is paid over to the four Performing Arts Councils, namely PACT, CAPAB, PACOFS and NAPAC, annually or monthly as decided by the Provinces

In the light of the changes regarding Provincial Government brought about by the Constitution, I have requested that the total amount for the performing arts for 1995-96 be placed on the budget of my Department as an interim measure.

Conditions in cells in Cape Town Magistrates' Court

*12 Mr H A SMIT asked the Minister of Justice †

(1) Whether, with reference to a certain newspaper report of 30 August 1994, particulars of which have been furnished to his Department for the purpose of his reply, he has investigated certain allegations with regard to conditions in cells in the Cape Town Magistrates' Court, if not, why not, if so, what are the relevant particulars, N493E

(2) whether he intends taking any steps in this regard, if not, why not, if so, what steps? N493E

THE MINISTER OF JUSTICE

(1) Yes. The relevant particulars are the following

(a) The toilets in the cells are broken and overflow at times

(b) Police officers on duty in the cells do not have adequate office and other facilities at their disposal

(c) The corridors in the cell area are not equipped with effective lighting

(d) Adequate cells are not available

(2) Yes. The Department of Public Works is responsible for all repair and renovation services of buildings of the Department of Justice. The Public Works Department was requested on 22 April 1993 to renovate the whole building. The planning of the renovation service, to remedy the defects and shortcomings, has since been completed and tenders for the services have been invited. The closing date for the submission of tenders is 19 October 1994 and the estimated cost of the project is R5 751 658,00. If an acceptable tender is received, the renovation service would commence in the current financial year.

Privatisation of public enterprises: government policy

*13 Dr T G ALANT asked the Minister of Public Enterprises †

(1) What is the Government's policy with regard to the privatisation of public enterprises, N495E

(2) whether she made a statement on or about 14 June 1994 on the possible privatisation of public enterprises, if not, what is the position in this regard, if so, what are the relevant particulars, N495E

(3) whether any guidelines have been developed in this regard, if not, why not, if so, what are the guidelines, N495E

(4) whether she will make a statement on the matter? N495E

THE MINISTER OF PUBLIC ENTERPRISES

(1) Privatisation is on hold—the emphasis is on commercialisation

(2) On June 14, 1994 this is what I said I quote: "While we have appreciation and understanding for the role of privatisation in the more sophisticated economies, we remain justifiably wary of privatisation along similar lines in South Africa's unique context where share ownership may be transferred to an exclusive group without granting the nation as a whole an affordable and informed opportunity of benefiting from the privatisation process. We shall nevertheless look with interest at ways in which privatisation can empower those who were in the past excluded from full participation in the economic wealth of the country."

(3) At the moment we are busy with studies of how we can "Restructure our Economy for Empowerment". After broad consultations with all stakeholders and interest groups we shall come up with guidelines

The issue was discussed during the debate on the Budget Vote on 21/09/94. This is what I said on the issue

"The Department is currently looking at how certain sectors of our enterprises can be restructured so as to provide maximum stimulus to the economy whilst simultaneously empowering formerly deprived and marginalised sectors of our population. The Department will study the entire restructuring process—and consult as broadly as possible with all interest groups and stakeholders, so as to address areas of concern and also allow for positive contributions. The Department will soon be embarking on a

Staff buy a little chunk of *Tribute*

By Mzimkulu Malunga 20/10/94

THREE black executives of *Tribute* magazine have bought a substantial stake in the company that owns the magazine, Penta Publications

Tribute editor Jon Qwelane, his deputy S'bu Mngadi and editorial director Maud Motanyane have acquired a 37,5 percent shareholding in Penta in a R1,2 million deal

The deal was financed by the FirstCorp Merchant Bank, which gave a loan to the three.

Qwelane says one of the options they are considering is to structure themselves into a company. 232

He says the deal is the culmination of weeks of intensive negotiations between themselves, Penta management and the bank.

"Fortunately the Penta management did not at all stand in our way," he says.

Qwelane, who says they might consider increasing their shareholding in the company, argues that it is high time the ownership of media serving blacks was black-owned.

In addition to *Tribute*, Penta also publishes *Living, De Kat* and a health magazine *Mega Life*

Penta also has a stake in a book publishing company, Kiepersol, and is said to be in the process of launching an entertainment magazine called *Big Screen*.

Fedsure buys majority stake in Medhelp

B'Day 20/10/94

FINANCIAL services group Fedsure had acquired a R25m majority stake in health care administrator Medhelp, the group said yesterday.

Fedsure said Medhelp-administered Reef Medical Scheme would be incorporated into the group's new health care insurance company, Fedhealth.

Strategy and information GM Dave Avnutt said the group had previously

BEATRIX PAYNE

offered health care products to a limited market. Fedhealth would broaden its exposure to the sector.

The Reef Medical Scheme provided cover for about 60 000 members and dependents.

Fedhealth would be 100% controlled by holding company Fedcare, which had capital of more than R42m, he said.

Fedsure would hold a 60% stake in Fedcare, with Reef Medical Aid director Rod Harpur holding 30% and the balance held by Hollandia Reinsurance.

The group was undecided on whether to finance the acquisition through cash or a share issue (232).

Fedsure CE Arnold Basserabie said he expected the initial annual income from premiums to touch R230m. However, the ac-

quisition would not affect the group's earnings or net asset value for financial 1994.

Avnutt said Fedhealth was an attractive acquisition but "minuscule in the group context".

The move was part of the group's strategy to move into broader financial services. "The move allows us to combine the strengths of the life assurance and medical aid industries and brings our actuarial skills to the medical aid business," Basserabie said.

This was in line with recommendations made by the Melamet commission, which stressed the need for actuarial supervision of companies providing health care products.

Fun 21/10/94

of competitive casinos, and politically inspired unrest

In the first half its attributable earnings were satisfactory because The Lost City was included for the first time and there were benefits from cost rationalisation. Despite the turmoil in Bophuthatswana, Kersaf's full-year earnings grew 7,45% from operating earnings up 6,9% on a turnover advance of 8,1% (232)

With effect from July 1, 1993, the offshore operations held by Royale merged with UK's Caledonia Plc and World Leisure Group, to pursue offshore casino resort investment and management opportunities. Royale bought 60% of the Paradise Island resort in the Bahamas in a US\$75m transaction concluded in May.

Extensive remodelling and renovation, costing about \$125m has started. This is to be funded largely by borrowings. Sun International Investments, in which Royale Resorts holds 33,3%, is investigating further investment opportunities in the US and the Pacific Rim.

Kersaf also bought joint control of City Lodge Hotels (CLH) for R164m. This was paid by issue of 4,4m new Kersaf ordinary shares. CLH revenues and earnings, on a comparable basis, rose by 26% and 36% respectively.

Rennies performed strongly. It benefited from an upturn in trading toward year-end. Turnover rose by 16%, operating profit by 11% and attributable earnings by 17%. Rennies Travel gained market share, especially in its foreign exchange business.

Safren's balance sheet is powerful, with gearing low and cash on hand of R1,1bn. Capital expenditure of R372m (R262m) has been authorised for spending in the 1995 year, mainly to buy ships and containers and to refurbish resort operations.

Executive chairman Buddy Hawton says Safren will benefit substantially from further recovery in the SA economy and from increased international trade as prospects for the global market improve. He forecasts "the group should continue to show earnings growth".

Most analysts are attracted to the share not only because of its rand hedge properties, but also because of its prospects if economic growth picks up. The only doubt relates to potential competition to Kersaf's casino revenues. In the main, however, analysts say the share offers sound value at the current price.

Gerald Hirshon

COMPANIES

Fun 21/10/94

strongly after the reconstruction of that group in financial 1993.

Safmarine increased its market share in the liner trades operating to Europe and the US. It recorded satisfactory results from its bulk trading, even though the international reefer market remained depressed. SA's positive economic growth meant more imports, though volume increases were marginal and the volume of exports to



Safren's Hawton .. expects more earnings growth

SAFREN Fun 21/10/94
Active year

Activities: Ship owning and operating, hotel and casino resorts, cinemas, film and TV services, restaurants, liquor wholesaling and production, travel, transport, freight, cargo and marine services

Control: Old Mutual 38% (232)

Chairman and CE: D.A. Hawton

Capital structure: 55,4m ords Market capitalisation R540m

Share market: Price 975c Yields 2,8% on dividend, 6,3% on earnings, p/e ratio, 15,8, cover, 22,4 12-month high, 1350c, low, 670c Trading volume last quarter, 3,2m shares

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	8	59	75	170
LT debt (Rm)	822	1 167	1 613	1 450
Debt/equity ratio	0,08	0,15	0,34	0,13
Shareholders' interest	0,45	0,47	0,47	0,52
Int & leasing cover	n/a	8,2	7,4	11,8
Return on cap (%)	14,4	3,0	9,8	11,5
Turnover (Rm)	4 369	4 284	4 478	5 076
Pre-int profit (Rm)	683	698	576	845
Pre-int margin (%)	15,6	17,3	14,9	16,6
Earnings (c)	56,6	61,7	54,1	61,6
Dividends (c)	23,7	25,5	25,5	27,5
Tangible NAV (c)	21,3	25,0	31,7	36,8

1 Royal Resorts consolidated into Kersaf. The figures for 1991-1993 in table have not been restated and are not comparable. The change has no effect on attributable earnings. 2 A 10:1 share split became effective on July 25. The figures reflect the split.

An EPS increase of 14% for this wide-spread group is good, considering the slow growth of the economy and the extent of unrest in the country for most of Safren's financial year.

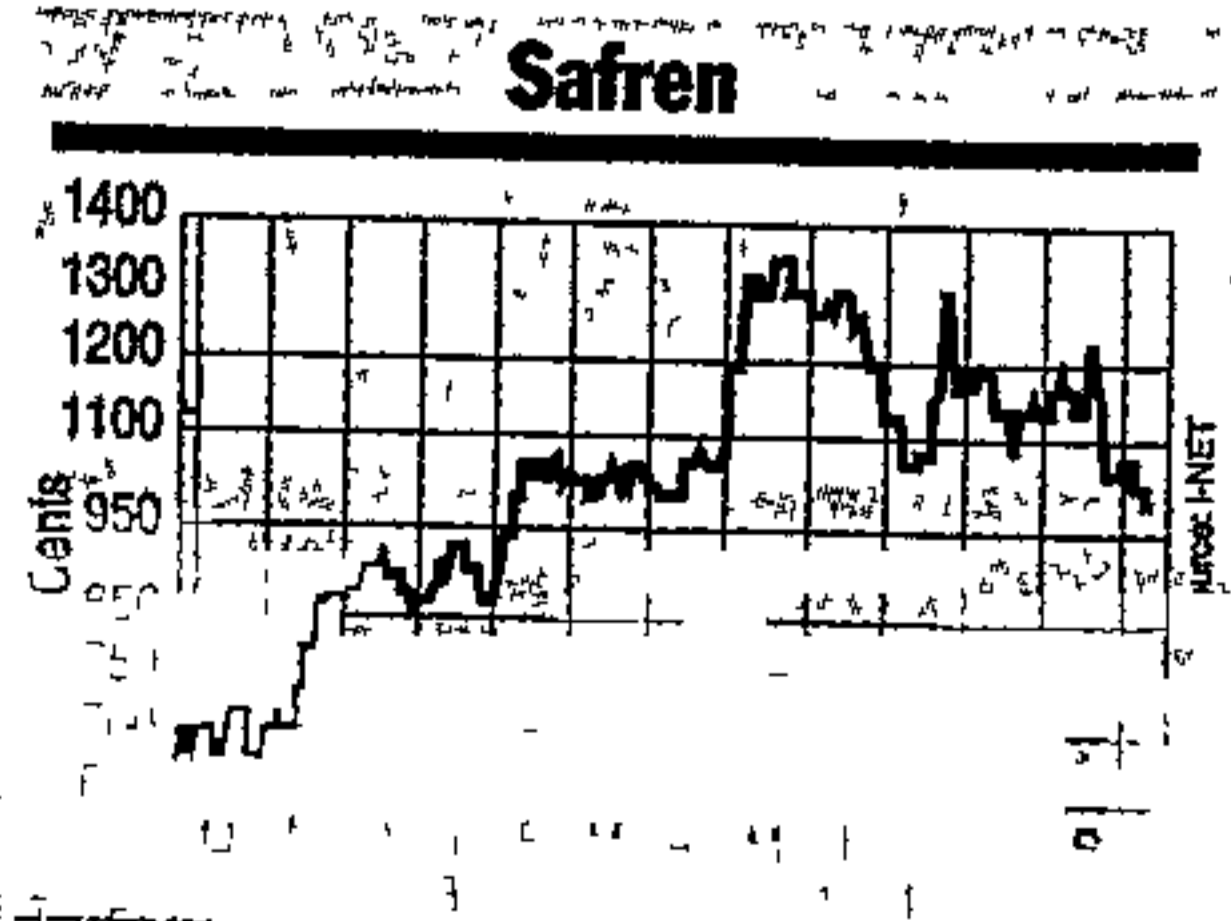
The substantial improvement in Safmarine's performance underpinned the result. Serious political upheavals in the North West Province (formally Bophuthatswana) in the third quarter dented Kersaf's contribution after a good first half. Earnings from Rennies continued to grow

Europe remained disappointing. However, the restructure of Safmarine into three focused business units improved efficiencies and margins (232)

Flitestar and Luxavia — part of Trek Airways in which Safmarine has a 37,5% stake — stopped trading in April. The Safair domestic airfreight operation that traded with Flitestar also closed. Substantial one-off closure costs resulted. These events had no direct impact on Safmarine's 1994 results because the carrying value of its shareholding was written off in the previous financial year.

During the 1994 year, Safair included its ground handling business in a new joint venture company, Swift Ground Handling Services, formed with a Lufthansa subsidiary. Its main activity remains the provision of aviation services in Africa.

Kersaf's Sun International hotel and casino chain, its largest contributor, suffered the consequences of low volumes of foreign visitors to SA, unregulated growth



GENCOR

Chasing after new assets

Fm 2110194

Activist Mining house with investments in gold, platinum, coal, ferroalloys, mineral sands, aluminium and an expanding international base

Chairman: B P Gilbertson

Capital structure: 1.4bn ord. Market capital: about R19.95bn

Share market: Price 1.425c. Yields 1% on dividend 3.2% on earnings per share, 31.4 cover 3 month high, 1.495c, low 585c. Trading volume last quarter 26.8m shares.

Year to June 30	'91	'92	'93	'94
Share value (Rbn)	7.18	9.17	10.65	7.01
Market value (Rbn)	15.99	18.58	17.64	15.94
Dividends (Rm)	1.405	1.261	1.411	625
Earnings (c)	1.195	98.8	102.5	45.4
Equity NAV (c)	1.473	1.341	1.354	1.189

Year to August 31

Mining house Gencor has had a momentous year in which chairman Brian Gilbertson's ambitious plans for the group have suddenly been revealed in sharper focus.

Gilbertson, first a physicist with CSIR, then a rising star with JCI until hand-picked by then chairman Derek Keys to take control of Gencor's mining interests before succeeding him, has long made it clear he intends to drive Gencor into the first rank of the world's natural resource companies. The kind of good intention to which attention is paid — until, that is, the news burst of Gencor's acquisitions, first of international base metals and minerals through Billiton, then within weeks the target of Randco's Trans-Natal to form the world's third largest privately owned coal company. The scope of these developments is breathtaking, coupled with Gencor's greenfields projects at home, they constitute a group seriously engaged in a widespread transformation.

Curiously, all these changes come after Gencor blazed the trail of "unbundling" — a painful process in which the house shed its industrial and investment arms, Sappi, Angen, Malbak and Gembeil Having scaled down, Gilbertson promptly began to expand and thus time concentrating exclusively on mining and allied activities.

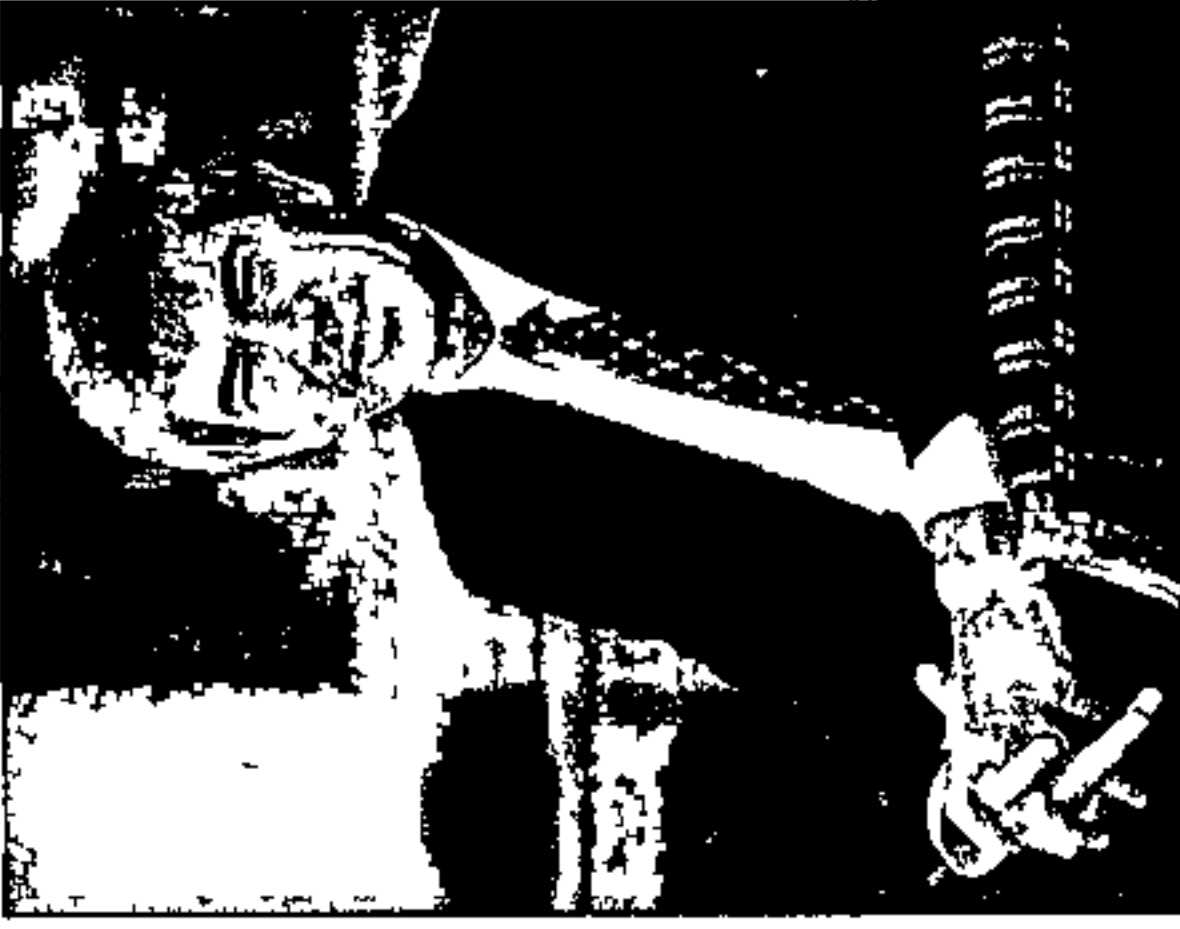
Gencor has become a mining house focused on gold (17% of assets, 21% of earnings), platinum (15% and 12% respectively), coal (5% and 13% and set to mushroom), ferro-alloys (23%), titanium minerals (10% of assets, contributing 25% of earnings) and aluminium (7% and 1%) and now nickel through Billiton's Cerro Matoso mine in Colombia. What is arguably missing from this compendium is copper and iron ore.

Meanwhile, the house is heavily involved

in SA projects such as Alusaf's Hillside Smelter project (R5.4bn), the Columbus stainless steel joint venture with Anglo American Corp and the IDC (R3.5bn of which Gencor has a third share through Samancor) and the struggle to refinance the Oryx gold mine in the Free State. All these, taken with the Billiton acquisition mean that Gencor has undergone an important transformation. Resources have been transferred on a huge scale from profit-producing operations to some (Alusaf Columbus and Oryx) which — for now at least — will be net consumers of cash.

The result is painfully obvious. Attributable income is a modest R625m for 1994, 45.4c a share compared with last year's pre-unbundled 102.5c — though Gilbertson complains I am comparing apples with pears. "What you forget is that shareholders benefit directly in the companies which we unbundled. Still, the dividend is now a miserable 15c after 1993's 45c.

To put all this into perspective, the house is a far cry from its attributable income of R911m in 1990. That was achieved from net assets of R10.8bn — a simple return rate of 8.5%. It puts this year's performance — R625m from net assets of R16.6bn or

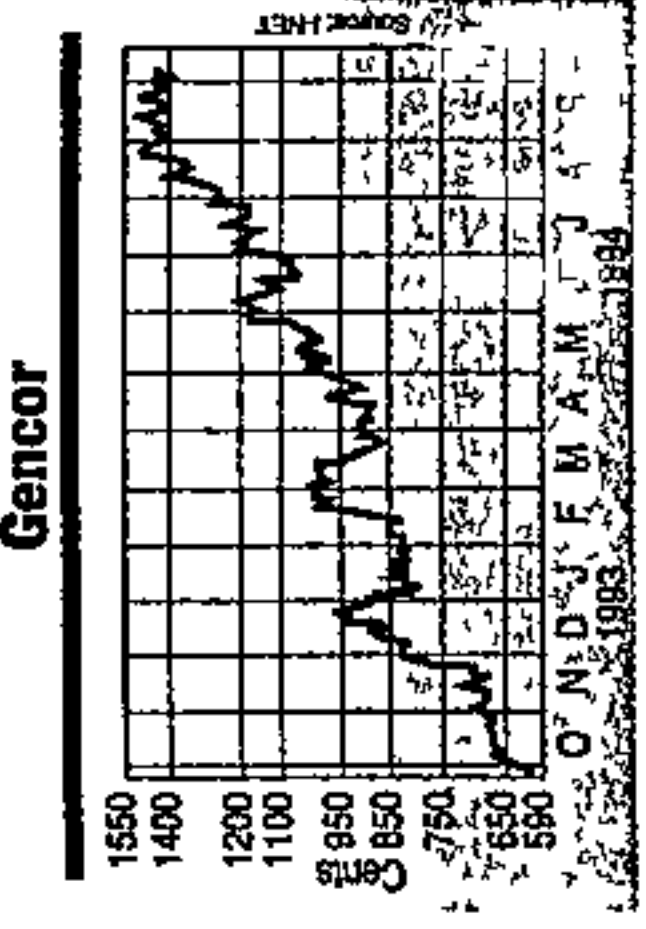


Gencor's Gilbertson a brave new world

satisfaction.

The balance sheet is something else. Shareholders' interest has fallen to R7.4bn from 1993's R11.5bn, this is a reduction of R4.1bn, all of it chopped off the non-dividables — a massive R2.7bn of it off the non-dividables. On the other hand, Gencor's investments in subsidiaries has a carrying value of R7bn against a valuation of R15.9bn. Long-term loans of R1.47m are small beer in these orders of magnitude and illustrate if nothing else, the unusual ingenuities applied in financing the purchase of Billiton from Royal Dutch Shell.

This is another area of interest. If you think, as I did, that Billiton is sealed and delivered, well, it's not Gilbertson says he doesn't expect the deal to be consummated before next month. Billiton under Shell was strangely amorphous, its assets were owned by Shell's operating companies in those parts of the world where Billiton operated. These have had to be extracted from, for example, Shell Brazil and title transferred to Billiton. It is clearly proving an ex-



hausting administrative procedure. Then there's Trans-Natal's successful bid to merge with Randco. It attracted criticism when announced, mainly from other bidders but also from large shareholder Liberty. Since then, the dissatisfaction has become muted to the point of disappearing and it would seem little can stop the deal from going through except, however bizarre this may appear, if it fails to get EC approval.

At the end of reading Gencor's annual report, and after having followed the company's fortunes this year with some concentration, I am left a bit bemused. Here is a major SA mining house which has in a year shrunk appreciably in size and then immediately embarked on a massive expansion. It is a bit bewildering. But it also makes sense. Gilbertson is demonstrating that, even if you start late, it is possible to catch up. He is also making sure that as some of the company's assets deteriorate, notably the SA gold mining portfolio, others are put in place.

In this respect, the tactics represent sound strategic planning for a group that has clearly delineated its long-term future.

David Gilman

Success with costs

Gencor gold mining company Gencor administers 11 operating gold mines, of which 10 are listed. A review of the individual companies, given the number involved, is bound to be superficial.

However, a number of common issues emerge from the annual reports. First is the intense concentration on and success in controlling costs. Over the year, working costs per kg of gold produced on Gencor mines increased by a mere 7.7% and, in an industry long inured to large cost increases, this success is important.

Second is the forward sales contracts

Gold Fields operations advances in production

Gold Fields operations (some of which report strange years this time as Gencor brings all its mines on to the same reporting period), Buffelstfontein, which used to be the group's Big Daddy is now a mine in decline. Focus from now on will be on shaft pillar extraction and dump

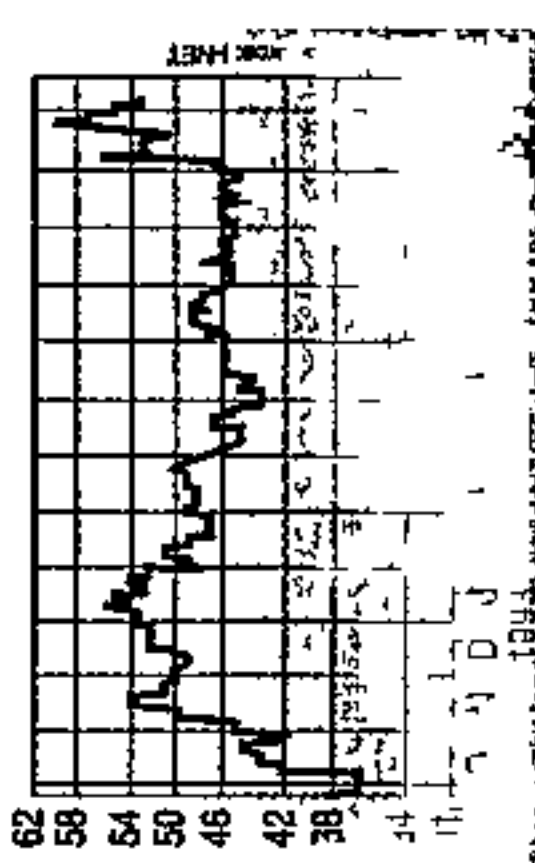


Gencor's Mandel promising advances in production

Generally, these were not well executed over financial 1994 but the group is out of them now and future policy is being re-evaluated. However, if the gold price runs, Gencor will probably lock in some of its production to protect those of its mines which are delicately positioned.

Finally, an aspect which can't please Gencor's managers much, is the share prices of these companies. These are undervalued relative to the management efficiencies which Gencor has exhibited and is probably due to the low market cap of Gencor's mines — these are small by comparison, for example, with Anglo and

Buffelstfontein Gold Mining



treatment. Reserves have declined markedly and some investors have been burned because they don't understand the concept underlying the phrase "Life of Mine". This share has become more of a trading stock than a counter for long-term collection.

Buffelstfontein is a stock about which investors can't afford to be misled, despite its startling profit profile over the last year. The company probably has dumps sufficient to provide material for no more than another two years' work, though it is possible it may access reserves owned by neighbouring companies. There is some suggestion the mine's underground reserves may be re-examined.

In the Free State Oryx continues to be Gencor's problem child and Gencor chairman Brian Gilbertson describes it as "having a long and painful labour". In the market, the share is considered highly risky though that is probably a premature judgment. The mine's problem is that across both the length and breadth of the lease area there are huge variations in the quality of the ore deposit, unusual in a Witwatersrand conglomerate. Refinancing proposals have been delayed, probably until the year-end, however, the chances must be good that a rights issue of R750m will be required to retire debt and provide sufficiently for redevelopment.

At St Helena, earnings have doubled and great improvements have been made in yield which rose 11% as a result of selective development — and the use of

GENCOR GOLD MINES

Year to June 30 1994	Geotrix	Buffels	Geotrix	Buffels	St Helena	Oryx	St Helena	St Helena	St Helena
Trading assets	11.4m	11m	11.4m	11m	16m	165m	16m	16m	16m
Capital structure (ord)	2.685	2.685	2.685	2.685	2.685	2.685	2.685	2.685	2.685
Market cap (Rm)	1.45	1.45	1.45	1.45	1.45	1.45	1.45	1.45	1.45
Price (c)	1.275	1.275	1.275	1.275	1.275	1.275	1.275	1.275	1.275
12-month high (c)	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375
12-month low (c)	1.275	1.275	1.275	1.275	1.275	1.275	1.275	1.275	1.275
Trading vol last quarter	731 000	177 000	731 000	177 000	731 000	731 000	731 000	731 000	731 000
Chairman	G. Mandel	T. G. Dale	G. Mandel	T. G. Dale	G. Mandel	G. Mandel	G. Mandel	G. Mandel	G. Mandel
Year to June 30 1994									
Revenue (Rm)	145.1	510.5	145.1	510.5	145.1	145.1	145.1	145.1	145.1
Costs (Rm)	128.1	437.2	128.1	437.2	128.1	128.1	128.1	128.1	128.1
Profit (Rm)	17.0	73.3	17.0	73.3	17.0	17.0	17.0	17.0	17.0
Attributable (Rm)	10.5	30.2	10.5	30.2	10.5	10.5	10.5	10.5	10.5
Grade (g/t)	6.57	6.17	6.57	6.17	6.57	6.57	6.57	6.57	6.57
Gold produced (kg)	3945	13 088	3945	13 088	3945	3945	3945	3945	3945
EPS (c)	91.4	282.4	91.4	282.4	91.4	91.4	91.4	91.4	91.4
Dividends (c)	80.0	305.0	80.0	305.0	80.0	80.0	80.0	80.0	80.0

GENCOR

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Chasing after new assets

(232)

Activities: Mining house with investments in gold, platinum, coal, ferroalloys, mineral sands, aluminium and an expanding international base.
Control: Sanlian and Randoal.
Chairman: B P Gilbertson.
Capital structure: 1.4bn ord. Market capitalisation R19.95bn.
Share markets: Price 1.425c Yields: 1% on dividend 3.2% on earnings, P/E ratio, 31.4 cover 3.12-month high, 1.495c low, 585c Trading volume last quarter 28.8m shares
Year to June 30 *91 *92 *93 *94
Investments
 Carry value (Rbn) 7.18 9.17 10.65 7.01
 Market value (Rbn) 15.99 16.58 17.64 15.94
Earnings (Rm) 1,405 1,281 1,411 625
Earnings (c) 119.5 98.8 102.5 45.4
Tangible NAV (c) 1,473 1,341 1,354 1,189
 *Year to August 31

Mining house Gencor has had a momentous 1994. Not surprisingly, it has also been a year in which chairman Brian Gilbertson's vaulting ambitions for the group have suddenly been revealed in sharper focus.

Gilbertson, first a physicist with CSIR, then a rising star with JCI until hand-picked by then chairman Derek Keys to take control of Gencor's mining interests before succeeding him, has long made it clear he intends to drive Gencor into the first rank of the world's natural resource companies. It is the kind of good intention to which little attention is paid — until, that is, the news burst of Gencor's acquisitions, first of international base metals and minerals grouping Billiton, then within weeks the merger of Randoal with Trans-Natal to form the world's third largest privately owned coal company. The scope of these developments is breathtaking, coupled with Gencor's greenfields projects at home, they constitute a group seriously engaged in a widespread transformation.

Curiously, all these changes come after Gencor blazed the trail of "unbundling" — a painful process in which the house shed its industrial and investment arms, Sappi, Engen, Malbak and Gebel Having scaled down Gilbertson promptly began to expand, this time concentrating exclusively on mining and allied activities.

Gencor has become a mining house focused on gold (17% of assets, 21% of earnings), platinum (15% and 12% respectively), coal (5% and 13% and set to mushroom), ferro-alloys (23%), titanium minerals (10% of assets, contributing 25% of earnings) and aluminium (7% and 1%) and now metal through Billiton's Cerro Matoso mine in Colombia. What is arguably missing from this compendium is copper and iron ore.

Meanwhile, the house is heavily involved

in SA projects such as Alusaf's Hillside Smelter project (R5.4bn) the Columbus stainless steel joint venture with Anglo American Corp and the IDC (R3.5bn, of which Gencor has a third share through Sanancor) and the struggle to refinance the Oryx gold mine in the Free State. All these taken with the Billiton acquisition, mean that Gencor has undergone an important transformation. Resources have been transferred on a huge scale from profit-producing operations to some (Alusaf, Columbus and Oryx) which — for now at least — will be net consumers of cash.

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To put all this into perspective, the house is a far cry from its attributable income of R911m in 1990. That was achieved from net assets of R10.8bn — a simple return rate of 8.5%. It puts this year's performance — R625m from net assets of R16.6bn or

GENCOR'S EARNINGS

	1993	1994
Gold	108	17
Platinum	99	18
Coal	78	13
Ferroalloys	101	16
Titanium Minerals	85	14
Aluminium	7	1
Operational & other	474	77
Investments & corporate	(99)	(16)
Total earnings	612	100

a return of 3.8% into stark and unkind focus. However, those soaring net assets also indicate a rampant stock market and, of course, in 1990 Gencor was a bundled group Gilbertson's brave new world won't kick in for some years yet.

Also, Gencor's reporting period this time round is for 10 months only, as the company and its subsidiaries convert to a June financial year. It is true, too, that operating income improved strongly from 1993's R474m, indeed, if the EPS of 45.4c is annualised, it produces 54.5c and, in that sense at least, Gilbertson can take some

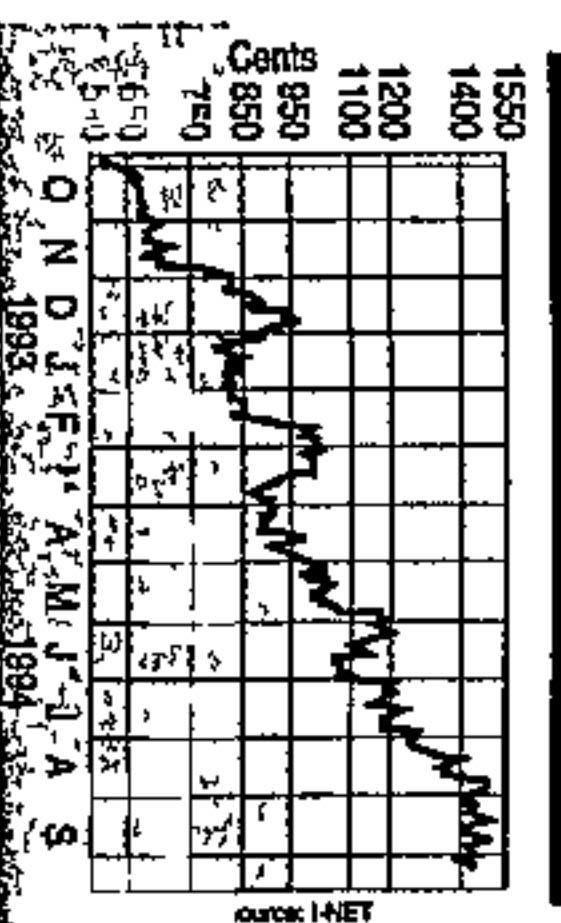


Gencor's Gilbertson a brave new world

satisfaction

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Gencor

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David Gleason

GENCOR GOLDS Success with costs

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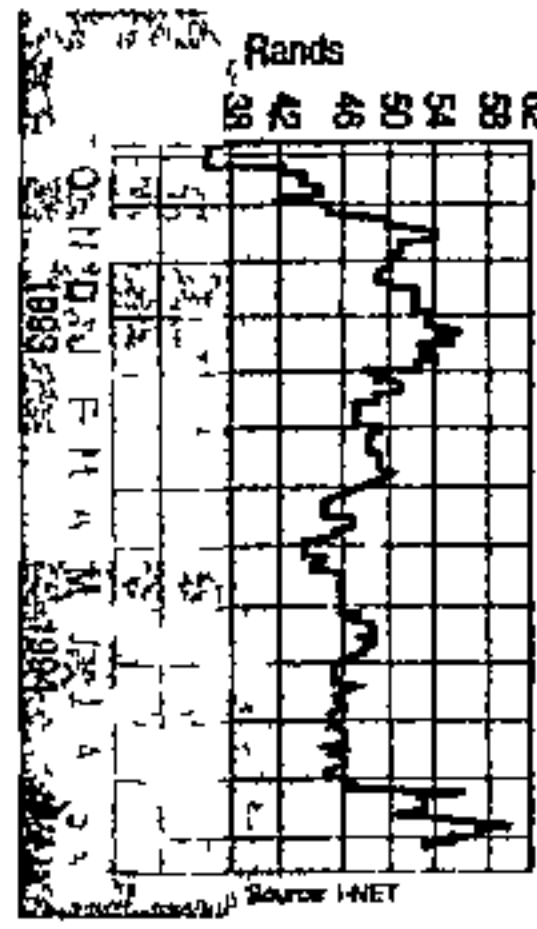
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Gencor's Maurice advances in productivity

Gold Fields producers

Of the individual producers (some of which report strange years this time as Gencor brings all its mines on to the same reporting period), **Buffelfontein**, which used to be the group's Big Daddy is now a mine in decline. Focus from now on will be on shaft pillar extraction and dump



Buffelfontein Gold Mining

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GENCOR GOLD MINES

	1993	1994
To June 30 1994		
Revenue (Rm)	2,780	2,780
Capital structure (ords)	2,565	2,565
Market cap (Rm)	1,111	1,111
Price (c)	100	100
12-month high (c)	110	110
12-month low (c)	85	85
Trading vol last quarter	177,000	177,000
Chairman	G. Maurice	G. Maurice
Year to June 30 1994		
Revenue (Rm)	5,185	5,185
Costs (Rm)	3,064	3,064
Tax (Rm)	55.3	55.3
Attributable (Rm)	2,066	2,066
Grade (g/t)	6.37	6.37
Gold produced (kg)	13,220	13,220
EPS (c)	87.5	87.5
Dividends (c)	85.0	85.0
* 10 months, * 18 months, * 9 months		

P.T.O

were inferior but more expensive
That is part of the story It's changing mainly because government tariff structures

Fun 21/10/94

responding growth in pre-tax income, EPS and dividends of over 12% He is usually conservative in his projections An analyst is forecasting a 30% earnings rise

The share price rose from a low of 130c in June/July last year to a peak of 825c in June It has fallen to 775c now However, if the analyst is correct, EPS will reach about 155c in fiscal 1995, implying a forward p e of 5 — low for a company showing substantial recovery

My feeling is that the market wants evidence the turnaround can be sustained before the rerating continues If so, now is the time for those who believe this will happen to invest in Seardel It could prove to be a winner. Gerald Hirshon

(232)

PROFIT PATTERN

1994	Turnover		Operating Income		Return on Assets
	Rm	%	Rm	%	%
Apparel	891,7	77	52,7	72	15
Business and					
consumer electronics	168,2	15	10,3	14	13
Toys	46,9	4	1,9	3	6
Non-woven textiles . .	44,5	4	2,2	3	9
Property & Invest . . .	—	—	6,0	8	10
Total	1 151,3	100	73,1	100	

have changed and are continuing to do so and the industry is preparing to comply with the Gatt But, more important, Seardel has changed too.

The change has not only been structural, it's been attitudinal. Whereas four years ago, the group had a bloated, fat-cat feel about it, it now looks hungrier and leaner The profit recovery in fiscal 1994 is testimony to the success of the reconstruction policies of chairman Aaron Searll and his team, and is to the credit of the divisional executives who implemented stringent cost cutting exercises.

Helped by a more buoyant retail clothing market in the second half (apparel comprises 77% of Seardel's turnover), the clothing division's contribution to operating income increased by not less than 45% and was largely responsible for the leap in group operational cash flow from R62m to R84m

This cut net finance charges and enabled pre-tax income to jump 86% — in line with the 85% improvement in attributable earnings on a higher effective tax rate of 32,4% (1993 24,4%).

Keen competition in the business and consumer electronics market confined operating profit growth to a bare 1,3%, on 8% higher turnover The rand/yen price differential became less favourable, though Sharp products were not discounted Market share has been forfeited, but the brand should benefit from economic growth

Neither the toy nor the non-woven textile divisions increased turnover, both tabled significantly lower operating income Until the economy improves, prospects for both divisions (together they contribute 6% of group operating profit) remain suspect, they produce semi-luxury items

Notably, Frame/Confram contributed attributable earnings of R2,4m (1993 R1,55m loss)

The balance sheet has strengthened. Gearing has fallen below 50% and liquidity is better than it has been in years The trading and investment ratios, while improved, still offer scope for improvement if targets are to be achieved

Searll is projecting a maximum increase in group turnover of 16,6% and a cor-

SEARDEL Fun 21/10/94 Change all round

Activities: Manufacturer of apparel, toys, consumer electronics, non-woven textiles

Control: Seardel Consolidated Holdings 50,1%

Chairman: A Searll Joint MDs G C de Bruin, B G Richards

Capital structure: 23,4m ords Market capitalisation R176m

Share market: Price 750c Yields 3,2% on dividend, 16% on earnings, p e ratio, 6,3, cover, 5 12-month high, 825c, low, 195c Trading volume last quarter, 450 000 shares

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	29,8	20,4	36,6	29,3
LT debt (Rm)	80,8	115,1	82,3	84,0
Debt equity ratio	0,61	0,74	0,62	0,49
Shareholders' interest	0,34	0,32	0,34	0,36
Int & leasing cover	2,6	1,5	1,7	2,5
Return on cap (%)	16,4	10,8	11,7	12,8
Turnover (Rm)	992	1 058	1 069	1 151
Pre-int profit (Rm)	76,1	55,2	57,8	72,4
Pre-int margin (%)	7,7	5,2	5,4	6,3
Earnings (c)	108	43	65	120
Dividends (c)	23,0	9,5	13,0	24
Tangible NAV (c)	630	655	678	827

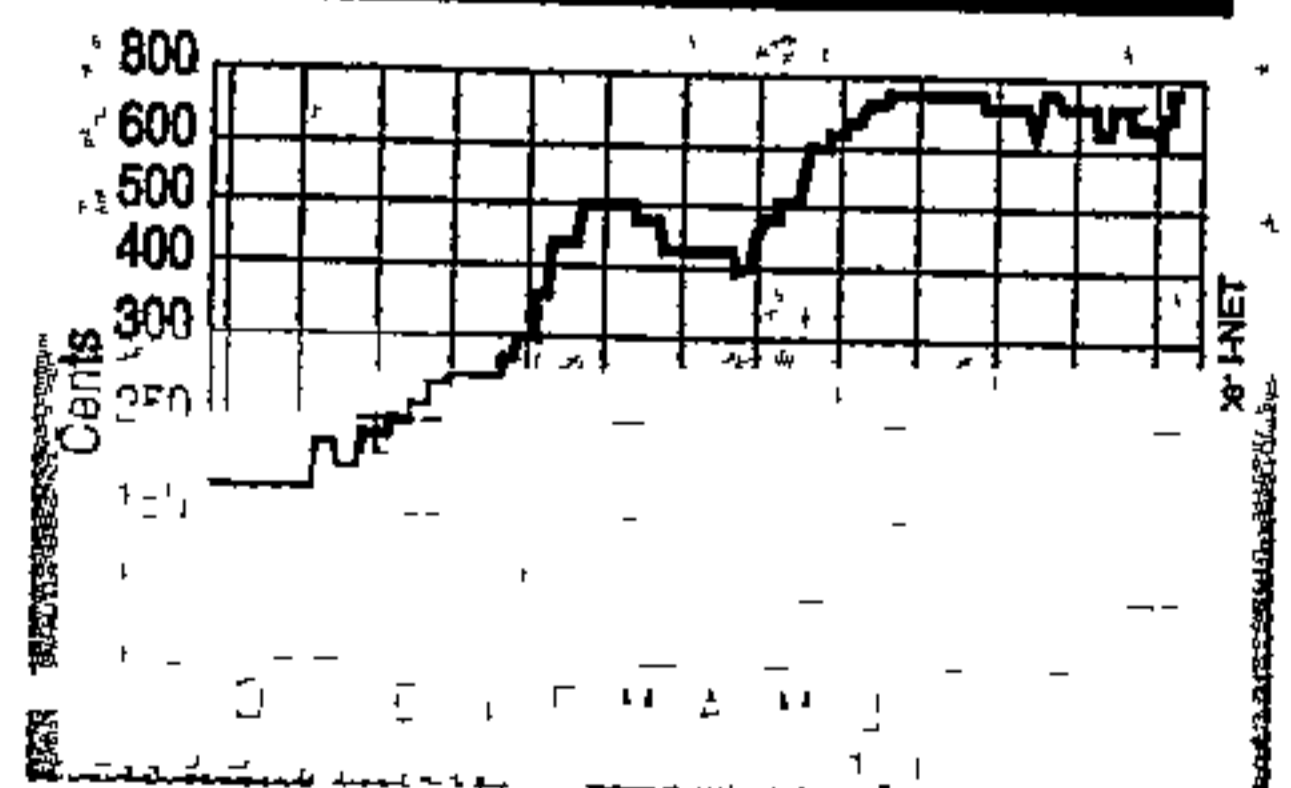
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The strong profit growth in fiscal 1994, meritorious as it was, should be seen in the perspective that a powerful recovery was essential for Seardel to regain credibility.

Four years ago, operating profit (R73,2m) was higher than in 1994 though turnover was then considerably lower (R900m). But the local market and the international situation has changed.

Locally, traditional (white) consumers have become more tightfisted as their discretionary income has shrunk They have cut spending on clothing and traded down to cheaper merchandise Entrepreneurs found ways to import cheap clothing from the Far East, much of which has been sold to the developing informal sector Local clothing manufacturers lost market share as they were forced by high duties and tariffs to use locally manufactured fabrics which

Seardel Consolidated



They sold to Malbak for R130m

S Times
MALBAK has bought the appliances division of Defy to expand its investment in the white goods and small appliances market, writes JULIE WALKER.

Malbak will pay Tek Corporation R130-million. Tek is currently managed by Sankor *(Buss)*.

Malbak director Hugh Brown says it makes sense for Malbak to buy this part of the Defy business in which turnover is roughly R500-million. *2310K*

Research shows that with electrification, consumers most often buy a TV set, then a stove, then a fridge. Malbak has 20% of the television market through its holding in Tedalex.

Defy has 42% of the stove and microwave market, 31% of the market for dishwashers, tumble driers and washing machines, and 24% of the domestic fridge and freezer market. Defy's three factories in Durban, Lady-smith and East London, make the goods.

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Earnings 11% above expectations

Malbak ahead

Star 24/10/94

■ BY CHARLOTTE MATHEWS

A marked improvement in trading in the last three months lifted Malbak's profits beyond expectations by 11 percent to R414 million in the year to August 1994, against the same period in 1993.

"In recent months there have been indications that the economy is heading for positive growth, but I must caution that consumer spending still remains fragile," Malbak executive chairman Grant Thomas said at the weekend.

Operations also benefited from greater market share, the benefits of corrective action taken in previous years, new capacity being filled and acquisitions. ~~158~~ (232)

Group sales grew by 15 percent to R12,6 billion. Operating income was 6 percent higher at R871 million, showing margins still under pressure at 6,9 percent from 7,5 percent in 1993.

This was mainly owing to the expansion of the branded

consumer division, now the group's largest, where margins are lower than elsewhere in the group.

After a lower interest bill and tax rate, earnings a share rose to 134,6c (122,4c) on which a full-year dividend of 38,5c (35c) has been declared.

Group gearing is 18,5 percent, against 16,2 percent in 1993, but cash held amounts to R528 million, representing some of the proceeds of the 1992 rights issue, together with interest earned. The purchase of the Defy appliance division from Tek Corporation, announced yesterday, will absorb R130 million.

The group's unlisted branded consumer products division made the greatest contribution to group earnings of R88 million, or 21 percent.

Ellermes improved profits by 23 percent, while Malbak Motor Holdings reported profits up 29 percent.

Tedexlex made a positive contribution.

Among the other major listed groups which published re-

sults recently, Foodcorp grew earnings a share by 5 percent.

SA Druggists reported a 30 percent increase in earnings a share and made a 17 percent contribution to group earnings, while paper and packaging company Holdains made a 16 percent contribution.

The international division, which includes packaging, freight and trading interests, grew by 10 percent to account for R33 million of group earnings.

Corporate investments, where Malbak has holdings in ICL and Haggie, dropped its contribution to 19 percent, or R78 million, from 25 percent in 1993, mainly because of the sale of the rest of Standard Engineering.

Thomas said an improving environment and good real growth were expected in the year ahead as order books were building up and the businesses would benefit from RDP expenditure, greater confidence, productivity improvements and capital expenditure projects.

Malbak investors get 134,6c a share

B/Day 24/11/94

BEATRIX PAYNE

CONSUMER group Malbak exceeded market expectations and posted an 11% increase in shareholders' earnings to R414m or 134,6c a share for the year to August

Group executive chairman Grant Thomas said consumer demand showed a marked improvement over the past three months but he said it still remained fragile

He said the group had expected a rise in earnings of around 6%. Sales rose 15% to R12,6bn and operating income increased to R871m (R820m)

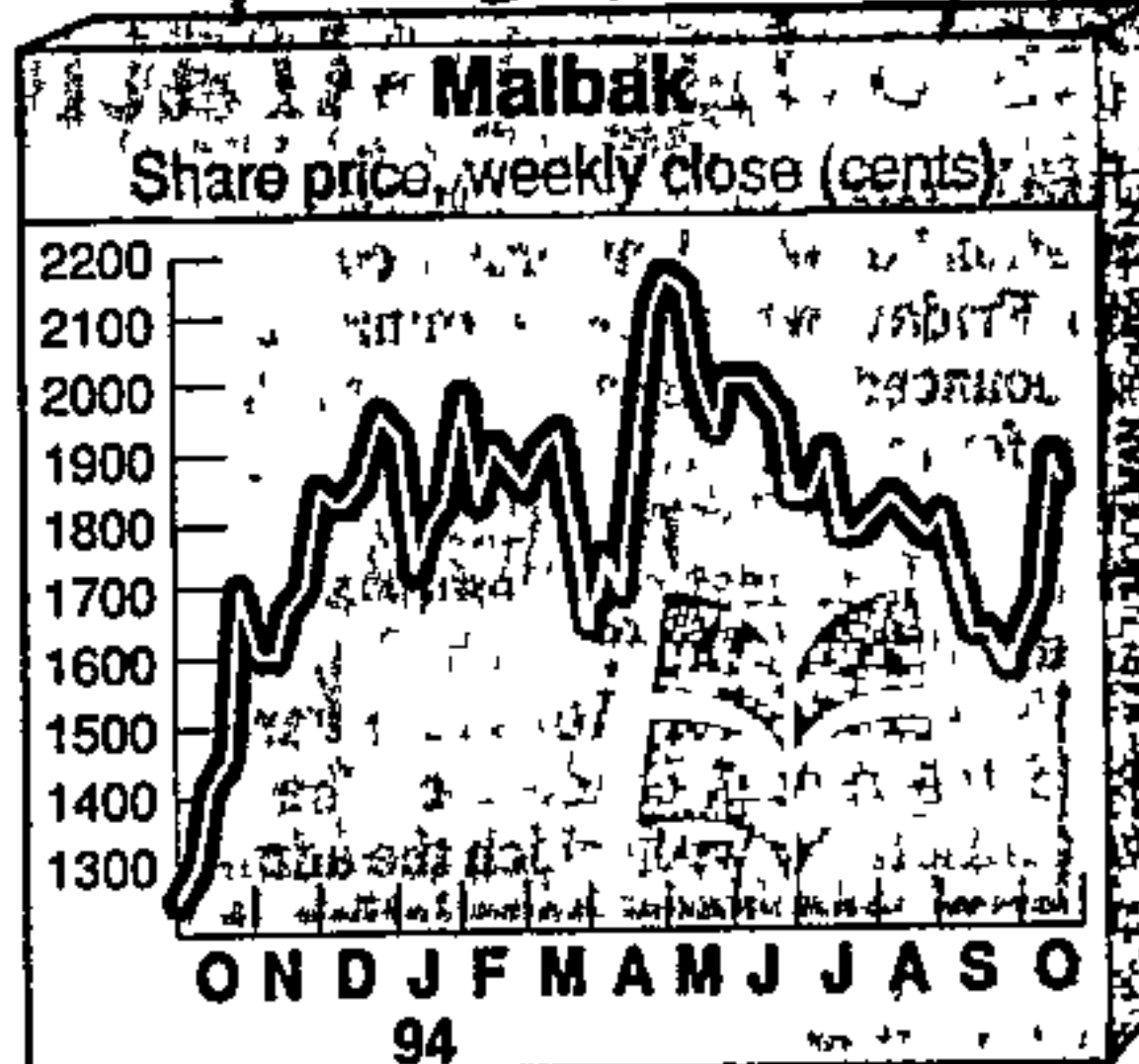
The operating margin fell to 6,9% (7,5%) on the back of the expansion of the branded consumer division where margins tended to be lower. The division was now the largest in the group, he said.

Interest paid fell 23% to R101m on lower interest rates, while a decrease in borrowings left pre-tax income 12% higher at R770m

The tax bill increased 8% to R225m after the introduction of the 5% transitional levy and an increase in the secondary tax on companies (STC). This was despite a marginal fall in the group's effective tax rate to 29,2% (30,4%) (222)

After-tax income rose 14% to R545m. Attributable earnings of associates fell 45% to R18m and outside shareholders received R149m (R138m)

The group declared a final dividend of



24,5c (22,5c), lifting the total dividend to 38,5c (35c). Despite the rise in STC from 15% to 25% the group had sufficient credits to pay shareholders a cash dividend.

The group's unlisted branded consumer products division made the biggest contribution to earnings. Its contribution rose 49% to R88m, which represented 21% of the group's total R414m earnings.

The group announced at the weekend that it would acquire the Defy appliance division from the TEK corporation for R130m which would strengthen its position in the consumer market.

Food division Foodcorp reported a 5% rise in earnings and Thomas said the

To Page 2

Malbak

launch of the Pillsbury joint venture and the rationalisation of the chilled prepared meat operations would improve future earnings.

Healthcare division SA Druggists increased earnings 30% on the back of improved market share and greater productivity. Its contribution to total earnings rose to R72m (R53m) (322)

Paper and packaging company Holdains reported a slide in earnings to R94,2m

(R97,7m). Thomas said turnover and profitability had improved during the second half and the division was "positioned for real growth".

International division MY Holdings increased its contribution to R33m (R30m).

But the corporate and investments division saw its contribution to the group fall to R78m (R94m) after the sale of Standard Engineering. Computer company ICL "performed well" but Haggie's results had been disappointing.

From Page 2

COMPANIES

Seardel's prospects 'positive'

CAPE TOWN — Clothing manufacturer and toy and electronics distribution group Seardel was on target to achieve its forecast of increasing earnings 12,5% to 135c a share in the year to June, chairman Aaron Searll said at the AGM on Friday.

But forecasting in the current socio-economic climate was difficult and projections for the year could be revised in February when results for the six months to December would be released.

The Frame Textile Group, in which Seardel and Gregory Knitting Mills had a controlling interest, had achieved a substantial improvement in its current trading position and balance sheet. In the past financial year the contribution to Seardel of Frame's attributable income amounted to R2,4m compared with a loss of R1,55m

EDWARD WEST

the previous year. *BIDAY*

The listing of Seartec in December, announced last week, which would constitute Seardel's Sharp electronics division, would unlock fair value to the benefit of shareholders, he said. *21/10/94*

Seartec's forecast taxed profit as at June 30 this year was R9,8m. Seardel would retain 75% of Seartec and the rights offer to shareholders would be 25% in a ratio of 65 Seartec shares for every 100 held in Seardel.

At the meeting, Shareholders' Association chairman Issy Goldberg suggested that the group's toy operations also be hived off. "This group's share has plenty of steam ahead," he said. *(130) (232)*

Malbak investors get 134,6c a share

B/Day 24/10/94

BEATRIX PAYNE

CONSUMER group Malbak exceeded market expectations and posted an 11% increase in shareholders' earnings to R414m or 134,6c a share for the year to August.

Group executive chairman Grant Thomas said consumer demand showed a marked improvement over the past three months but he said it still remained fragile.

He said the group had expected a rise in earnings of around 6%. Sales rose 15% to R12,6bn and operating income increased to R871m (R820m).

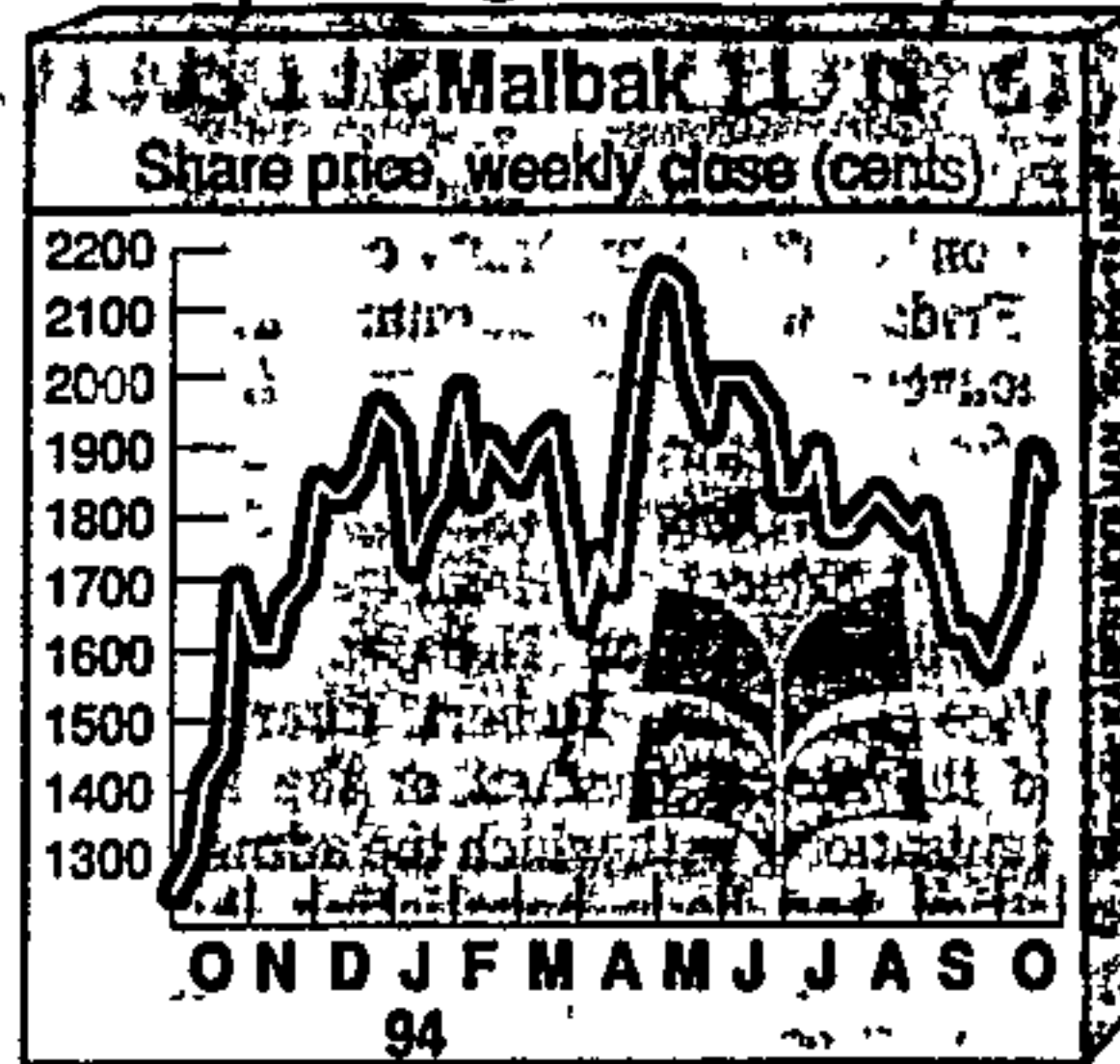
The operating margin fell to 6,9% (7,5%) on the back of the expansion of the branded consumer division where margins tended to be lower. The division was now the largest in the group, he said.

Interest paid fell 23% to R101m on lower interest rates, while a decrease in borrowings left pre-tax income 12% higher at R770m.

The tax bill increased 8% to R225m after the introduction of the 5% transitional levy and an increase in the secondary tax on companies (STC). This was despite a marginal fall in the group's effective tax rate to 29,2% (30,4%).

After-tax income rose 14% to R545m. Attributable earnings of associates fell 45% to R18m and outside shareholders received R149m (R138m).

The group declared a final dividend of



24,5c (22,5c), lifting the total dividend to 38,5c (35c). Despite the rise in STC from 15% to 25% the group had sufficient credits to pay shareholders a cash dividend.

The group's unlisted branded consumer products division made the biggest contribution to earnings. Its contribution rose 49% to R88m, which represented 21% of the group's total R414m earnings.

The group announced at the weekend that it would acquire the Defy appliance division from the TEK corporation for R130m which would strengthen its position in the consumer market.

Food division Foodcorp reported a 5% rise in earnings and Thomas said the

To Page 2

Malbak

launch of the Pillsbury joint venture and the rationalisation of the chilled prepared meat operations would improve future earnings.

Healthcare division SA Druggists increased earnings 30% on the back of improved market share and greater productivity. Its contribution to total earnings rose to R72m (R53m).

Paper and packaging company Holdains reported a slide in earnings to R94,2m

(R97,7m). Thomas said turnover and profitability had improved during the second half and the division was "positioned for real growth".

International division MY Holdings increased its contribution to R33m (R30m).

But the corporate and investments division saw its contribution to the group fall to R78m (R94m) after the sale of Standard Engineering. Computer company ICL "performed well" but Haggie's results had been disappointing.

From Page 12

New Investec spin on Sechold

25/10/94

BY CHARLOTTE MATHEWS

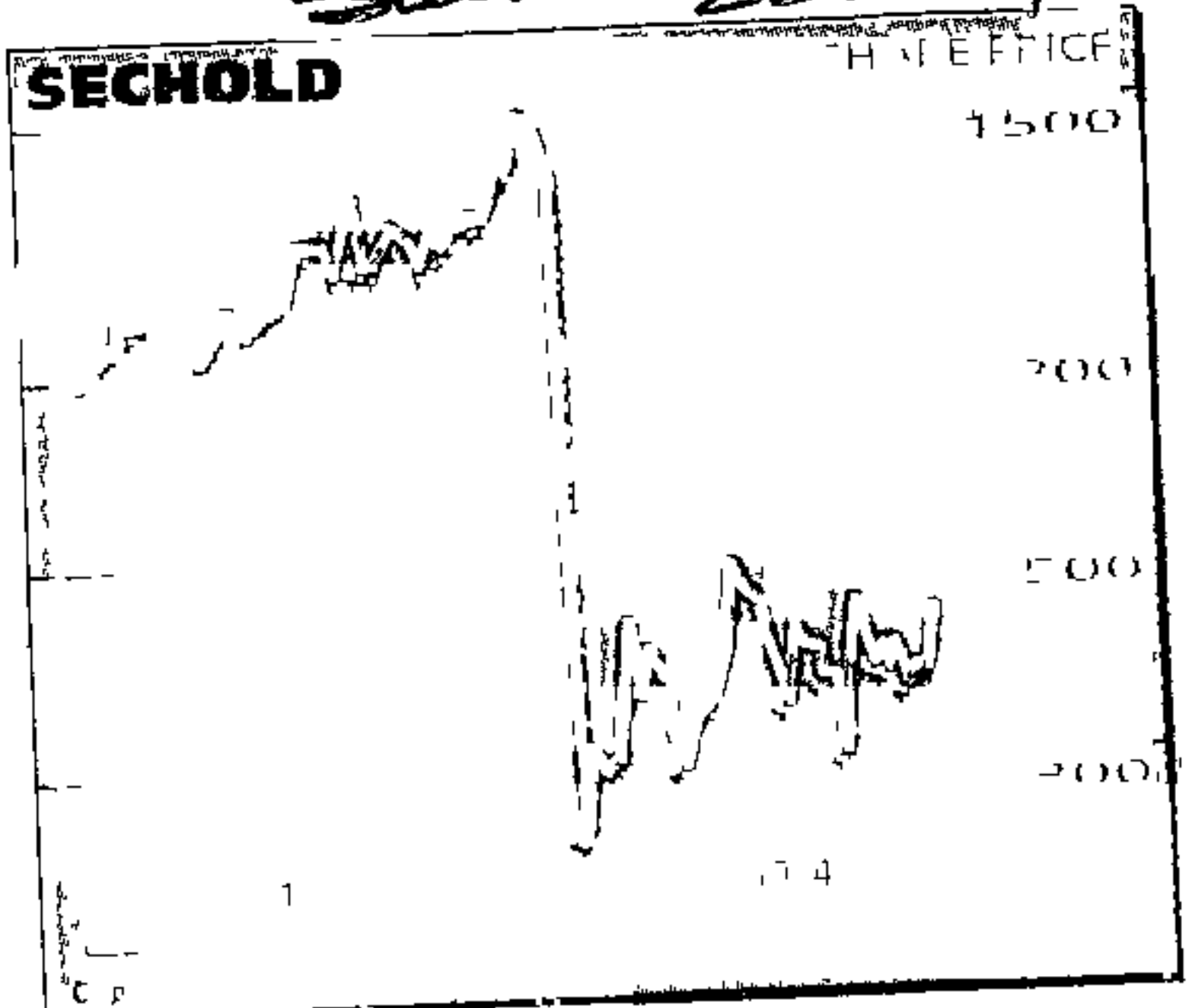
Banking, securities trading and related financial services group Sechold, which was recently acquired by Investec, has undertaken a close scrutiny of its risk management process, which has now been integrated with Investec's

Sechold MD Bernard Kantor says in the group's 1994 annual report the R197,7 million loss Sechold incurred on futures trading in late 1993 indicated a flaw in its risk management process.

This process was essentially sound at subsidiary level, but was not co-ordinated at group level.

In March, Investec injected R125 million of new capital into Sechold and became the controlling shareholder with 78 percent.

Sechold now reports directly to Investec's group risk manager on its risk management activities



and these are examined at group and subsidiary level

The risk management process focuses specifically on counterparty, interest rate, liquidity and price risks

Although the group's results for the year to June were hit, not only by the trading loss, but by a R20 million provision, the four main subsidiaries — NDH Bank, District Securities Bank, Securities Investment Bank and Secfin Bank —

traded well for most of the year.

The group's capital has been increased substantially and it is now considered adequately capitalised to conduct its traditional business and grow as opportunities arise. (232)

In the coming year, Sechold will continue to focus on its core activities in the securities market, Kantor says.

Its priorities will be to improve information technology and further

strengthen risk management.

In response to the potential threat of increased competition from the international banking community, Sechold is establishing a research team to provide information for international investors and local clients

Sechold shares were trading around 430c yesterday, but they have been to 500c since January, when the news of the trading loss filtered through to the market and the shares plummeted from R15 to 250c

With the shares now 78 percent-held by Investec, reducing their tradeability, the restructuring of the company and loss of investor confidence, a recovery to last year's levels is unlikely in the foreseeable future and the share appreciation may be uninteresting in the short term

In the long run, the core operations are sound and the group should benefit from its association with Investec

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Omni looking for ways to consolidate M-Net holding

JOHANNESBURG Consolidated Investment's media arm Omni Media could consolidate its shareholding in M-Net in a deal which would make it the pay TV group's largest shareholder

Industry sources said Omni could, as a first step, make another offer to Times Media minorities to enable it to delist TML and restructure the group into separate M-Net and newspaper interests.

But they said Omni would have to make an offer to TML shareholders that would compensate for the loss of the M-Net shares.

While analysts said the pay TV station's share price was over-valued, its performance had boosted the share prices of the media groups which had a stake in it.

Analysts said it would make sense for Omni to consolidate its M-Net holding.

Consolidating the M-Net share would also break the 1985 agreement stating that the four media groups had to have a major investment in newspapers. The agreement would have to be changed before Omni could consolidate its stake in M-Net.

It was unlikely that Omni would take any firm decision on the restruc-

AMANDA VERMEULEN

turing of TML until the first quarter of next year, but industry sources believed that it would not have a major effect on TML, other than on its share price. *Biday*

One analyst said that separating the M-Net and TML shares could have the effect of boosting the value of both shares. *25/10/94*

This was based on the prediction that the combined stand-alone value of the two shares would be worth more than at present.

Analysts also believed that listing the newspaper interests separately could unlock some of their value and improve the price/earnings ratio.

The problem remained making an offer to the TML minorities which was sufficiently attractive to encourage them to sell to Omni, thereby giving it the necessary leverage to enforce a delisting. *(195) (22)*

One analyst said this could be an expensive move for Omni, which had already failed to acquire all the minority shares.

The group would have to go back to minorities and make an offer even higher than before — described by one analyst as "silly money".

EXECUTIVE

Lenco confident of marked second half improvement

CAPE TOWN — Footwear, clothing and packaging group Lenco's earnings fell 10,6% to 26,85c (30,03c) a share in the six months to August because of unsettled conditions over the election period and a larger number of shares in issue

Executive chairman Douglas de Jager said in a statement second quarter results improved substantially over those for March, April and May, and the seasonal improvement in the second half was expected to be even more marked this year

Lenco's turnover rose 7,3% to R366m (R341m), but operating profit fell 13,5% to R30,7m from R35,5m. The interest bill fell to R5,4m from R7m after the injection of the proceeds from the R49m issue of shares to Sanlam

Attributable profit was only slightly lower at R19,9m (R20,5m) before extraordinary items. An interim dividend was not declared in terms of company policy

The cost of the closure of the Durban footwear plant in May was estimated at R7m and was treated as a R4,87m extraordinary item and excluded from attributable profit

On June 1, a Cape-based manufacturer

B. Day 25/10/94

EDWARD WEST

of branded ladies footwear, Olympic Flair, was acquired and the company contributed R700 000 to group profits in the interim period. The group also acquired Australian-based rigid plastics manufacturer Peteron Plastics from August 24

The investments were financed by way of additional shares issued to Sanlam, the remaining proceeds from which were used to reduce debt (232)

De Jager said the decrease in operating profit stemmed from retailers' resistance to holding normal stock levels before the election and lost production days over the election and post-election periods

"After the unsettled start of the year, trading conditions have normalised. Barring unforeseen circumstances, indications are the operating profit in the second half could improve by at least 25% on last year," he said

Lenco Investment Holdings, which has a 49,9% stake in Lenco Holdings, reported attributable earnings of 17,89c (20,02c) a share for the six-month period

Key meet on fuel industry deregulation

By ARI JACOBSON

MAJOR players in the SA petrol industry will meet at the weekend outside Cape Town — a get together that the business community hopes will herald the first firm moves towards deregulation. Liquid Fuel Industry Task Force co-convenor J P Landman said yesterday

Proposals on a phased and orderly deregulation have been submitted by the business community to the task force

Eventual deregulation, it is argued,

will increase competition in the industry and lead to lower prices.

Johannesburg-based Landman was a keynote speaker at the Afrikaanse Handelsinstituut (AHI) conference held in the city yesterday.

He heads out this weekend to Caledon for the pivotal meeting between business, government and labour on the future of the petrol industry.

"The business community believes that in the next two years petrol could be deregulated"

He said that the environment in SA was conducive to creating competition

with petrol pricing determined by market forces of supply and demand.

Oil companies such as Engen, Caltex, BP and local producer Sasol would compete to force down the retail price, in a bid for market share.

Sasol is considered by market players to be well-placed to increase its market share in the PWV region, where the bulk of petrol is used, given that all the other refineries are based on the coast.

The business community argues that a lower level of tariff protection could

further enhance the benefits to the consumer

The downside will be jobs lost at filling stations likely to be closed down. However, Landman maintained this would "free up wasted resources to be used elsewhere, more productively, in the economy"

● Meanwhile at the AHI conference Landman warned that the SA economy must brace itself for "severe and savage" foreign competition

Landman said that the only way for SA to stay on top was to develop "innovative human capital"

232

CT 26/10/94



members of staff employed by the Commissioner of Inland Revenue are qualified as chartered accountants and (b) for what purpose are these staff members utilised? NS27E

THE MINISTER OF FINANCE

- (a) (1) 127
(ii) None

(b) At present the abovementioned 127 members of staff are utilised country-wide in Inland Revenue as follows

Raising of income tax assessments of involved companies and mining companies	32
Income tax audit	28
VAT audit	29
In-depth investigations in the case of serious tax evasion and fraud by the section	31
Special investigations	4
Operational research	3
Training	127

Certain MP: receipt of illegal arms

*9 Mr R S MOLEKANE asked the Minister for Safety and Security

- (1) Whether he has been informed of recent newspaper reports alleging that a certain member of the House had received illegal arms from a certain person, whose name has been furnished to the South African Police Service for the purpose of the Minister's reply, if not, what is the position in this regard, if so, what are the relevant details,

- (2) whether any investigation has been conducted in this regard, if not, why not, if so, what are the relevant details? NS44E

THE MINISTER OF SPORT AND RECREATION (for the Minister for Safety and Security).

- (1) Yes
I took cognisance of the relevant newspaper reports. The matter is being investigated by a special investigation team under the auspices of the Attorney-General of the Transvaal and is at present *sub judice*.

- (2) Yes
See the abovementioned answer in (1)

Prevention of monopolies in transport sector

*10 Mrs L MALONEY asked the Minister of Transport (232)

- (1) Whether any steps have been or are to be taken with a view to preventing monopolies in the transport sector, if not, why not, if so, what steps,

- (2) whether it is the intention to introduce any legislation in this regard, if not, why not, if so, when? NS45E

THE MINISTER OF TRANSPORT

- (1) Yes. In the White Paper on National Transport Policy, 1987, which is still the current policy framework, the Department of Transport, *inter alia*, identified the following transport policy goals
- to further effective and equitable competition
 - Regulatory constraints which prevent free competition and which give certain groups unfair privileges over others should not be allowed,
 - to further private initiative, and
 - to encourage small business development

In the development of my Department's business plan for the implementation of the Reconstruction and Development Programme, these policy goals will receive further attention through the identification of opportunities where emerging smaller operators will be afforded the opportunity to tender, for example, bus services

- (2) No. The Maintenance and Promotion of Competition Act, Act 96 of 1979, as amended, was drafted with the purpose of, *inter alia*, addressing this type of practice. Section 6 of this Act, which describes the functions of the Competition Board, provides scope to address companies in this regard, and the additional legislation by my Department is therefore considered unnecessary.

Street children: removal from the streets

*11 Mrs L MALONEY asked the Minister for Welfare and Population Development

- (1) Whether any steps have been or are to be taken with a view to removing so-called street children from the streets, if not, why not, if so, what steps,

- (2) whether any steps have been or are to be taken with a view to preventing more children from ending up on the streets, if not, why not, if so, what steps? NS46E

THE MINISTER FOR WELFARE AND POPULATION DEVELOPMENT

- (1) Yes, continuously by the provinces and welfare organisations which render direct services to street children and their families. It is important that street children should be placed with their families and should be reunited. This is however, a difficult process. Many street children have no parents, have become estranged from their parents or originate from problem families.
- The following steps have already been taken
- Legislation: Proposals for the amendment of the Child Care Act, 1983 (Act No. 74 of 1983), to make provision for the specific needs of street children. These proposals, which make *inter alia* provision for the registration and financing of shelters as places of care or as children's homes as well as for training programmes, have been accepted.
 - Funding: Some provincial welfare departments have started financing shelters or registering them as children's homes with relaxed implementation of the regulations.
 - Research: The Department of Welfare requested the Human Sciences Research Council to do action research with regard to informal shelters for street children.
 - A Working Committee *Street Children* has been appointed to facilitate and co-ordinate services rendered to street children and potential street children and their families and to

develop more effective strategies to deal with children on and from the streets.

- (2) Yes, by placing future emphasis on prevention in the development of policy and legislation and by developing, implementing and monitoring a comprehensive, integrative strategy involving all the role-players.

A national working conference is planned for 9 March 1995 to formulate policy guidelines to deal with the problem of street children.

Training in the implementation of policy and management of programmes for street children will be presented during the national working conference.

CCB/SADF: covert activities/destruction of documentation by SANDF

*12 Mr C G NIEHAUS asked the Minister of Defence

- (1) Whether he has been informed of any documentation or other information relating to (a) the activities of the Civil Co-operation Bureau and/or (b) covert activities undertaken by the South African Defence Force being destroyed by members of the SADF prior to 27 April 1994, if so, what are the relevant details,

- (2) whether he or the South African National Defence Force has taken any steps to ensure that the said members who are members of the SANDF at present are not continuing such destruction of documentation or other information so as to prevent such activities from becoming known, if not, why not, if so, what steps? NS47E

THE MINISTER OF DEFENCE

- (1) Yes. I have been informed by the Chief of the National Defence Force that
- (a) During the process of the disbandment of the Civil Co-operation Bureau, the proposed settlement agreement had to be referred to the Ombudsman for arbitration. Part of the settlement agreement was that after files had been audited by the Auditor-General, they could be de-

COMPANIES

Merger aids

Fidelity

BID by 271094
SAMANTHA SHARPE

FIDELITY Bank's merger with the EP Building Society (EPBS) earlier this year helped lift the group's net income 64% to R20,1m for the year to September

The group's interest income nearly doubled to R217,6m, with a commensurate increase in bad debts to R16,86m (R8,26m).

Earnings a share rose 51% to 165,7c, with the total dividend 27% up on the previous year at 43c *(232)*

Fidelity Bank CE Jules Langenberg said the fall in the return of daily average assets to 1,4% (1,95%) and the 3% rise in the return on average shareholders' funds to 26% were among the industry's best ratios.

The improvements were attributable to the inclusion of the former EPBS home loan book at lower interest rates than the old Fidelity's book and a lower average capital requirement on the enlarged book

He said provisions and reserves had been substantially increased as a "buffer against economic stress" and in keeping with the enlarged debtors' book *(35)*

Lighting the fuse

A leaner structure is set to exploit firmer local and export markets

A year ago, when chemicals and plastics group Sentrachem posted modest results the share climbed to a high of 873c. Ratings firmed to the point where, at 2.7%, Sentrachem had the lowest dividend yield in the chemicals and oils sector, but, with a P/E ratio of 11.6, still trailed AECI and Chemical Services.

At the halfway mark, a stronger performance achieved while domestic and international chemical prices languished, pushed the share's ratings past its rivals. Since then the price has gained another 28% to trade earlier this week at R15 — best rated share in the sector.

Last week's preliminary results justified the near doubling of the price over the year. On slow growth in sales of only 7%, taxed income increased by 43% to R159m. A lot of help came from the balance sheet, strengthened by an earlier R289m rights issue which reduced the debt equity ratio to 0.12, possibly the lowest since Sentrachem's formation in 1967.

The management style and strategic direction is now vastly different from when Sentrachem was created out of the pooled chemical resources of the Industrial Development Corp, National Chemical Products and the old Federale Volksbelegings 27 years ago. The founders had ambitious plans to create a vast SA company and a significant international player. But ideology sucked Sentrachem into a spiral of unsound import replacement projects. The crash came in the mid-Eighties, when the group was caught with heavy offshore

borrowings as the rand collapsed, aggravated by some large, financially suspect projects. Sanlam came to the rescue, restructuring and recapitalising Sentrachem, placing it in the Sankorp stable.

John Job, who became MD in 1991 after 18 years on the payroll, decided he had to make the business grow without any help from the SA economy and in the face of a trough in international chemical prices as well as a long drought at home. Now Sentrachem seems set to enjoy the benefits of its leaner structure. "Over the past few months most of our markets have started to look distinctly better," Job says. "Immediately after the election, one could feel stability starting to return to most areas of

our business." He admits that not all the financial ratios and returns are where he would like them to be but notes that EPS grew through the downturn. "We should be able to boost growth in the upturn."

The benefits of firmer local and world markets were absent for most of the financial year to end-August and not all of Sentrachem's main businesses did well. A divisional breakdown is not yet available but financial director Norman Kennelly says three companies were affected by depressed markets. Satripol, the joint venture with Hoechst, Chemical Syndicate, which makes resins, and Mega Plastics.

All other divisions performed well. Selling the 16% growth in operating profit to R248m, aided by a firming operating margin (8.1% to 8.9%) and a record 34% increase in exports to R464m, which now contribute 15% of turnover compared with 13% in the previous period.

RIGHT FORMULA FOR INVESTORS

Year	1990	1991	1992	1993	1994
Turnover (Rbn)	2.28	2.43	2.62	2.80	2.80
Pre-tax income (Rm)	108	145	148	163	163
Attributable (Rm)	62	72	87	120	120
Net borrowing (Rm)	493	390	380	147	147
Debt equity ratio	0.63	0.44	0.42	0.12	0.12
Interest cover	2.5	2.7	3.3	4.5	4.5
Earnings (c)	54	62	75	91	91
Dividends (c)	18	20	24	28	28
Dividend cover	3	3.1	3.1	3.3	3.3
Tangible NAV (c)	489	518	552	671	671

Exports and greater downstream beneficiation of chemicals were the two broad-based thrusts that management identified as routes to increase profitability and lessen dependence on commodity cycles. The financial trends are going the right way (see table), though it could be argued that Sentrachem is hampered by being the smallest of the four main oil and chemical groups in the sector.

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LEADING ARTICLES



Job made the assets work

Job says size is not the only consideration. "We're trying to deliver the highest quality products to customers and earnings to shareholders. Our EPS growth has been good but market capitalisation increased by five times in the slump."

His argument and apparent lack of concern about size is indicative of the new strategic thinking and change of culture. Certainly, when Sentrachem was formed, the intention was to make it as large as possible. At the time two companies dominated the chemicals industry — Sasol then State-owned, and Anglo American/ICI-controlled AECI. The formation of Sentrachem was largely inspired by the need to do something useful with the raw materials coming from Sasol. A perception remains — which Job strongly denies — that Sentrachem depends on Sasol. Only some of its businesses need to rely on Sasol for feedstocks, the rest can be imported.

The quest for size led Sentrachem into trouble. Recurring shortages of worldwide chemicals, which benefited such groups in the short term, led to the idea that the industry needed to be as independent as possible from imported raw materials.

The Nationalist government of the day encouraged this thinking and a year after the energy crisis in 1973 Sentrachem went ahead with Couplex, a massive project to build a major PVC plant. Other large projects followed, including the acquisition of fertiliser business Fedrus and the start of Alprene, an import-replacement synthetic rubber plant at Newcastle.

Says Job "Sentrachem was going through a massive growth phase, which looked even better when the gold boom started in 1979. The group seemed infallible. All the earlier decisions appeared to be the right ones."

Cracks started to show in 1981 when the fertiliser industry collapsed, then a few years later when Sentrachem suffered heavy losses because of its foreign debt exposure. When Job became MD in 1991 he says he saw his task as showing that the group could be run profitably. It still had considerable assets and I was sure we could make them work despite the downturn.

A change in strategic direction was already under way, described by current chairman Derek Hunt-Davies as a "re-orientation from import replacement to outward-looking world competitiveness. Job certainly does not want to get out of commodity chemicals entirely. With the world market firming that part of the business is looking increasingly attractive. And commodity-based exporters' shares are in vogue on the JSE."

But with Sentrachem's advanced technological ability — Job likens chemical beneficiation to having a Lego set, where his scientists put molecules together to try to create something useful — the potential for developing niche chemicals is great.

Sentrachem has targeted sourcing 25% of its turnover from exports. Job says the contribution from exports will rise this year — the 23% target should be attained in about three years, he believes.

The export drive will be strengthened by the recent acquisition of agricultural chemical company Farm-Ag, bringing in Sasolchem, previously 50%-held.

Sasolchem is a valuable exporter of agricultural chemicals. About two-thirds of its turnover of R430m is exported, which in turn accounts for about half of Sentrachem's export earnings. The acquisition was only effective from September so this year Sentrachem will receive the full ben-

THE MARKET RATING

Share price (c)	1990	1991	1992	1993	1994
Sentrachem	1500	1300	1100	900	700
Sentrachem vs Industrial Index	0.34	0.30	0.26	0.22	0.19
1990	0.17	0.15	0.13	0.11	0.11
1991	0.15	0.13	0.11	0.11	0.11
1992	0.13	0.11	0.11	0.11	0.11
1993	0.11	0.11	0.11	0.11	0.11
1994	0.11	0.11	0.11	0.11	0.11

efit of Sasolchem's contribution. Despite an additional 20m shares being issued for the acquisition, Kennelly says the net effect on earnings will be positive. Sentrachem has also been primed to make all parts of the business competitive. Anything that could not stand on its own has been scaled down or cut out.

Over the past year, NCP, the traditional core of the group and in financial 1993 the largest contributor to turnover and pre-tax profit, has been the focus of sizing down. This included closing NCP's distillery in Germiston with alcohol production now only in Durban and 500 retrenchments.

For the past three to four years, profitability at NCP was continuously eroded. Competition, particularly from overseas was increasing to the point where parts of NCP couldn't compete, says Job.

Rationalisation also hit Sentrachem. Sandton head office cutting R5m from costs showing savings will be made where possible and no business is immune.

"The refocusing and rationalisation are part of what I call the migration of our business. We have to close some plants that served us so well under the old economic order while we build new plants that take account of the new economic order. It has happened in several other industries."

Restructuring extends to the balance sheet. Debt was high something Job says is not unusual for a chemicals group, but he learnt that it was impairing investor perceptions and the share's rating.

A rights issue two years ago was cancelled after negotiations to buy Australian company Chemplex fell through but it signalled strong shareholder support for a cash call. Sentrachem held a R289m rights issue early this year using the funds primarily to reduce debt. This left negligible gearing and stronger interest cover. It has improved investor perceptions.

The stronger balance sheet with improved profitability and prospects puts Sentrachem in a prime position for further acquisitions. A foreign target seems likely. Sentrachem has opened offices abroad and is revealing what it deemed prudent to keep under wraps during sanctions.

The Gatt agreement, whereby tariff protection will be reduced to 10% over a seven-year period, is an issue Sentrachem will have to face. In some activities it receives considerable protection. Job says the phasing-in period affords space to deal with the issue. "If we want to be an international player, we have to be flexible and reduced import protection is just one of the variables facing us. We are relaxed about lower tariffs but initially they could affect earnings and result in higher tax as Geis is reduced."

This appears to be one of the few hurdles in an otherwise vastly better outlook. Apart from improving markets the share will continue to benefit from its stronger balance sheet. Interest payments should continue to decline, while the weakening rand and growing export profile add attraction to the share. And it carries less uncertainty than the oil companies do.

Stronger earnings growth has been partly discounted in the price. The share appears expensive but the potential for Sentrachem to fly during the chemical price upturn is considerable.



PRIVATISATION

Creating new horizons

Only the best will attract foreign funds

Privatisation has apparently been off SA's economic agenda since 1990. Now it is reappearing in the political lexicon and it is less a question of whether State assets will be sold but which

The move will have to be a bold one — a few portfolio disposals will be pointless and loss-making organisations will attract no interest. If the process is to draw meaningful foreign investment, nothing but the best will do. Richard Collier, of London merchant bank NM Rothschild & Sons, says "International investment demand is focused on utilities which are low-risk with good cash flows. If SA wants a programme to succeed, its first privatisation must be a success. This will probably involve one of its more successful parastatals."

Unfortunately, public utilities remain politically sensitive issues in a country where, till recently, nationalisation of private assets was still a subject of debate. But, given the huge benefits to be derived from their sale, government and its advisers must be looking at ways to make such a move politically palatable to supporters.

Privatisation started on a large scale in the Eighties, when the credibility of economic intervention by government was at a low ebb internationally, and the State's large share of GDP came increasingly under fire.

The reason behind the sale of State companies is that efficiency is greatest when it is directly measurable by the bottom line. Organisations whose mistakes are funded by the taxpayer can afford to make them. But organisations financed by the private sector have to account regularly and relatively transparently to shareholders for their performance.

Another reason for promoting privatisation is that it spreads share ownership widely, giving more people an appreciation of how capitalism generates wealth. The idea originated with the Thatcher government which came to power in the UK in 1979. It proved so successful it was taken up by other industrialised countries and many in the emerging world.

In the UK, about two-thirds of formerly State-owned industries had been privatised by the 1992 general election. And, in the same year, the World Bank published a systematic study of quantifiable evidence of the outcome of 12 privatisations in four countries — Chile, Malaysia, Mexico and the UK — in 1984-1988.

It said the newly privatised companies enjoyed significant gains — apart from Mexicana Airlines. On average their annual sales were 26% higher than they had been and, in more than half, annual gains ex-

ceeded 10%. One of the reasons cited was greater investment, which allowed companies to increase capacity substantially.

But there were those who remained dubious about benefits to the less privileged section of society, they preferred a quicker route to what they felt would be a more equitable distribution of wealth.

However, recent international developments have shifted perspectives. The failure of economies which nationalised and the success of those which privatised presented an object lesson. And SA's emerging leaders seem to be among those reconsidering options for spreading prosperity. Second thoughts on the subject are being assisted by two immediately pressing arguments in favour of privatisation.

One is the need to reduce public debt and its crippling interest burden. Economist Edward Osborn notes that total debt of government (excluding liabilities relating to forex losses) rose from R145,7bn to R189,9bn in the fiscal year 1993-1994 — from 40,2% of GDP to 46,7%. The cost of servicing this debt amounts to 5% of GDP and will rise even higher, given higher interest rates and further borrowing.

The second immediate incentive is that it could bring in direct foreign investment. Mark Katzenellenbogen, director of London-based SG Warburg and head of its recently opened Johannesburg office, says "SA has a very attractive portfolio of well-run and well-funded assets. Telkom, Eskom, and most of Transnet (if you put the pension fund to one side) and Denel come immediately to mind." Collier has a similar list, though he excludes Denel on the grounds that institutional investment demand for arms manufacturers has fallen.

The reluctance to part with these assets may be overcome by the need to fill two deficits: the one in the national budget and an emerging shortfall on the current account. By reducing public debt, and hence the interest bill, the proceeds of privatisation could free huge sums of government revenue to fund reconstruction and development projects. And, by bringing in long-term foreign funds, privatisation could provide leeway in the balance of payments. We can look forward then to expansions that don't self-destruct the moment the current account runs into deficit.

With this prospect already threatening the still tentative recovery, foreign direct investment is likely to prove a powerful incentive to a government obliged to build a new SA while the aftermath of the old is still absorbing resources.

The first intimation that privatisation could form part of ANC economic strategy

came in a carefully worded statement in a policy document published in 1992. Referring to growth and development, it spoke of "assessing the balance of the evidence in restructuring the public sector."

So the State would not only consider "increasing the public sector in strategic areas" but look at "reducing the public sector in certain areas in ways that will enhance efficiency, advance affirmative action and empower the historically disadvantaged." Here was the important concession: the process could empower people. And the idea has been taking root.

In the past three months, both Public Enterprises Minister Stella Sigcau and Deputy Finance Minister Alec Erwin, among others, have raised it.

Clearly, much has still to be decided. There are a number of ways in which privatisation could proceed, says Collier, and adds "Government could sell a percentage of its holdings in a company over years through public offerings."

"It could dispose outright of an asset to a third party. Or it could introduce a strategic partner in the creation of a joint venture. The partner could bring technical expertise and knowledge of international markets. This could facilitate the achievement of the RDP."

Katzenellenbogen believes SA will not follow the classic path of privatisation, as implemented in the UK. "I believe you will need an approach that is peculiarly South African. I'm not even sure that privatisation will be the right word for it."

The change in vocabulary, he says, is not a question of semantics. "Any scheme people come up with will have to take real cognisance of the disadvantaged communities here. There will have to be linkages with the RDP, with black empowerment and with the provision of utilities to people who don't have them. You will have to look for solutions in that context."

By whatever name it is called, he believes the process should be smoother than in the formerly communist Eastern bloc because "in SA the companies have a much more commercial basis."

A complete list of State assets is not readily available, says Eugene van Rensburg, chairman of the Policy Unit for Public Enterprises. Six companies, worth about R100bn, fall under the Public Enterprises umbrella, he says: Eskom, Transnet, Denel, a spin-off from Armscor, Alexcor, an alluvial diamond mining company, Aventura, which runs a chain of holiday resorts, and Safcol, a forestry company.

Mossgas, Soekor, the Atomic Energy Corp and the Central Energy Fund now

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operate under the Department of Mineral & Energy Affairs. These are never mentioned as attractive targets.

The Industrial Development Corp and phosphate producer Foscor fall under Trade & Industry. The Airport Co, which owns the State's nine airports, the Air Traffic & Navigation Services and the Commuter Corp fall under the Department of Transport while abattoir utility Abacor, the Land Bank and the agricultural control boards fall under the Department of Agriculture. Water boards come under the Department of Water Affairs; they are statutory bodies funded by government-guaranteed loans and their trading revenue.

A number of services performed by government departments were privatised over a period. The White Paper on the subject, published in 1988, listed a range from transport for schoolchildren, the attorney and advocate services, management at sawmills and preparation of study material and manuals.

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The first major privatisation was in 1979 — when 70% of Sasol, previously wholly owned by the Industrial Development Corp, was sold to finance Sasols 2 and 3. The IDC, an arm of government, has subsequently reduced its stake to 10%.

In 1988 government committed itself to a privatisation programme but decided to initiate commercialisation programmes first to make their assets more attractive. In 1989, steel producer Iscor was privatised. The issue was more than four times oversubscribed and it raised R3,7bn. A stake of 16% was retained by the Industrial Development Corp. (232)

The last privatisation was in July 1990, when National Sorghum Breweries was sold privately by the Industrial Development Corp to consumers, employees and distributors.

In the light of negotiations that were started in February of that year, between the former Nationalist government and extraparliamentary opposition, further pri-

vatation plans were suspended.

However, in the past three years, the IDC has sold R4bn of its equity investments to fund a five-year programme. "We have undertaken to find R10bn to create projects worth R30bn. In the third year of our five years we have reached that target," says MD Carel van der Merwe.

While the sale of certain State assets now appears highly likely, the controversial issue is the fate of the real jewels in the crown — the public utilities.

The hard truth is that no-one wants loss-makers. Few people are interested in companies which perform moderately. Only the most promising companies will attract the quantity and quality of investment SA needs. So government will have to do more than dip a toe in the water with the sale of some minor assets.

It will have to emulate much of the rest of the world and make a determined move to modernise SA's commercial and industrial horizons. ■

Oceana Fishing lifts earnings 17%

Stur 28/10/94

■ BY CHARLOTTE MATHEWS

Oceana Fishing, which is nearly 70 percent-held by Tiger Oats, managed a 17 percent rise in attributable profits to R27,9 million in the year to September, against the same period in 1993.

Although turnover was 25 percent better at R454,4 million and operating profit rose 16 percent to R48,6 million, income from investments was nearly half its 1993 level thanks to lower interest rates and reduced cash reserves.

As a result, pre-tax profit was only 5 percent higher at R53,3 million, but was aided by the lower tax rate at 43 percent from 46 percent.

On a slightly higher number of shares in issue, earnings were 16 percent higher than last year at 290,5c

An extraordinary item of R17,7 million, compared with 1993's R1,2 million, was shown, arising from goodwill written

off on the acquisition of the remaining 40 percent of Commercial Cold Storage.

The total dividend is 171c (156c), showing dividend cover up to 1,7 times from 1,6 times.

Oceana directors say the decision to increase the dividend cover was made because of the Commercial Cold Storage acquisition and increased capital expenditure

MD Dave Behrens says the lobster, canning and trading operations showed better results. (156) 230

The company landed its fishing quotas in full, but made a loss in the fish meal and oil operations owing to the low anchovy total allowable catch.

Reduced occupancy levels meant that profits in the cold storage division were lower than in 1993.

A satisfactory increase in earnings in the current year is expected, provided fishing quotas next year are similar to those of the 1994 season

Interleisure group sees good growth in the year ahead

Star 28/10/94

■ BY CHARLOTTE MATHEWS

Ongoing expansion of the Ster-Kinekor chain, together with a promising line-up of good films, should produce strong growth in the core business of the Interleisure group in the coming year, says chairman Peet van der Walt the annual report.

Other group activities are expected to show a reasonable growth in revenue and earnings, although this could be affected by the draft regulations on tobacco advertising if they are passed in their present form.

The board of Interleisure is making representations that regulations should restrict rather than deny cigarette companies the right to advertise.

Interleisure, whose majority shareholders are ultimately Servgro and Kersaf Investments, has five main divisions — Ster Kinekor film distribution, Ster Kinekor video distribution, Toron International film and TV production, advance ticket selling business Computicket and Cinemark cinema advertising.

In the year to June the group reported attributable earnings up 6 percent to R37,1 million from R35,2 million in 1993, equivalent to earnings of 19,6c (18,5c) a share. The dividend was held at 11c.

Van der Walt said the incidence of urban crime remained high, making consumers reluctant to go out at night, thereby hitting Interleisure's business, which was focused on activities away from home.

"The early indication of a pick-up in the economy will not translate into a sustainable period of growth unless the safety of people, both at home and away from home, is given priority."

Ster Kinekor films attracted

17,8 million people in the year to June, against 16,7 million the previous year.

In the current year it intends adding 32 new screens in six developments, including 15 at Sandton.

Prospects for Toron International in the coming year would be heavily influenced by the outcome of deliberations under way that would change the face of broadcasting in regulating both existing broadcasters and new entrants.

Although Ster-Kinekor Home Video had declined because of the introduction of Sunday film screenings, the merger with Daru Home Video in May and aggressive marketing had led to a resurgence of business.

The chain has begun investigating the multi-media opportunities presented for home entertainment by advances in technology. (232) (232)

Cinemark is only expected to benefit from a resurgence in advertising revenue in the second half of 1994, but in anticipation of an upswing in the economy it has expanded its marketing and sales team.

The entry into SA of international brands such as Pepsi, Kodak, Nike and Reebok is also positive because these are natural screen advertisers.

Computicket's prospects are positive and good revenue growth is expected as foreign performers resume their visits, consumer confidence and spending increase and the company benefits from reduced costs.

Negotiations to sell its remaining food brands are at an advanced stage.

Without an investment in food, Interleisure's resources will be focused on its cinema operations and it will have more flexibility to select food operators for its JunXion centres.

Omni Media weighs options

Star 28/10/94

■ BY CHARLOTTE MATHEWS

Omni Media, formerly Argus Holdings, is examining various options to create a broader shareholder constituency for its publishing interests, says JCI finance director Vaughan Bray

Bray was responding yesterday to a query about plans for Times Media. Omni Media recently bought JCI's 23.6 per cent holding in Times Media.

In tandem with the purchase, Omni Media made an offer to the other Times Media shareholders to swap 110 Omni Media shares for every 100 Times Media shares held.

Bray said in August if there was a high level of acceptances, which would dilute minority holdings to a small percentage, the possibility of listing Times Media's print and electronic interests separately would be explored.

As result of the offer to shareholders, Omni Media now owned about 92 per cent of Times Media, Bray said yesterday.

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DUROLINK/WMB

New links

London-based West Merchant Bank (WMB) has increased its 30% stake in SA transacting house DuroLink to 50% (The remainder of the shares are owned by management) WMB has also opened a representative office in Sandton

WMB has always had a close association with SA. It was formerly Standard Chartered Merchant Bank. In 1990, WMB's major shareholder, Westdeutsche Landesbank acquired a 50% interest in Standard Chartered, it acquired the rest of the shares in 1993. WMB was one of the few international banks which took a stake in SA early in the period of political negotiation, in 1992 it bought 15% in DuroLink and in 1993 raised this to 30%.

WMB DuroLink, as the SA company is now known, focuses on structured and corporate finance transactions where it has found a niche in cross-border transactions. Last year, DuroLink raised over R2bn in the market for its clients; WMB DuroLink MD Michael Bolton expects this figure to double in 1994.

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DuroLink has a strong corporate client base and has also been involved in raising finance for the public sector. **(232)**

"The WMB connection allows us to tie up with an international network," says Bolton. "Raising debt and equity internationally will become more important for our clients."

WMB DuroLink will be able to use WMB's expertise in securitisation and privatisation. WMB has been involved in privatisation programmes in east Germany, Russia, the Ukraine and South America.

WMB director Bill Blyth has been seconded to DuroLink to help develop cross-border transactions for SA clients.

WMB has capital of £87m, assets of £3bn and is 75% owned by Westdeutsche Landesbank, Germany's third largest bank and 25% by Sudwestdeutsche Landesbank. WMB has 19 representative offices and branches worldwide.

WMB was looking for a business in SA. "DuroLink offered us the advisory capacity we were looking for," says WMB MD Jonathan Pearson. "A representative office wouldn't have given us the same impact on the SA and African markets."

WMB's rep office, which it opened on Wednesday, will be involved only in trad-

ing. WMB has been a market maker in SA gilts and semi-gilts for around six years and has been active in trading PIC and second interim debt. It is also a market maker in the finrand and commercial rand. "We needed to be closer to the market so have opened a rep office." Trading activities will be carried out on the back of WMB's balance sheet.

WMB DuroLink has opened an office in Zimbabwe. "We see our role as being to find avenues for SA companies to invest in Africa and vice versa," Bolton says. ■

Searle to maintain prudent dividend cover to cut gearing

CAPE TOWN — Clothing, electronics and toy group Searle budgeted a 12,5% increase in earnings to 135c a share in the year to June 1995 and planned to maintain prudent dividend cover to reduce gearing further, chairman Aaron Searle said in the annual report.

The earnings growth forecast was substantially lower than that reported in the year to June 1994, when earnings rocketed 85,4% to 120c a share. The past financial year's results far surpassed Searle's earlier predictions. The current cost income statement — which adjusts earnings to take inflation into account — reported earnings at 70c a share at year-end.

Searle forecast turnover to rise 16,6% to R1,4bn in 1995, pre-tax income to R46m from R41m and the dividend to 27c (24c).

The group's financial gearing ratio was reduced to 49% (62%), with interest bearing debt of R100m compared with total assets of R553m. The total debt to equity ratio fell to 164% (177%), with a further improvement dependent on the economic upturn continuing.

Searle said certain textiles were in short supply. Because of high duties it was not possible to substitute these with imported fabrics and government should allow these fabrics to be imported under rebate of duty until the local industry was able to supply

at normal levels.

He said the clothing industry was also concerned at the recent request by Zimbabwe for preferential access for clothing and textiles into the SA market. This was perceived as opening a conduit through which textiles imported into Zimbabwe could be processed and exported to SA to the detriment of local manufacturers.

The industry was also "gravely" concerned about the apparent inability of customs and excise to police import duty regulations. And in spite of numerous requests, government had not responded to calls for clarity on export incentives from April next year.

GEIS allowances were made taxable and the duty credit certificate scheme was in place only until March 1995. Searle said exporters needed incentives to be extended on an ad hoc basis for a minimum of one year until a long-term programme was in place, as manufacturers needed to sell nine months forward.

On the group's prospects he said the economy's favourable response to political transition should allow real earnings growth this year. Business and consumer confidence was on an upward trend, boding well for SA in the medium term.

Edward West
3/10/94

By Day
**R36m offer
from Laser**
3/10/94

EDWARD WEST

CAPE TOWN — Road freight group Laser Transport has announced a R36m rights offer to pursue acquisition opportunities and reduce non-property related gearing, the company said on Friday.

Eighty new Laser shares would be issued for every 100 shares held at an issue price of 450c a share. The offer comes on the heels of last year's acquisition of Mainline Carriers and Dolphins' Transport.

The share was untraded at 450c on Friday, off its high of 485c in June. Friday's share price was double that of a year before, in line with the group's rapid earnings increase which, in the interim period to end June, amounted to 40,2c a share (18c). *332*

The rights issue was underwritten by Fedlife Capital Fund. Investec Merchant Bank and Metropolitan Life each agreed to take an equity share. "The collective institutional support places Laser in an excellent position to grow," a spokesman for the institutional investors said. *232*

The company operates in all sectors of the transport business, from refrigerated transport to machine moving and general freight.

Conshu earnings benefit from rocketing exports

BIDON 3/11/1994
YURI THUMBRAN

SA BREWERIES-controlled shoe manufacturer Conshu Holdings lifted earnings 8,5% to R16,6m for the half year to September on the back of increased exports.

Exports soared 53%, notching up R19,9m in sales for the company. Overall, turnover rose more than 16% to R337,4m as demand improved considerably in the second quarter of the six-month period.

The tax bill, at R9,8m, was slightly down from the previous six-month period.

Earnings a share rose 8,2% to 35,5c for a dividend of 12c (11c). Profit growth had been inhibited by "excessive" leather price increases, the company said in its comments on the results.

The company also sold its 60% interest in Olympic Footwear for R14,4m which generated a surplus of R2,5m from the sale of operating assets. (232) (121)

It noted that debt was reduced to only 29% of shareholders' funds. There was a fall of more than 17% in financing costs.

Chairman Laurie van der Walt said the six months under review had been characterised by two quarters of significantly different trading profiles.

The first quarter — the run-up to the election and the election itself — had been "severely" affected by hesitant retailer and consumer demand.

Van der Walt also mentioned the abnormal number of holidays.

However, buoyant trading conditions in the second quarter resulted in improved earnings.

Van der Walt predicted that consumer demand would not show a significant improvement during the remainder of the financial year.

He said, however, that trading conditions were expected to support a satisfactory increase in earnings for the year as a whole.

Saficon trebles earnings in spite of motor strike

MICK COLLINS

MOTOR retailer and building products group Saficon more than trebled earnings to R18,2m for the six months to June despite the motor industry strike.

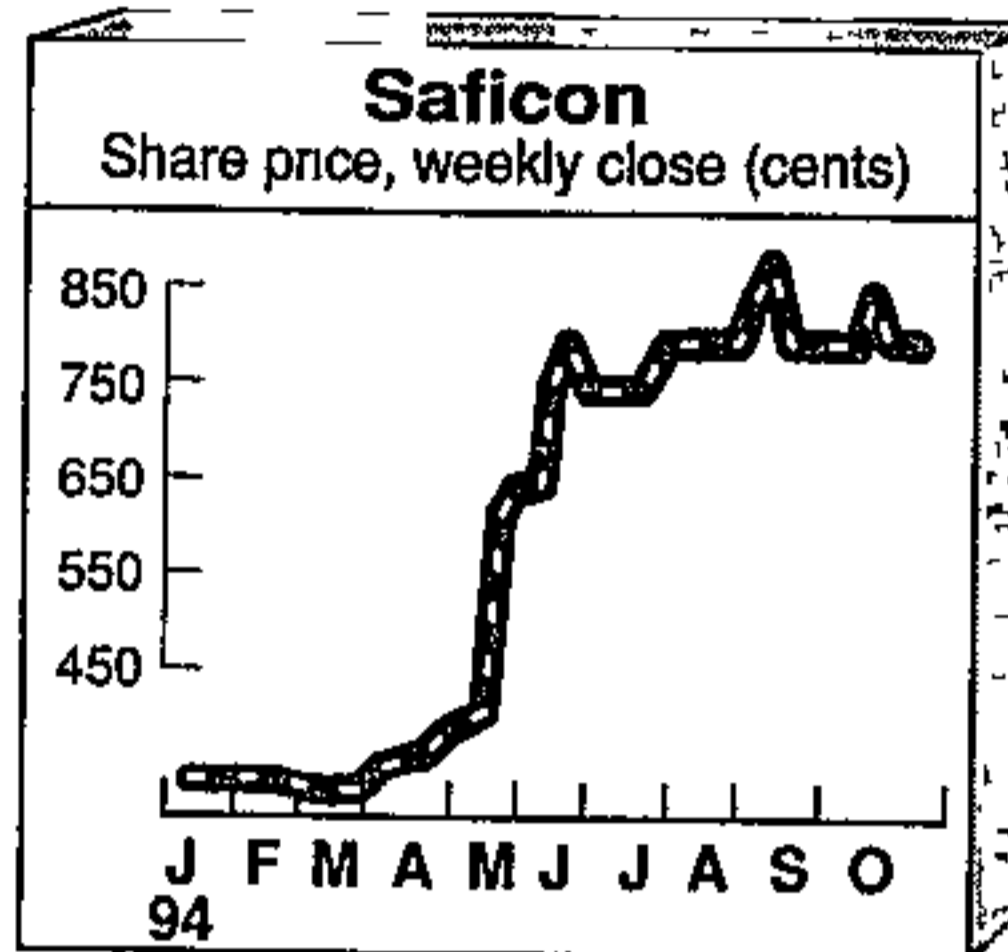
Group turnover increased 18,4% to R1,7bn, mainly on the back of the introduction of the Mercedes-Benz C class model and aggressive selling of all models. A significant contribution was also made by building materials subsidiary Boumat.

Operating margins remained constant, but by containing increases in overheads across the group, Saficon more than doubled operating profit to R54,6m. Earnings a share rose to 51c (14c).

After a two-year suspension, the group resumed paying an interim dividend, and a payout of 8c was declared.

Pre-tax profit rose 276% to R39,7m and after a tax payout of R16m (R4,2m), after-tax profit nearly quadrupled to R23,6m (R6,4m).

Chairman Sidney Borsook said the results were achieved despite the adverse impact on trading during the elections period and the negative ef-



fect of the motor industry strike. He added that tight cost control by management was also responsible for the improved results. "Aggressive selling and strict financial discipline carried over from our reconstruction helped enormously."

Both the motor and building industries had started to show positive growth, and trading conditions had been much better than in the previous interim period. (22) (232)

The good results achieved by Boumat relative to the rest of the group resulted in a substantial increase in the share of earnings attributable to outside shareholders, notwithstanding the increase in the number of

Boumat shares held by Saficon during the period.

Borsook expected the supply of new vehicles to improve during the second half of the year.

He said he was confident the group would double first-half results over the full year. "Higher volumes, constant margins and lower costs — that's the answer," Borsook said.

CE Kurt Hipper said vehicle sales had improved in real terms and extra volumes were sold to elections personnel. "All of the vehicles were returned and were sold off as second-hand stock which also helped results," he said.

Other areas where the group made inroads included the second-hand car market, which made a bigger contribution to profit.

Hipper said the company had regained some market share and the division had shown a considerable recovery "from where we were".

Sakers Finance and Investment Corporation, which derives its income solely from its 50,4% holding in Saficon, reported earnings a share of 87c (23c) and an interim dividend of 13c (nil) was declared.

Unbundling companies to get tax relief

Own Correspondent

FISCAL relief will be given to companies intending to unbundle, according to proposed amendments to the Revenue Act.

Commissioner for Inland Revenue Trevor van Heerden told the parliamentary joint select committee on finance yesterday that the relief would apply only to listed companies at this stage.

It is believed, the major JCI unbundling, which will see the forma-

tion of a R6bn black-controlled company, was waiting for these taxation changes to take place before going ahead.

Van Heerden said his department would do everything it could to get the amendments approved by Parliament before the end of the year.

According to the amendments, which are intended to "facilitate the rationalisation of groups of companies", duty on the transfer of shares and transfer duty on fixed

property would not be subject to Value Added Tax **CT 2/11/94**

Furthermore, exemptions would be given for dividends paid to non-resident shareholders while the transfer of assets could be undertaken at tax value.

In order to qualify for relief, companies must demonstrate they are rationalising to effect administrative or operational savings, furthering the activities of the group as a whole by, for instance, breaking up

divisions into separate companies, or "effecting an unbundling transaction".

The underlying motive for the amendments was to encourage unbundling and the "spread of ownership", Van Heerden said.

He added that Commission officials could not cope with unlisted companies as well listed ones at this stage but that the provisions would be extended to unlisted companies

in the future.

Inland Revenue legal drafting director Ian Meiklejohn told the committee yesterday profit/loss assessments on long-term forward exchange contracts would be postponed until expiry, according to proposed amendments to the Income Tax Act.

This was in line with Generally-Accepted Accounting Principals that liabilities should be matched with profits

Imperial continues its buying spree

TRANSPORT, vehicle rental, motor and finance services group Imperial yesterday announced it had bought four companies for a total of R110m, continuing a spate of acquisitions which last year amounted to R51m

In its latest buying spree, Imperial has bagged road transport group Highway Carriers for R62,75m through associate road transport company Longrail, in which it had a 49% stake. Imperial said it had contributed R50m, and had increased its stake in Longrail to 65%

It has also bought motor dealership chain Intercity for R16,7m, 49% of truck manufacturer Tyco for R17,6m and 67% of Lombard's Transport for R12m

All the acquisitions — which would make Imperial's transport operations the largest of its kind in SA —

B/Day 31/1/94
MUNGO SOGGOT

will be funded by the issue of paper Chairman Bill Lynch said the acquisitions would have lifted earnings 6,6% for the year to June The group posted earnings 31% up at R70,7m for that period Its price earnings ratio is 29.9. Shareholders' funds rose to R584m (R268m), and debt fell to R19m from R122m, despite gross assets rising to R934m (R718m)

He said the acquisitions would add about R500m to the group's turnover and R180m to gross assets

Lynch said Imperial's share in Tyco had been bought as an investment for Regent Life Assurance Company

Lynch said the group had no other acquisitions on the cards, but the SA transport sector was very fragment-

ed, which meant Imperial would always be on the look-out All Imperial's operations were experiencing "satisfactory trading conditions"

Yesterday the share closed unchanged at R23 ahead of the announcement It touched a high of R25 on August 11 and a low of R12 on November 11 1993

Longrail today reported a 16% jump in earnings a share to 5c for the six months to August Turnover was up 10% at R47,9m

MD Marius Els said the company, which was now a subsidiary of Imperial, had profited from a healthy demand for transport services, but had been hit by low business activity and labour disruptions in April

He said Longrail had invested in new vehicles and further investment would follow

Good demand to aid of Afcol

Star 3/11/94
■ BY CHARLOTTE MATHEWS

A surge in sales in the second quarter of the financial year, following a subdued first quarter, helped Associated Furniture Companies (Afcol) improve attributable profit by 35 percent to R23,1 million in the six months to September.

The SA Breweries subsidiary grew sales by R82 million to R516 million, but trading profit surged even faster, by 36 percent to R31,1 million.

Increased sales placed heavier demands on working capital, which lifted by R54,6 million and contributed to interest-bearing debt of R60,9 (R26,2) million and a R4,2 (R2,9) million interest bill.

The tax rate also rose slightly to 34 percent from 32 percent. These factors were partly offset by higher equity-accounted retained earnings at R2,6 (R1,6) million.

Afcol chairman Laurie van der Watt said yesterday the temporary rise in working capital had been comfortably accommodated within group debt capacity and gearing was only 17 percent at end-September.

Earnings were 32 percent better at 92c (69,6c) a share on which capitalisation shares or an interim dividend of 46c (35c) is being paid declared.

If the recovery continues, and based on the strength of Afcol's current order book, satisfactory sales and earnings growth should be maintained in the second part of the year. Van der Watt said (232)

At its current price of R28,50, the share is nearly treble its level of a year ago, in line with a more positive outlook for the furniture sector on plans for new housing and increased consumer durables spending.

But its rating at 17,8 is appropriate for the sector and further price advances are unlikely to be as dramatic as in the past year.

Privatisation policy spelt out

Political Staff

DEPUTY President Thabo Mbeki yesterday spelt out the government's attitude towards privatisation which has been included in recently-announced "belt-tightening" measures

In answer to a question in the National Assembly from ANC MP Mr Johnny de Lange, Mr Mbeki said the government was under-

taking a complete audit of all state assets (232)

These assets represented an extremely wide range of items from a tea plantation and a diamond mine to a nuclear power facility. They also included porcelain dishes and silver cutlery, he jested CT 3/11/94

Once the audit had been completed, and it could be verified where each asset was and what it

was doing, they could be assessed against the objectives of the reconstruction and development programme

Assets that were extraneous to the aims of the RDP would then be disposed of to reduce public debt, Mr Mbeki said

Discussions on the state of assets and their relevance to the RDP would be entered into once the audit had been completed, said Mr Mbeki

Amrel fights back from loss to profit

Star 4/11/94

■ BY CHARLOTTE MATHEWS

Furniture and apparel group Amrel fought its way to a R1,5 million attributable profit in the six months to September from a R7,9 million loss in the same period in 1993 on the back of improved trading results and lower finance charges

Turnover grew 11 percent to R595,9 million after the closure of about 40 stores, mainly in the footwear and apparel division.

Amrel MD Stan Berger said yesterday parts of the apparel division were profitable and a lot that was unprofitable was showing signs of improvement

The furniture division contributed nearly two-thirds of group turnover and grew sales by 15 percent on only one extra store

The group now has about 860 stores and intends to maintain this level.

Trading profit rose 42 percent to R28,6 million, boosted by an R8 million drop in interest charges to R25,3 million after a successful R150 million rights issue in September

This helped bring gearing down to 113 percent from 350

percent at the same time in 1993. Management has now set the maximum gearing level at 130 percent

Earnings a share rose to 15,2c from a loss of 86,5c a share in 1993

No dividend is being paid because the group has amended its policy to an annual declaration at year-end, which will be based on dividend cover of four times (232)

Berger said there had been a resurgence of consumer demand after the election in April, but more recently the transitional levy and labour disruptions had hit disposable income. Reduced levels of violence had ensured a more stable trading environment

Capital expenditure of R30 million has been budgeted for the year, which includes ongoing refurbishment of stores and upgrading technology, with improvements in merchandising, stock and debtors. A new in-store card in conjunction with Nedbank is being phased in

Traditionally, the second half of Amrel's financial year contributed about two-thirds of profits and this should enable it to show further improvement in earnings, Berger said

Seardel to list Sharp operation

CAPE TOWN — The Seardel group is to list its Sharp electronics consumables operation Seartec on December 1 to enable the division to pursue its own investment strategies and to reduce group gearing, chairman Aaron Searll said.

Seardel would retain 75% of Seartec's 60-million shares in issue, while about 15-million shares would be available to existing shareholders by way of a rights issue on a 65-for-100 basis

Renounceable letters of allocation

8/Day 4/11/94
EDWARD WEST

would be listed on November 7

In the past financial year to end-June, Seartec's turnover was R186m, with taxed profit at R9,8m. (232) (232)

The R1,75 issue price was based on a forward price-earnings ratio of 10,7 times, which compared favourably with the price-to-earnings ratio for the electronics and retail sectors. Most of Seartec's products were imported from Japan



Anglovaal's Hersov .. family hands on the tiller

Menell, whose hands have never left the tiller, for decades, Rand Mines was managed and run by professional managers. Anglovaal strides forward with confidence; Rand Mines is about to be interred.

The company has returned good results for financial 1994: turnover rose 17% to almost R10bn; operating profit increased 13% to R814m. The tax bill fell marginally and the bottom line is EPS of 567c, up 16,7% or 81c on 1993.

Unhappily for shareholders, the dividend rises only 18c to 123c, cover has been maintained at 4,6 times. This is high and I commented unfavourably about it last year. Some observers have sprung to Anglovaal's defence: the group is driven to this policy, they say, if it is to continue its growth pattern without a heavy recourse to borrowings.

Borrowings currently total R699m (of which short-term is R321m); deposits and cash stand at R1,6bn, so the net position is a positive R899m and all predicated on the back of shareholders' interests of R5,7bn and a market cap approaching R10bn. In the circumstances, continued restraint on dividends appears mean. However, the innate strength of the company goes some way to explaining the extraordinary success of a private placing overseas of a little more than R300m N ords (limited voting rights), the offer was 2,6 times over-subscribed.

The group must be examined from three perspectives: first, through its major industrial vehicle, Anglovaal Industries (AVI), second, through its mining operations; and, lastly, from the prospect of Anglovaal itself. AVI is, of course, an unqualified success story; for nine successive years, it has turned in real earnings growth. It has little debt (gearing of 14%), its return on capital employed is a healthy

14,2% and its contribution to parent Anglovaal in 1994 was R241,2m or 71% of earnings. These statistics speak of conspicuous success over a long period.

The group was founded on the basis of mining, a sector which now contributes only 25% to Anglovaal's earnings. However, it is the way in which the group is positioning itself which deserves comment. Middle Witwatersrand (MidWits), an investment holding company, is Anglovaal's primary vehicle.

MidWits owns Sun Prospecting, Sun holds mineral rights adjacent to and north of rights held by Target. What is unusual about Target is that exploration suggests the existence of a new mine, however, there are big risks in this game. Target is making use, therefore, of contiguous Loraine gold mine's shaft systems to explore and delineate the ore body further.

When that has been completed successfully, Anglovaal will be faced with the decision of turning Target into a full-blown mine, or soldiering on as a small, medium-sized operation. Assuming it decides on a new mine profile, then years down the line Target could be used as the vehicle to develop Sun, in the same way Loraine now provides assistance to Target.

That's not the end of it though, when (if) Sun becomes operational, the next move could be to bring Oribi to production using facilities developed for Sun (Oribi lies further north, around Bothaville). All this involves a time horizon of perhaps 50 years, it is certainly indicative of very long range planning by owner/managers and the same aspect occurs with MidWits's Slaaihoek project in the Eastern Transvaal, a nickel/copper/cobalt/platinum project.

Anglovaal's interest in diamonds is held mainly through Saturn Mining's stake in De

Beers-managed Venetia. For now, and given the Russian proclivity to damage the world diamond market, Venetia's ability to spin larger profits seems to be delayed. But once marketing stability is restored, the probability of super profits from this source is on the cards.

A reading of the market suggests that investors should see AVI as providing short-term opportunities. Anglovaal and MidWits provide long range vehicles for investment in SA's mineral potential.

David Gleason

ANGLOVAAL Long-range planning

Activities: Mining and industrial group
Control: Anglovaal Holdings 50,7% of voting ords
Chairman & MD: B E Hersov
Capital structure: 18m ords 45,8m "N" ords
 Market capitalisation R7,9bn

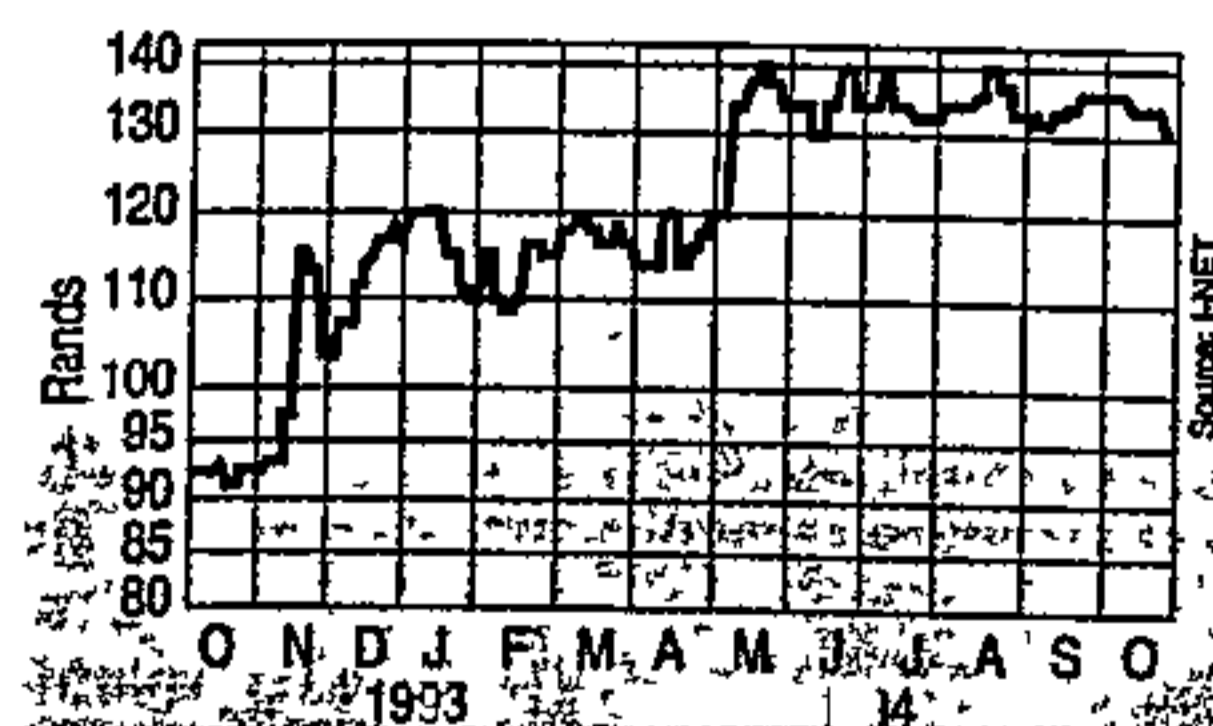
Share market: Price 13 000c ords 12 200c "N" ords
 Yields 1% on dividend, 4,6% on earnings, p/e ratio, 21,6, cover, 4,6 12-month high, 14 000c, low, 9 000c
 Trading volume last quarter, 1,3m "N" shares

Year to June 30	'91	'92	'93	'94
Investments				
Market value (Rm)	1 037	1 504	1 533	1 656
Performance				
Turnover (Rbn)	7,74	8,21	8,51	9,97
Invest income (Rm)	39,1	49,4	56,9	60,8
Attrib earnings (Rm)	285,1	277,7	293,1	342,2
Earnings (c)	478	464	486	567
Dividends (c)	92	100	105	123
Tangible NAV (c)	8 300	10 400	10 500	13 700

Among the essential elements of discovery in man's march across the millennia are the telescope and compass. Not surprisingly, they adorn the cover of Anglovaal's 1994 annual report, so underlining an important characteristic of this group. It is tightly managed, and its managers know where they are headed.

The parallel with Rand Mines highlights the difference. Anglovaal was founded in 1933, Rand Mines over a century ago. Anglovaal is comprehensively controlled by the two founding families, Hersov &

Anglovaal



Activities: Operates casino resorts, cinemas, restaurants, sports goods retailers, wholesales liquor and produces and distributes films

Control: Safren 76%

Chairman: D A Hawton

Capital structure: R2,7m ords Market capitalisation R3,10bn

Share market: Price 3 750c Yields 4,0% on dividend, 6,0% on earnings, p/e ratio, 16,7, cover, 1,5 12-month high, 5 300c, low, 3 100c Trading volume last quarter, 926 000 shares

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	33	117	88,8	62,7
LT debt (Rm)	140	249	449	467
Debt equity ratio	—	—	—	—
Shareholders' interest	0,57	0,84	0,63	0,68
Int & leasing cover	26,5	18,5	24,4	19,0
Return on cap (%)	22,2	19,1	15,3	14,4
Turnover (Rbn)	1,79	1,85	2,04	2,21
Pre-int profit (Rm)	558	447	534	571
Pre-int margin (%)	31,2	24,2	25,5	25,7
Earnings (c)	218	240	211	225
Dividends (c)	135	147	147	150
Tangible NAV (c)	926	1 150	1 181	1 543

though these have come under pressure.

The squeeze shows in Kersaf's June year-end results, which saw earnings rise 9% to R179m. Though compound growth in earnings has been just 8% over the past five years, Kersaf, like most companies, needs more settled politics and a booming economy before its growth is likely to return to the 30%-40% of previous years.

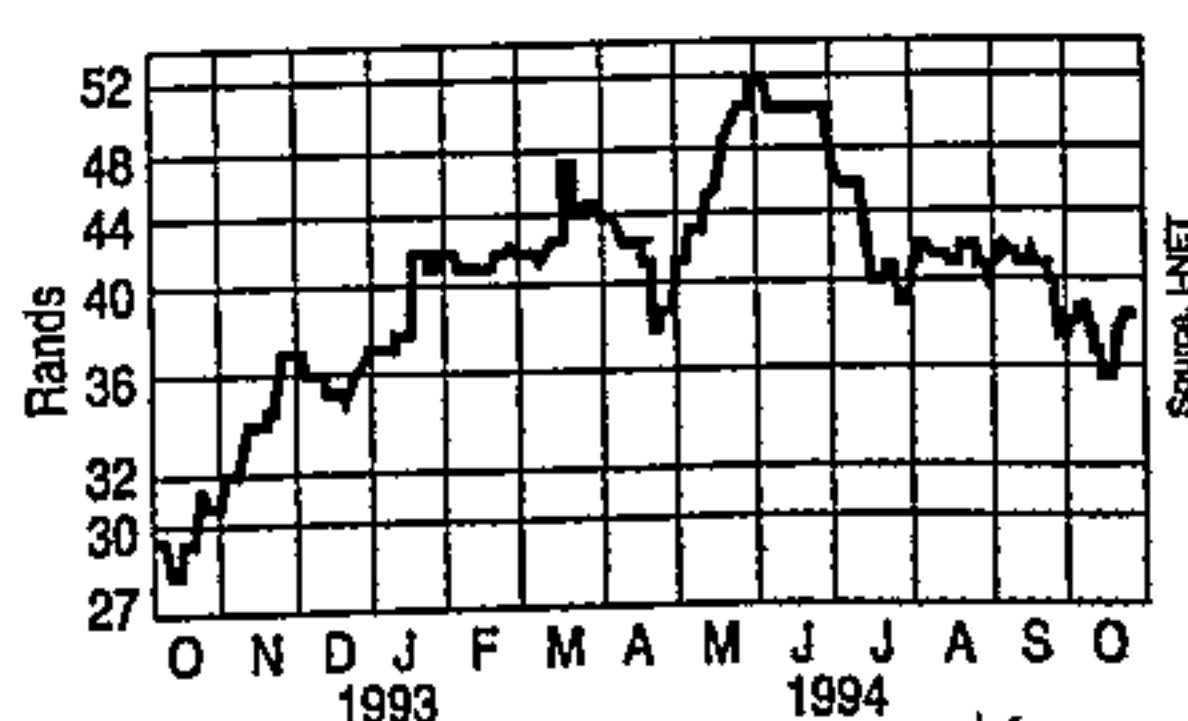
It operates exclusively in leisure, mostly in southern Africa, though it holds a stake in Royale Resorts. The main investment is in 80%-held Sun International.

Group turnover of R2,22bn was up 8%, with Sun International the prime contributor (72%), followed by Interleisure (16%, see separate article), City Lodge (only for six months, contributed 2%) and unlisted Douglas Green Bellingham (10%). Chairman Buddy Hawton says the boost to turnover from the inclusion of The Lost City for the full year, compared with only seven months in 1993, was partly offset by the disposal of certain businesses by Interleisure as well as a decline in volumes at Douglas Green Bellingham.

Operating profit of R597m was 6% higher. Margin was maintained through cost reduction and efficiencies in most areas. But a marginal increase in the effective tax rate and a 41% jump in net interest costs constrained the EPS advance. So did a 2% increase in issued capital on the acquisition of an interest in City Lodge.

Seen against capex of more than R1,5bn

Kersaf Investment



over the past three years, Kersaf's balance sheet is in good shape. Debt is similar to 1993, though gross gearing has improved at 20%. Cash of R699m more than offsets R530m debt. Kersaf appears to have the will and the means to continue expanding without placing strain on resources.

Behind the lacklustre growth is the performance of 32%-owned SunBop, which contributes 42% of Kersaf's attributable profit. SunBop's 1994 earnings rose just 3%, affected by socio-political unrest and the expansion of illegal casinos.

The performance of Transkei Sun, in which Kersaf holds an effective 43% interest, improved substantially. Turnover increased 21%, thanks to successful casino promotions rather than revenue from hotel occupancies, which remained at the previous year's sluggish levels. A 13% increase in the tax bill — reflecting the transition levy and the allowances on capital expenditures — was more than offset by the reduction in net interest expenses and the improved operating margin. Earnings were up 19% to R52m.

At Ciskei Sun, earnings increased 20% on turnover up 8%. The same cannot be said for contributions from Royale Resorts, which have fallen for two consecutive years to around R65m, and Douglas Green, which Hawton concedes made a loss during the year. Aside from the tough trading in the liquor market, Kersaf incurred one-off costs in restructuring its liquor interests.

With Sun International and the offshore interests expected to perform better, analysts are forecasting EPS growth of between 10% and 15% this year. That puts the counter on a prospective p/e of around 14,5 compared with SunBop's estimated forward p/e of 11,4. Investors who are bullish about the future performances of Interleisure and Kersaf's unlisted interests should make use of the price weakness and buy. *Marylou Greig*

KERSAF *Fm 4/11/94* Over the worst?

(232)
Movies are still, but only just, an affordable luxury and, surprisingly, so are trips to the tables of far-flung casino resorts.

COMPANIES

Fun 4/11/94
the detriment of the share rating.

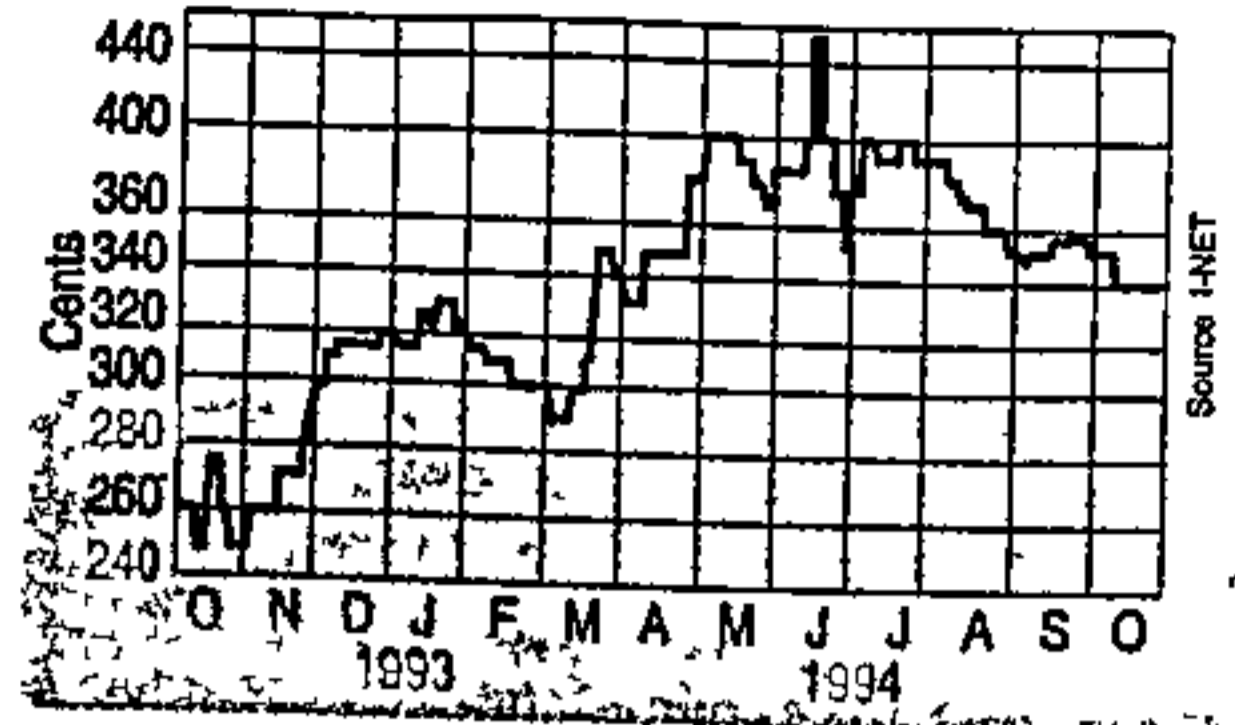
Something else that could be upsetting the market is the emphasis placed in the annual report on the effects of social unrest on results. In fact, cinema attendances over the past two years have increased by 31%. This led to a 13% improvement in "trading density" at each of the cinemas, notwithstanding expansion of the chain from 254 screens in 1992 to 293 now ~~(254)~~ (232).

Against this, the report tends to downplay the fact that the income statement has been under severe pressure because of the expansion programme, especially its effect on depreciation charges. These in 1994 increased by R6,5m and, over the past two years, have risen from 28% of total operating profit (including noncore activities) to 37%, fully accounting for the decline in operating profit over this period.

Fortunately, this phenomenon will abate once the expansion tails off. There may even be some relief this year owing to the agreement with Thebe Investment Corp, whereby cinemas in Black areas will be jointly developed and owned by Interleisure and Thebe's subsidiary, Moribo.

Though higher depreciation charges have flattened profits, there has not been the same carry over to cash flow — last year's gross figure of R73,4m was a record for the group and contributed to the improvement in the balance sheet.

Prospects of the group in its more narrowly focused form will depend more strongly than ever on something beyond its control — a steady supply of quality entertainment that will make people want to buy cinema tickets. As is obvious from attendance figures, it has had two good years in this regard, and chairman Peet van der Walt believes the current line-up is "promising," prompting him to forecast strong growth for the Ster-Kinekor chain this year. By itself, that should be enough to lift earnings, notwithstanding a possible ban on cigarette advertising.



Fun 4/11/94
Interleisure's decision to refocus on its core film and cinema activities has had the desired effect of improving market perceptions, as reflected in a 24% net gain in share price over the past year. However, its failure to hold its 1994 high of 450c, and the fact that the share, now 340c, is still rated at a significant discount to the market suggests also that the ghosts of the past may not entirely have been laid to rest.

Signals from the group itself are somewhat contradictory — or could be interpreted as such. While the annual report is brimming with enthusiasm about the new course that has been set, and with the balance sheet greatly strengthened by the sale of noncore assets, the decision to hold the dividend at 11c for the fourth year could be seen as being at odds with the premise that the restructuring will restore growth.

Purists would probably argue that even a token increase in the 1994 payout was not warranted by earnings which, though up 6% on 1993, were 10% off the 1991 high when the dividend was first raised to 11c. The counterargument would be that in 1991 the group did not hold net cash close to R3m; nor could it look forward to a further cash inflow as it completes its asset disposals. It was then about to embark on a major expansion of cinema outlets, which would involve R39m in additional debt.

So far, the main visible benefits of the restructuring are confined to the balance sheet. Net proceeds from disposals (after minor acquisitions) of more than R60m have resulted in a turnaround from net borrowings of R38,9m two years ago to a net cash holding of R2,9m now — the balance of the funds received presumably having been absorbed in the expansion, which cost R95m over this two-year period. ~~(254)~~ (232)

The latest balance sheet is the strongest ever presented by the group, and the overall picture is further enhanced in that a reduced asset base (down from R286m in 1993 to R238m with disposals and debt repayment) has benefited most asset productivity and profitability ratios. Asset-turn, for example, has recovered from a 1992 low of 1,4 to 1,8 times; gross return on total assets, now 24%, is well above the 20,4% of 1993 when the asset base peaked.

The income statement is more difficult to assess without quantified divisional results. Performance of the core activities cannot be accurately judged at this stage, possibly to

INTERLEISURE

Fun 4/11/94
Selling more tickets

~~(254)~~ (232)
Activities: Film distribution and production

Control: Jointly controlled by Kersaf and Servgro through Satbel (75%)

Chairman: P J J van der Walt. MD M P Egan

Capital structure: 189,9m ords Market capitalisation R645m

Share market: Price 340c. Yields. 3,2% on dividend, 5,8% on earnings, p/e ratio, 17,3, cover, 1,8 12-month high, 450c, low, 250c Trading volume last quarter, 1,3m shares

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	3,2	39,3	33,6	1,4
Debt equity ratio	nil	0,31	0,29	(0,02)
Shareholders' interest	0,51	0,45	0,42	0,53
Int & leasing cover	55,9	20,0	21,6	40,0
Return on cap (%)	31,1	23,3	20,4	24,0
Turnover (Rm)	383	401	426	427
Pre-int profit (Rm)	74,3	65,7	58,3	57,1
Pre-int margin (%)	19,4	16,4	13,7	13,4
Earnings (c)	21,7	20,2	18,5	19,6
Dividends (c)	11	11	11	11
Tangible NAV (c)	59	58	55	61

COMPANIES

4/11/94 (232)

FM 4/11/94

to rise to 130c for financial 1995. From a high of R23 three months ago, the share price has fallen to 1750c. If the analyst's expectation is met, Trenchor's prospective price is 13,5. That is low for a quality stock with substantial recovery potential, despite Geis uncertainties

Gerald Hurston

against the dollar. However, unless clarity about export incentives is received soon, uncertainties may negate potential benefits. Local industry is expected to improve and Trenchor's SA-based divisions should enhance results accordingly. One analyst is bullishly calling for EPS

strengthen W&A is expected to approach break-even in the second half of 1994. In summary, better conditions in the container leasing market — by far the biggest contributor to Trenchor's earnings — could boost returns from this division, especially if the rand declines further

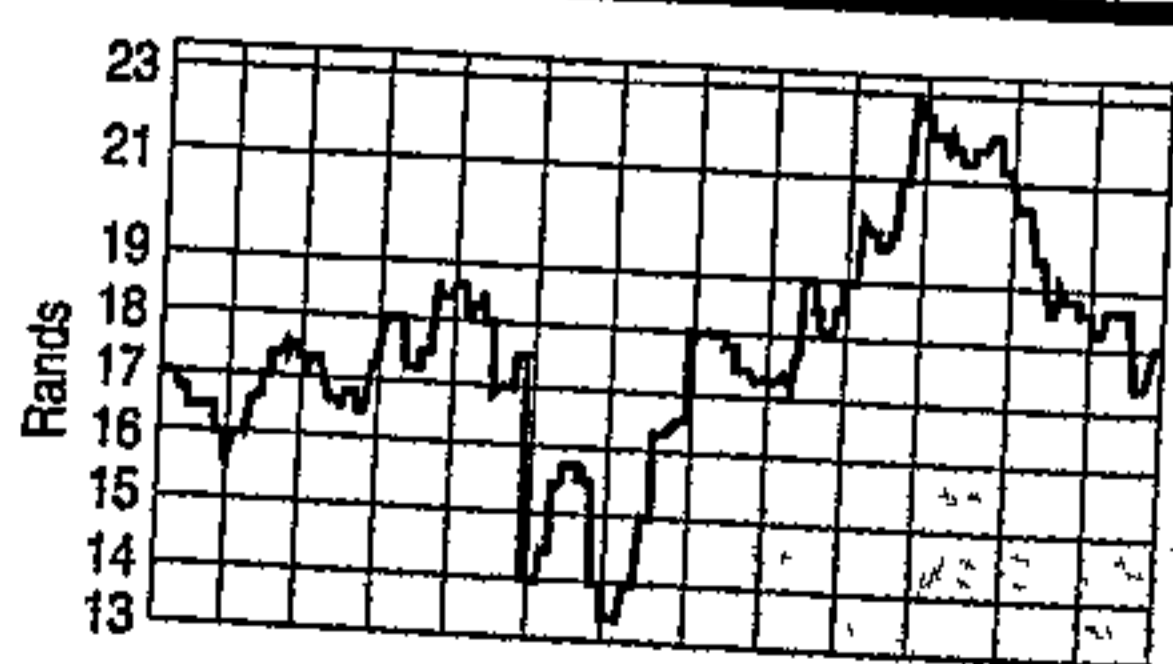
TRENCOR FM 4/11/94 Recovery potential

(232)

Not for nothing has transparency become a business buzz word. Stakeholders of all descriptions are these days demanding to see precisely what is happening to their investment in any sphere of its activities if they care to look.

It's refreshing, therefore, that after years of playing hide and seek with its overseas activities, Trenchor is no longer inhibited by the possibility of having sanctions imposed on it by the international community, and is freely discussing and

Trenchor



disclosing most details about its overseas activities. Regrettably, it still refuses to disclose segmental information on geographical and industry bases, claiming it would be "seriously prejudicial to the interests of the group". Nevertheless, more details than ever are revealed in the annual report. It becomes easier to appreciate, for instance, why "finance, leasing and other activities" has overtaken other divisions so swiftly. These activities are wrapped around Trenchor's container ventures. While Henred-Fruehauf in SA makes tank and special freight container products for export, the US-based Textainer, in which Trenchor holds 44%-50%, is a major player in international container leasing.

Prime-Source Holdings in California, held 40% by Trenchor, specialises in a niche market in the intermodal container leasing business. Both are critical to Trenchor's export marketing strategy. Both import, buy and lease Henred-Fruehauf's containers from SA. It was largely through them that container leasing and other associated activities generated 67,9% (1993 55,9%) of Trenchor's 1994 attributable income.

Over the past two years of stagnant international trade, the container leasing business suffered a significant drop in leasing rates and usage. Instead of expanding by an expected 8% in 1993 the lessor fleet grew by only 3%.



Jowell

W&A's attributable loss in Trenchor's accounts was R19,2m, it reduced group income to R136,8m. Trenchor chairman Neil Jowell continues to emphasise the quality of W&A's businesses, pointing out the conglomerate produced 1993 operating profit of R145m before the cost of its debt and tax reduced this to a loss of R156m before extraordinary items of R474m.

Prospects for Trenchor's 1995 year look healthier. Container fleet usage is growing and the first indications of increases in rates are evident. Prime-Source's customer base has more than doubled on last year. A brighter global trade and economic picture is raising expectations. In the manufacturing division, the order book is almost full for the year, reports Jowell, and if the local economy improves Henred-Fruehauf should have another good year. The transport divisions' prospects are encouraging, as are those of the trading division if world trade continues to

DEFINITIONS

Total shareholders' funds: The total of ordinary, minority and irredeemable preference shares plus all capital convertible into equity, less intangibles and adjusted for the market and/or directors' valuation of investments.

Activities: Makes and leases freight containers, transport, trading and exports of other commodities

Control: Mobile 47,3%

Chairman: N I Jowell

Capital structure: 145m ords Market capitalisation R2,54bn

Share market: Price 1750c Yields 1,4% on dividend, 5,4% on earnings, p/e ratio, 18,6, cover, 3,8 12-month high, 2300c, low, 1350c Trading volume last quarter, 2m shares

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	83,0	39,5	45,9	35,4
LT debt (Rm)	3,5	3,4	3,4	2,6
Debt equity ratio	0,3	n/a	n/a	n/a
Shareholders' interest	0,46	0,74	0,74	0,72
Int & leasing cover	9,5	25,5	16,0	n/a
Return on cap (%)	27,1	17,7	18,2	16,2
Turnover (Rm)	829	998	1138	854
Pre-int profit (Rm)	147	175	235	209
Pre-int margin (%)	17,8	17,6	19,3	24,4
Earnings (c)	734,8	905	112,5	94,2
Dividends (c)	160	95	24,5	24,5
Tangible NAV (c)	2171	3052	409	422

¹ Shares subdivided 10:1

FM 4/11/94

(232)

Hardest hit was Textainer's division, which operates in the loan syndication business and which raises funds in the US from investors, then buys containers and manages them on behalf of investors. Even divisional attributable income — helped by the depreciation of the rand — rose about 6,4% to R93m.

Star performer Henred-Fruehauf lifted attributable earnings by 17% to R25,6m. Export momentum of containers remained strong but financial results were restrained by flat local demand for trailers.

Trading operations, automotive parts, commodities and transport equipment produced attributable income of R34,5m, 7% better than a year ago. The annual report is short on details about this division's progress.

Contribution from transport, motor trade and tyres slumped from R14,7m in 1993 to R3m in 1994. Tariffs in the truck load services were disappointing but it was Crosscape Express that pulled the contribution down because of industrial action, operational problems, low tariffs and managerial problems. Remedial action has been taken to stem losses.

Manuel to move on cement cartel

CT 4/11/94

123

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From SAMANTHA SHARPE

JOHANNESBURG. — Trade and Industry Minister Trevor Manuel yesterday told the cement industry he had accepted the recommendation of the Competition Board to disband the cartel within two years.

Cartel member Pretoria Portland Cement (PPC) group MD John Gomersall said PPC had received confirmation that the cartel was to be dissolved, a decision the industry had been expecting since the board's findings late in September.

Gomersall said the Minister's decision in favour of a gradual phasing out of the cement cartel over the next two years, coupled with rising demand, should ensure a relatively painless transition for the industry to a free market system.

He said that his group's results,

posted on the same day as the Minister's decision was conveyed to the industry, reflected a pleasing improvement in the group's trading environment.

While the year ahead would continue to show improvements, changes in the cement market arrangements had made it more difficult to forecast the company's financial performance.

He said PPC would play a role in the success of the RDP through its commitment to keep cement prices below inflation for the next three years.

Despite subinflation cement and lime prices, PPC posted a 25% rise in earnings to 375,1c a share for the year to September.

An improved trading environment helped lift turnover 20% to R1,33bn, with net income before tax up 15% to R254,7m.

A reduction in the tax charge, which included the secondary tax on companies, the 5% transition

levy and the effect of the reduced taxation on deferred taxation, helped towards a 26% increase in net income after tax to R153,7m.

The 25% rise in earnings a share was accompanied by a 16% increase in dividends to 250c a share. PPC said it would give shareholders the choice of taking new shares in place of a cash dividend.

Turnover in PPC's cement division rose 33% to R948,3m, spurred by a sharp rise in exports and an increased share of the cement distribution market.

However, the substantial growth in the distribution and export activities, conducted at relatively small profit margins, translated to a decline in average cement and group operating profit margins.

PPC Lime benefited from a 2% increase in sales volumes, with turnover and earnings up 11% for the year.

FRAME/CONFRAM

Begging to be bought

The huge workforce is a thing of the past — and it shows

It seems the Frame Group is emerging from its years in the wilderness. The results for financial 1994 reveal a return to profitability, a strengthened balance sheet, better use of assets and even a small dividend for faithful shareholders. The question is can it be sustained?

Executive chairman Mervyn King is confident that the group, which comprises Frame Group Holdings — a first-stage pyramid — and operating company Consolidated Frame Textiles (Confram), can maintain this recovery. Of course, after six years at the helm of this greatly contracted textile giant, you would expect him to express this assurance.

Confram's 1994 results reflect a big improvement on only marginally increased turnover (up 3%) of R645,9m, operating income more than doubled to R30,4m (1993 R13,7m). That reflects a trading margin of 4,7% compared with the previous year's 2,2%,

brought about not merely by higher end prices but by better operating efficiencies, use of new technologies and reduced personnel overheads. Turnover per employee increased by 22%, indicative of better management and higher productivity.

Since 1991, when the debt burden stood at R228,3m (and gearing a surprisingly low 31,2%, brought about largely by shareholders' funds being boosted artificially by a R160m revaluation of fixed assets), Confram's surplus cash has been applied in reducing debt. In 1992 this debt fell to R181m, it was reduced last year to R115m, now it is nil. Indeed, the company sails into 1995 with a cash balance of R19m. This was thanks mainly to the R44m injection from the sale in November of the polyester fibre plant. In 1991 the group paid R40m in interest — in that year fully a third of its operating income.

The avoidance of the need to service debt has a profound effect on the bottom line. In the first six months to December 1993, the interest bill stood at R7,9m — half the operating income. In the second six months finance charges dropped to R838 000, the effect on profit was substantial, at R13,5m almost two and a half times that of the interim figure. In financial 1994 interest and finance charges amount to a mere R8,8m, compared with 1993's 22,8m and 1991's R40,8m. There seems little point now in maintaining the dividend cover at almost seven times

Tax this year is a modest R2,4m and leaves a final attributable profit of R19,4m — a turnaround from 1993 of R33,2m EPS is 34,4c (1993 a negative 23,8c) and enabled King to present long-suffering shareholders with a token 5c payout, small compensation for the barren years but pregnant with promise (232)

All this has not gone unnoticed in the market. For years, the share price languished in those doldrums reserved for companies deserving of suspicion: it was always far below conservatively estimated net worth (and still is).

However, in mid-November last year, news of the recovery spread among investors, the counter moved from 80c to a high of 550c in mid-July. Since then, and following confirmation of the recovery, it has slumped to 350c where it offers a further rerating opportunity. Though the asset base has shrunk over the years, the share price is still only 29% of underlying net worth.

And it is worth remembering that shareholders have suffered a huge diminution of their wealth in 1987, at the restructure into Frame and Confram (replacing the then four listed businesses), Frame's share price was R25 and Confram was R15. The current 550c and 350c illustrate poignantly the depths to which the group sunk. Other key indicators of enhanced management competence come in stock holdings and working capital requirements. Stock peaked at R401m in 1990, by 1994 these were reduced to R146,5m.

Founder Philip Frame died in 1979, legend has it that when he was told he couldn't take his fortune with him, he said he wouldn't go. He left behind a business empire on which more than 30 000 employees depended, vast and under-used assets (including much property) and a body of shareholders long deprived of dividends (Frame was particularly mean in this area).

He also left disgruntled and helpless heirs. The structure of Frame's will was constructed in a manner which enabled him to rule from beyond the grave. It limited the scope for changes and created the grounds for legal tussles which lasted for years. Finally the courts sanctioned changes to the will which would enable professional managers to introduce long overdue changes and strategies.

King has been an advocate, then a respected Transvaal Supreme Court judge,

then a businessman credited with successes under Natie Kirsh and later with Tradegro. When King took the reins in 1988, his first task was to set new priorities and determine a long-term strategy. Among his earliest problems was the need to continue reducing the group's huge workforce. From 32 000 at the beginning of the Eighties, it now stands at 6 500. The bill for the feather-bedding of the past is being presented in the Nineties.

King's strategy was based on a single essential: he needed to shrink the operations. If successful, that would yield cash injections from asset sales, and huge reductions in personnel and, therefore, in operating overheads. These would produce a balance sheet of inherent strength, and concentrate focus on core businesses. King and his team have reduced the number of mill sites from 14 in 1979 to five, weaving sites have been reduced to one (at New Germany), and the length of production lines has been drastically cut by implementing modern technologies. Disposals have included assets in Malawi and Zambia, property in Umgeni, Durban, Harismith and Balfour, the handknitting yarn plant, the polyester fibre factory and the



King long haul

MUCH STRONGER WEAVE

ACTIVITIES

Operates a variety of textile, fibre and knitting factories, holds wide property portfolio

CONTROL

Frame Group Holdings 67,3%
Chairman M E King MD. W Simeoni

SHARE MARKET

Capital Structure: 56,2m Ords
Market Capitalisation R197m Price: 350c
Yields 1,4% on dividend 9,8% on earnings, PE ratio, 10,2, cover, 7,0 12-month high 560c, low, 80c Trading volume last quarter 2,0m shares

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	154,6	157,4	98,5	-
LT debt (Rm)	13,2	23,2	161,0	-
Debt equity ratio	0,22	0,31	0,20	n/a
Shareholders' interest	0,68	0,65	0,18	0,83
Int & leasing cover	-*	-*	0,43	3,51
Return on cap (%)	(6,9)	(4,5)	3,1	4,0
Turnover (Rm)	658	652	628	646
Pre-int profit (Rm)	(71,0)	(40,3)	9,4	30,7
Pre-int margin (Rm)	-*	-*	1,5	4,8
Earnings (c)	(159,9)	(131,4)	(23,8)	34,4
Dividends (c)	-	-	-	5,0
Net worth (c)	1247	1039	993	1121

*Negative, not shown

Source Frame

famous Frame Waverley blanket plant — the genesis of the entire group

Remaining businesses in Confram include its Frame Knitting, Frame Fibres, Frame Textiles, housing the spinning, weaving and finishing operations, and the Natal Distribution Company, which comprises warehouses that sell seconds

All this could leave Frame lean enough to face the competition which Gatt will inevitably introduce. For decades, SA manufacturers operated from behind the comparative safety of high tariff walls, and they could export with the impunity conferred on them by friendly devices such as Geis (general export incentive scheme)

Textiles have long been a favourite launch pad for emerging economies. And many of the nations of south-east Asia, now major economies, were kick-started by their textile industries. High work ethics, maximum production and an implacable willingness by employers to exploit labour meant that the sweat shops of the East were the most competitive in the world. These are stark economic facts which sit hard on SA.

The latest Gatt round means SA's protections must fall away by the turn of the century. This is an emotive subject, especially for King who takes every opportunity to advance his views.

Gatt requires that duties on imported fabrics must reduce to 25% over 12 years. SA has undertaken a reduction to 22% over 10 years.

It is complicated by the Swart Report which recommended an assistance package of R4,5bn to help manufacturers over 10 years. This is to be divided between the textile and clothing industries — King is careful to emphasise the delineation between the two — and only R650m is earmarked for textiles.

The recent falling out between the R7,5bn textile industry and the R5,4bn clothing industry over the allowances recommended in the Swart Report suggest uncomfortable times for clothing manufacturer Seardel, which through holding company Seargreg has a 20% stake in Frame. In an increasingly tough economic environment, it is only logical that taxpayers should question the wisdom of falsely supporting industries which could not otherwise stand alone.

It leads to an interesting dichotomy on the one hand, King vigorously belabours the Department of Trade & Industry for its alleged lack of a coherent policy to textiles. "How can I," he asks, "institute the Frame

Group's next five-year strategic programme in the absence of a cohesive national policy?" On the other hand, in response to criticisms that textiles cannot survive without massive taxpayer subventions, King boldly says that, given the 10-year phase down period, Frame can compete adequately without the previous level of tariff protection. It is a statement which, made in response to widespread reproaches, at once restores confidence in Frame while casting doubt on King's vigorous demands for government aid. King's response, however, is that his claim of self-sufficiency is wholly contingent on a reasonable phasing out period — and he says 10 years is what it will take, precisely the time frame recom-

mended by Swart. (232) Meanwhile, weather and an invertebrate have together upset the careful balance in the world's cotton crop. Extraordinary weather conditions in China, coupled with the predations of the curl worm, have blighted that country's crop, a substantial portion of the world's. Prices have increased 60% in terms of the Liverpool index (accepted as the global arbiter). Frame, the largest textile manufacturer in SA, uses 40% (48 000 bales) of the national

cotton crop and, says King, will need to import another 140 000 bales during the season to satisfy its own requirements. Its plants are already operating at 87% of installed capacity, up from 79% a year ago. This means demand is increasing and that Frame's raw cotton requirements will grow similarly. Its capital expenditure budget for 1995 is nearly double 1994's, concrete evidence that King believes demand will continue to escalate.

The effect of substantially higher world raw cotton prices is bound to affect on Frame's operating costs. Almost inevitably, Frame will seek higher end prices for its product. And there's the rub: as prices rise, so imports become increasingly attractive. The balance between the two will become progressively precarious.

This perhaps goes some way in explaining the direction King is taking the group. His aim is to make Frame market-driven, globally competitive and to locate niche markets offshore — markets that will not compete head-on with commodity textiles flowing from the Far East.

Confram's clean balance sheet is a major advantage in a cyclical industry in an upturn. Against that, however, are a large capex programme and higher input costs of raw materials. In addition, the industry's future remains unclear in the absence of a comprehensive national approach.

Nevertheless, Confram's lack of borrowings means any improvement, however small, will work through almost immediately to the bottom line. King is confident of a much improved earnings performance, though he says it does not follow that extraordinary profits will be repeated. On

this basis, and considering the large gains made in the second half of financial 1994, it is probably not unreasonable to expect an increase in EPS of 75% to 100c for the current year.

That is dramatic stuff, it implies a prospective p/e of 3,3 times. If Frame sticks to its present policy of seven times dividend cover, that translates into a dividend of 14,5c or a yield of 4,5%.

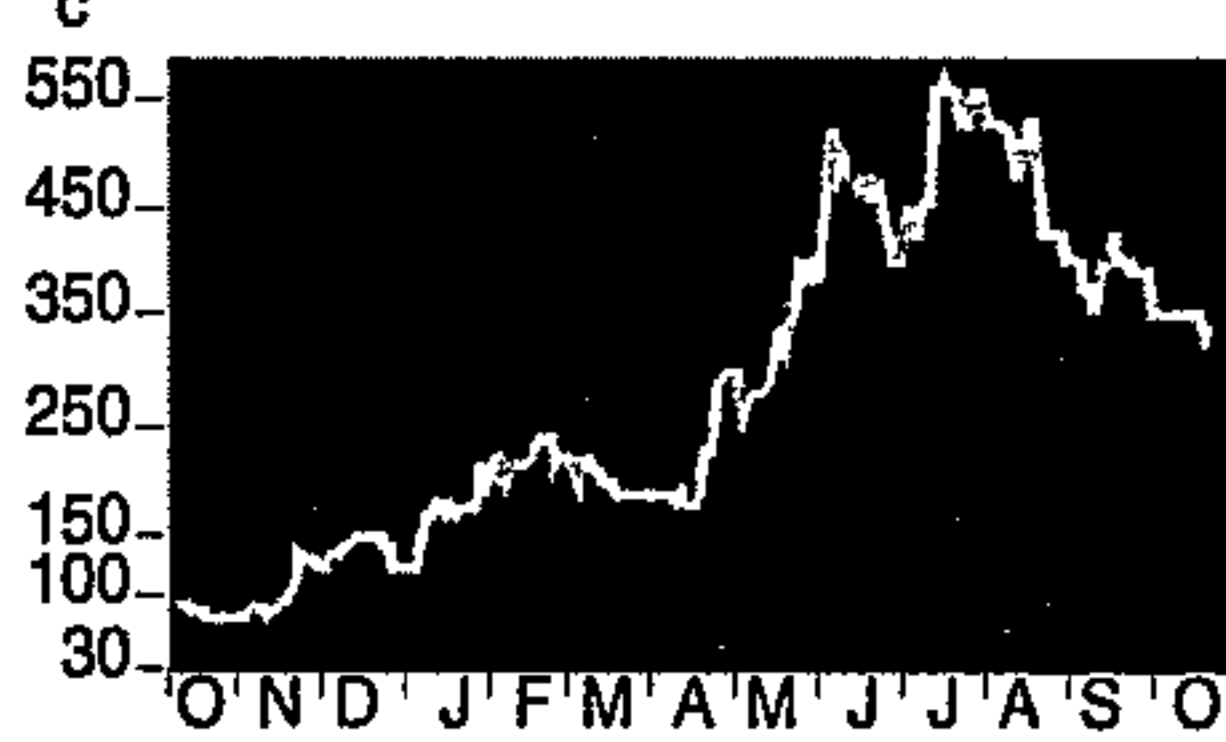
If, however, the board takes the opportunity to reward shareholders and applies an acceptable cover of only two, then the dividend of 50c will give a yield of 15%.

All of which suggests this is a stock which begs to be bought. *Marvlou Greig*



WHEN THE PENNY DROPPED

How the market sewed into Confram

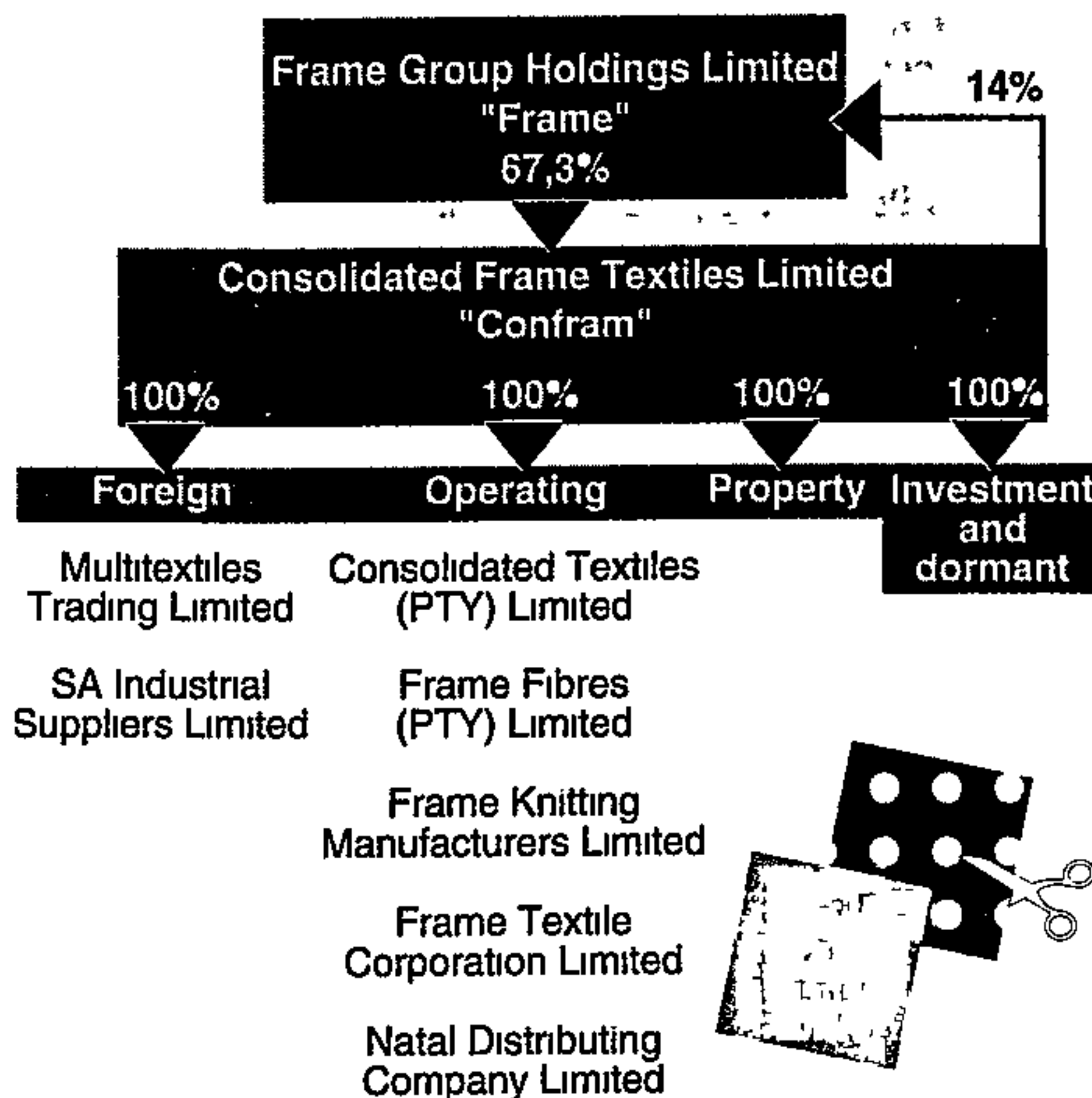


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CLASSICAL PYRAMID: THE FRAME STRUCTURE



French company acquires control of SA's Fransaf

MICK COLLINS

B Day

FRENCH-based Compagnie Plastic Omnium has acquired a controlling interest in plastics converter and durables manufacturer Fransaf for R25,3m

Plastic Omnium, one of the world's leading plastics groups, said it had acquired a 51% stake in Fransaf at a price of 132c a share. It said the recently established relationship between Fransaf and chemicals and plastics manufacturer Sentrachem would be maintained. Sentrachem has a 10% stake in the local company.

Plastic Omnium had a turnover of nearly R3bn in 1993, 48% of which was generated by operations located outside France. It manufactures high-performance polymer plastics, injection-moulded thermoplastics and blow-moulded plastic products. The group supplies the automotive industry. ~~(1000)~~ (2/32)

Plastic Omnium chairman and MD Jean Burelle said Fransaf would continue to operate its core business, the manufacture and distribution of plastic durable products.

It is expected that the Safetec road signage division of Fransaf will benefit from advanced technology to be introduced by Plastic Omnium. 811194

Fransaf acquired Safetec in 1993 and has since conducted extensive tests on plastic road signage which is relatively new to the SA market.

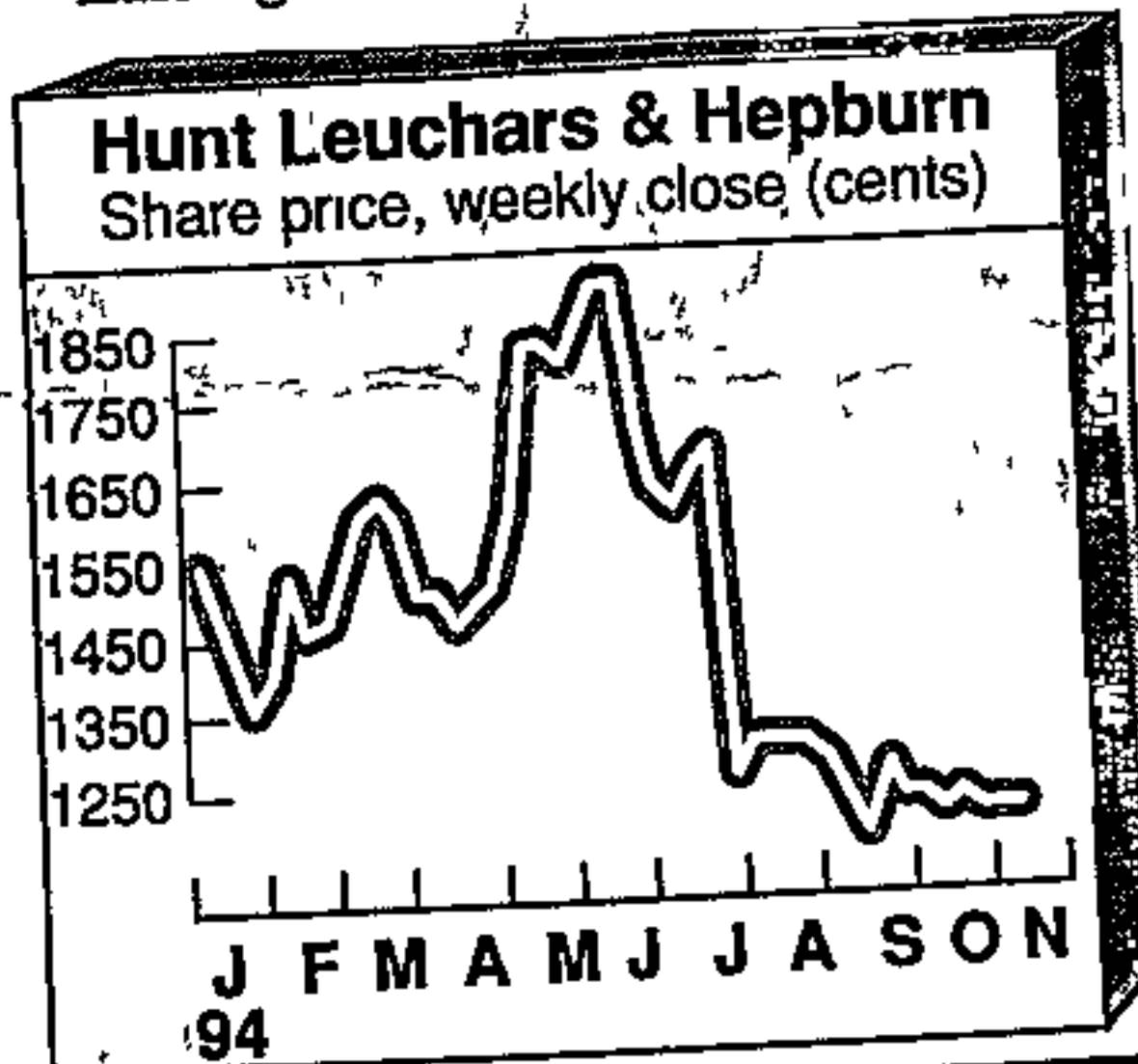
Drought, poultry losses hit HLH

Biday 8/11/94

BEATRIX PAYNE

CONTINUED drought and poultry losses saw Hunt Leuchars & Hepburn's (HLH) earnings a share plummet 89% to 2,5c for the six months to September, the group said yesterday

Earnings were badly affected by a fall in



sugar production as the third consecutive year of drought ate into the group's sugar cane crop in Eastern Transvaal.

CE Neil Morris said the results confirmed cautionary announcements issued in July after Newcastle disease led to a high rate of chicken deaths at Rainbow Chicken.

Morris warned that year-end results would be "substantially" below those achieved in financial 1994 despite the prospect of improved profitability at Rainbow.

In view of the depressed level of earnings and difficult conditions, the group said it would declare a single dividend at the end of the financial year.

Sales increased to R682,5m (R571,6m) but operating income fell 22% to R55,9m. Financing costs almost doubled to R47,9m from R24m as lower production levels in-

To Page 2

HLH

Biday 8/11/94

From Page 1

creased the burden of financing costs of the R400m Komati Mill. This left pre-tax income sharply lower at R7,9m (R49,4m)

The group received a R3m tax credit because of a reversal of deferred taxation and a lower tax rate owing to the level of earnings and the utilisation of capital allowances. Income after tax fell 67% to R11m (R33,5m), but R7,2m was chipped off the bottom line because of associated companies' losses. Net attributable income fell 89% to R3,7m from R32m last year

Rainbow's R17,9m attributable loss for the six months reduced HLH's attributable earnings by R7,2m after shaving R1,2m off last year's interim earnings. Morris said management actions had had a positive affect and the death rate of chickens had declined during the past month

The group's sugar subsidiary reflected a bottom line loss of R6,4m after contributing R13,4m to earnings last year. Total sugar production by the Malalans and Komati mills was expected to be 20% below the group's expectation for the season.

Subsidiary Robertsons turned in a "strong" performance for the year as its contribution to attributable income rose 49% to R17,9m. (Poultry)

HLH Timber earnings were sharply lower for the period. The subsidiary saw its contribution to earnings slip to R900 000 (R7,4m). The division reported "disappointing" results from its value-added operations in HLH Timber Processors. Mining Timber was affected by low demand during the first quarter but performance from the export hardwood chipping operation exceeded expectations

The corporate division's contribution to earnings reflected a loss of R1,5m against a R100 000 profit last year.

HLH's fixed assets rose to R1,3bn after the completion of the Komati Mill. After funding the project and working capital expenditure, interest-bearing debt rose to R864,7m (R426,5m)

Morris said the group's results would improve significantly during the second six months. The improvement would hinge on a good performance at Robertsons, improved volumes and prices in the timber operations, profitability at Rainbow and "normal" summer rainfall

Investment holding company Huntcor — its only interest in holding in HLH — reported earnings a share sharply lower at 5c from 43,1c (232)

CNA Gallo shows earnings increase

B/Day 9/11/94

AMANDA VERMEULEN

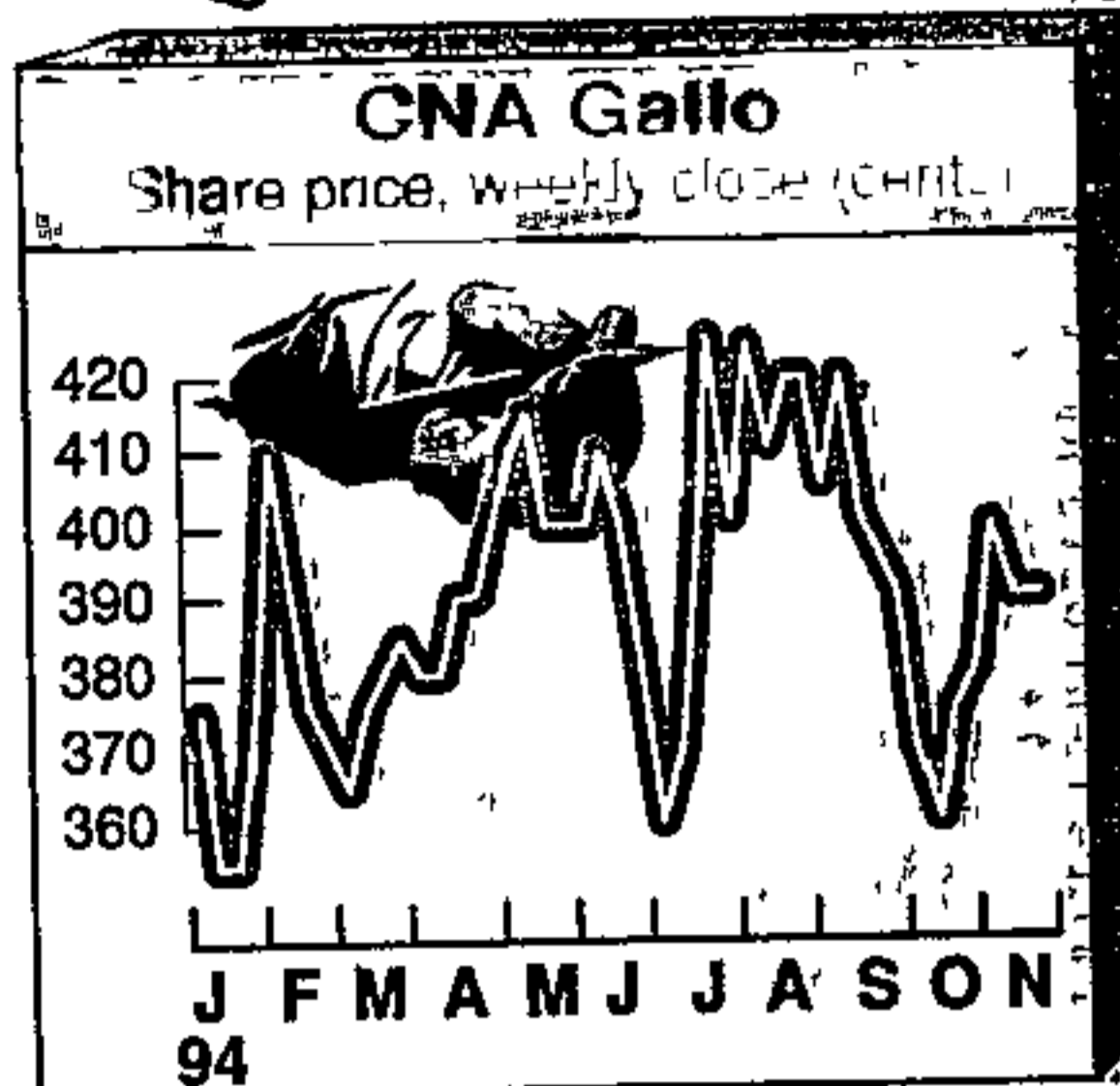
INCREASED consumer confidence helped CNA Gallo post a 13% increase in attributable earnings to R15,2m in the six months to September.

Earnings a share increased to 4,5c (4c) and an interim dividend of 1,5c (1,4c) was declared. The board said it would make a capitalisation share award with a cash dividend alternative (232)

Turnover showed growth of 18% to R556,7m while operating profit increased 27% to R25,3m. Net financing costs of R6,4m (R5,8m) and tax of R6,8m (R5,6m), combined with share of associates' earnings of R3,9m (R5,7m) and retained earnings of R3,9m (R5,7m), left taxed profit almost 13% higher at R15,9m (232)

The board said the increase in turnover had followed improvements in consumer sentiment and further success in developing new product opportunities.

Associate company earnings showed a 32% decline due to seasonal losses in-



curring in Heinemann Publishers and a reduced contribution from the group's interest in stationery manufacturing.

While it was expected that Heinemann would report a profit for the financial year as a result of a higher level of sales during the scholastic season, the stationery manu-

□ To Page 2

CNA Gallo

B/Day 9/11/94

□ From Page 1

facturing interests were likely to remain under pressure in a competitive market.

The tax rate was reduced to 37% (40%) mainly from anticipated secondary tax on companies savings arising from the proposed capitalisation issue. (232)

Each of the group's three divisions showed good growth, with retail and entertainment increasing 16,6% and 19,5% respectively. The group's cinema interest showed attendance increases mainly off the back of several new cinema complexes which recently came on line. (232)

The group had opened an Exclusive Books store at Cresta in Randburg, and had extended the shop at Hyde Park. A new

CNA had also opened at Hyde Park, while the Cresta CNA had been refitted. The group said these developments were trading ahead of expectations.

The music market had been particularly buoyant thanks to the many big-name music artists performing in SA.

The group's focus had been on reducing stocks, which had been the main factor in producing a R28,4m cash flow from operations. Borrowings decreased by R27m and the market value of listed investments increased 100% to R73,6m.

The board said the greater part of earnings would be achieved in the second half of the year, in line with tradition.

Bear market in gilts a boost for Coronation

AMANDA VERMEULEN

FINANCIAL services group Coronation Holdings lifted attributable income 226% to R15,6m in the year to September, partly because the group capitalised on the bear market in gilts.

The buoyant earnings were also on the back of full-year contributions from subsidiaries.

Earnings a share increased 92% to 76,6c and a dividend of 15c (12c) was declared.

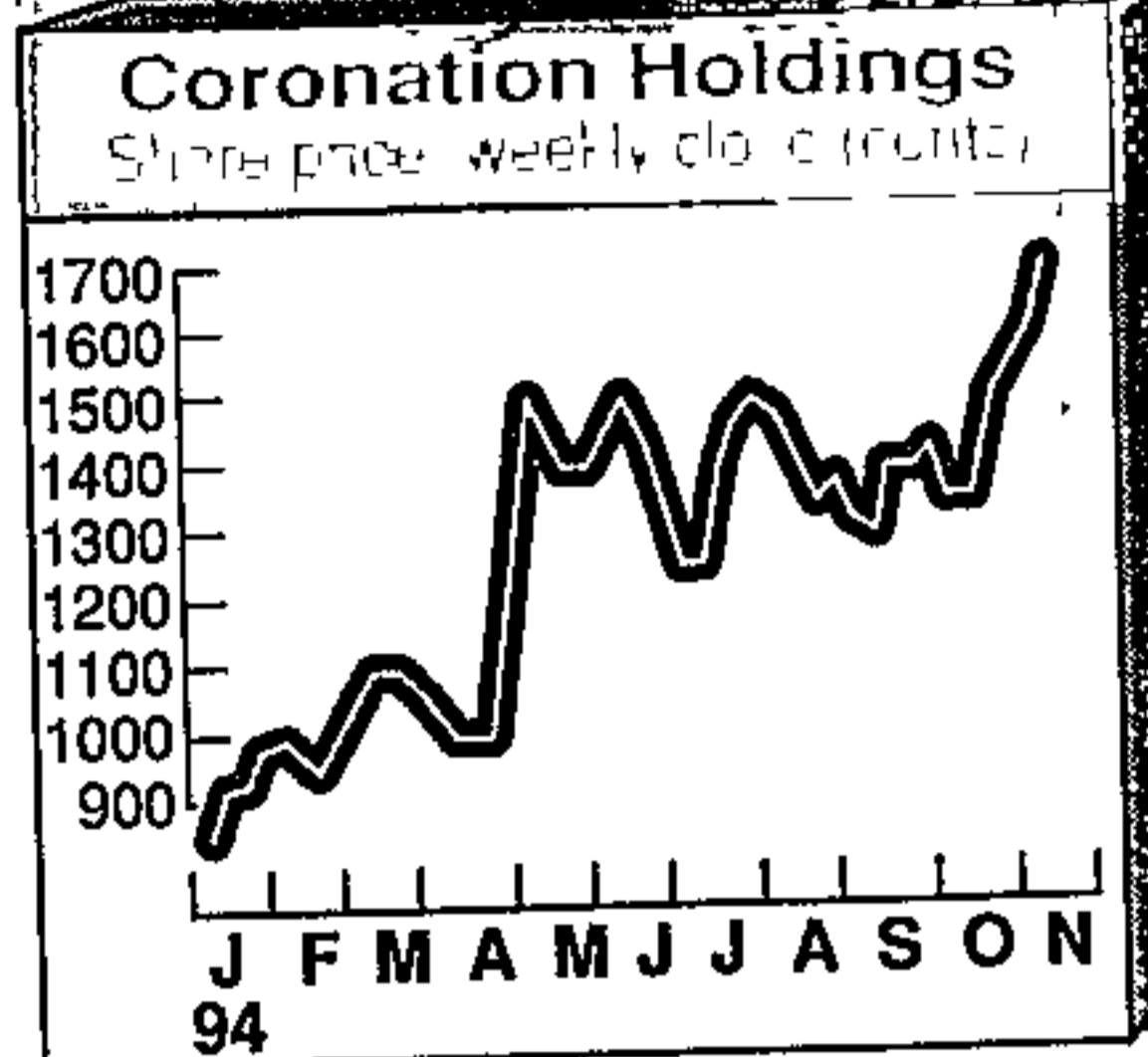
Net income before tax increased 206% to R25,5m while tax of R9,4m (R3,5m) left taxed income 234% up at just over R16m. Net asset value climbed 99% to 287c a share. The board said the group had enjoyed another successful year, with shareholders' funds having increased to R61,1m from R3,5m since the conversion to the financial services sector two years ago. During the same period, taxed earnings increased to R15,6m from R700 000.

During the period, Coronation Asset Management (CAM) developed its client base, with portfolios now totalling R3bn under management.

"Investment performance for the year has placed CAM in the upper quarter of the various investment surveys."

Securities Development and Trading had continued to trade successfully, contributing about 50% of group income.

Coronation Specialised Funds (CSF) had also developed its client base. The Coronation Investment Trust was formed in June



this year with a capital base of R60m, and was managed by CSF, which held about 40% of Coronation Investment Trust.

The group had also formed an offshore operation, Coronation Overseas Ltd, in September, to advise a small number of overseas investors on investment in SA. The largest client was the Bermuda-based investment company Spes Bona (232).

The directors said the board had decided to award capitalisation shares in lieu of the final dividend in the ratio of one capitalisation share for every hundred ordinary shares held at close of business on November 25. Shareholders with 10 000 ordinary shares or more would receive their entitlement to capitalisation shares unless they elected to receive cash.

CNA Gallo posts 13% earnings improvement

Star 9/11/97

BY CHARLOTTE MATHEWS

Improved consumer spending after the election combined with successful new products caused a 13 percent improvement in earnings at CNA Gallo to R15,2 million in the six months to September, compared with the same period in 1993

CEO Dennis Cuzen said yesterday traditionally about 70 percent of group profit was generated in the second half, which included Christmas and back-to-school sales

Between May and late September demand surged. However, since the last week in September, the impact of the transitional levy and the hike in interest rates had had a dampening effect on CNA sales in every province. This introduces a cautious note to an otherwise optimistic group outlook.

Turnover grew 18,3 percent to R556,7 million and operating profit 27 percent to R25,3 million, showing margins at 4,5 percent (4,2 percent previously)

Cuzen said CNA had turned the corner after making losses

in the same period in 1993, while margins in entertainment — Gallo and Nu-Metro cinemas — were healthy

Net financing costs rose slightly because the reduction in interest-bearing debt occurred only towards the end of the period. Gearing is now 44 percent from 63 percent in the same period in 1993

Earnings a share were 12 percent higher at 4,5c and capitalisation shares, or a dividend 7 percent higher at 1,5c, are being offered. Asked whether the cash dividend was not a bit mean, Cuzen said it was intended to offer an incentive for shareholders to accept shares rather than cash. The group's major shareholder would be taking shares.

Planned capital expenditure of R7 million includes ongoing refurbishment costs and some of the investment in 10 Nu-Metro screens at the Randburg Waterfront.

CNA shares were trading at 390c yesterday, showing a modest 22 percent gain from a year ago when they had a 10.1 share split at R32. Prospects of improved consumer spending suggest the shares could do better in the future

Tiger Oats 'back on the road to recovery'

B1 Day 10/11/94

LOUISE COOK

FOOD, pharmaceutical and fishing group Tiger Oats posted a 3% rise in earnings to R368m in the year ended September from R357m a year before amid difficult trading conditions and a high tax bill.

Earnings were 3% higher at 237c a share from 244c in financial 1993

Financial director Wally Holmes said growth in earnings would have been nearer 8% "but for the provision of a bad debt of R20m incurred by the international division" The matter was under litigation

Dividends of 85c a share were declared, 4% up on last year's 82c, after a final dividend of 54c Turnover rose 9% to R10,975bn — up from last year's R10,039bn.

Taxation increased 28% or R48m to R217m (R169m) Holmes ascribed the rise to the increased STC charge and higher effective tax rates in some operations

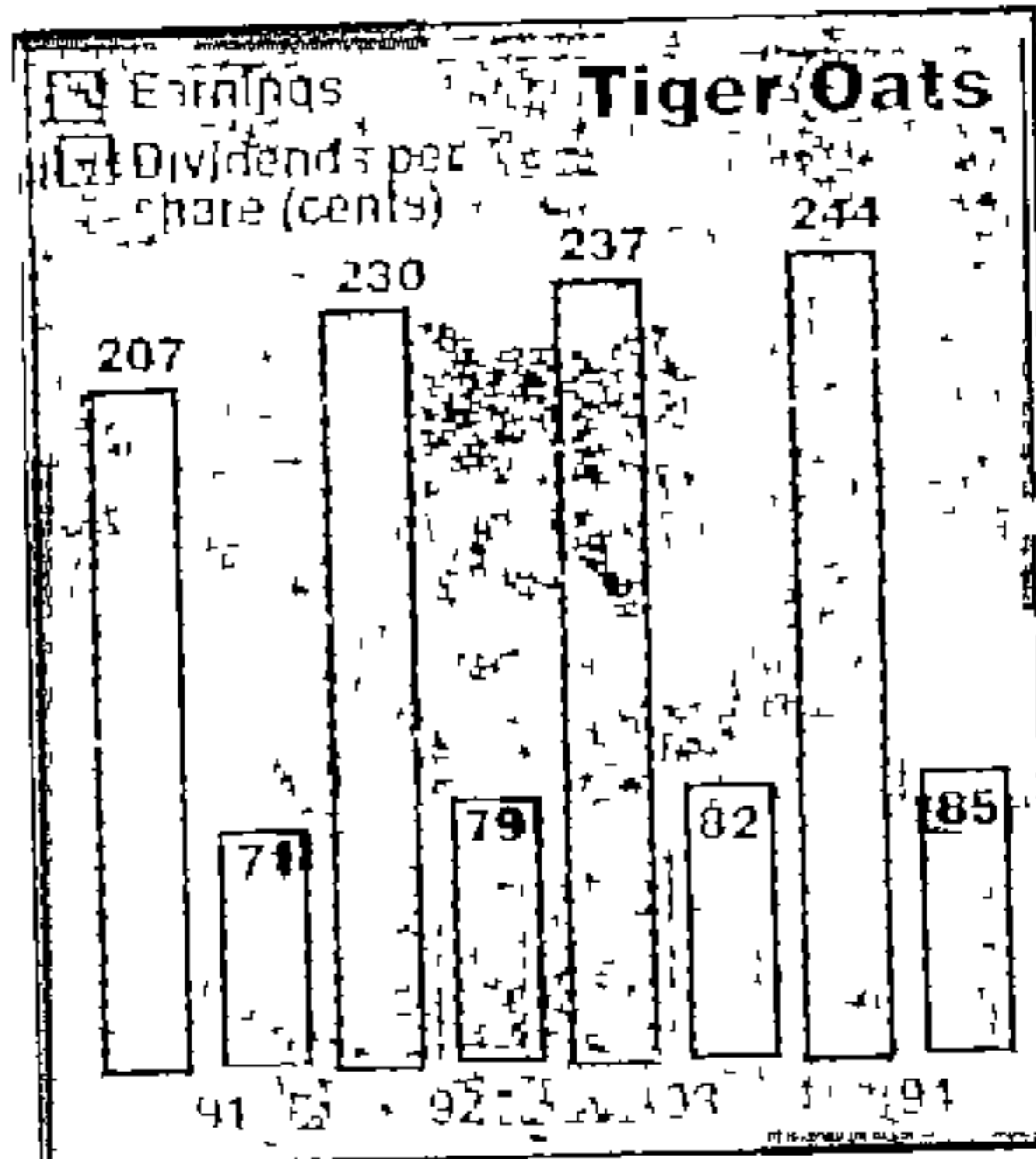
Extraordinary items of R144,9m, not charged against attributable earnings, included about R71m for goodwill and trademarks written off in acquisitions by Adcock, Logos and Oceana, while R74m was posted to closure costs of discontinued operations in Tiger Foods

There were encouraging signs the group was "well on the road to restored health", Holmes said

"A transformation has taken place in the group's cash position. The R270m net cash outflow at half-year has been reversed with a positive inflow of R336m at the end of the period Of this R606m turnaround, R540m was due to an improvement in working capital management"

Holmes said Tiger Oats was now virtually ungeared, with borrowings down from the previous year's R332m to a "negligible" R35m at year-end.

MD Nick Dennis said cash management was a "particularly pleasing" aspect of the group's short-term recovery



Graphic LEE EMERTON Source TIGER OATS

"Considerable restructuring and rationalisation has taken place in the past year with the objective in the short-term of addressing changing fundamentals and under-performing assets." (232)

"The long-term goal is that of building branded products and services which are globally competitive," he said.

This included the disposal or closure of unprofitable operations

Dennis said the trading environment during the year had been difficult, with little or no volume growth

"In the branded consumer products division, profits were generally flat, while Langeberg's earnings declined 10%"

Dennis said Fattis and Monis, Beacon Sweets, peanut butter, petfoods and Coleman's food divisions all increased their contributions, while Tastic was adversely affected by high increases in rice prices.

Executive director Hamish McBain said yesterday the company was suing the Maize Board because of its insistence on recovering unpaid levy losses of R39,5m by calling up guarantees.

Reunert earnings boosted by parastatal expansions

SELLO MOTLHABAKWE

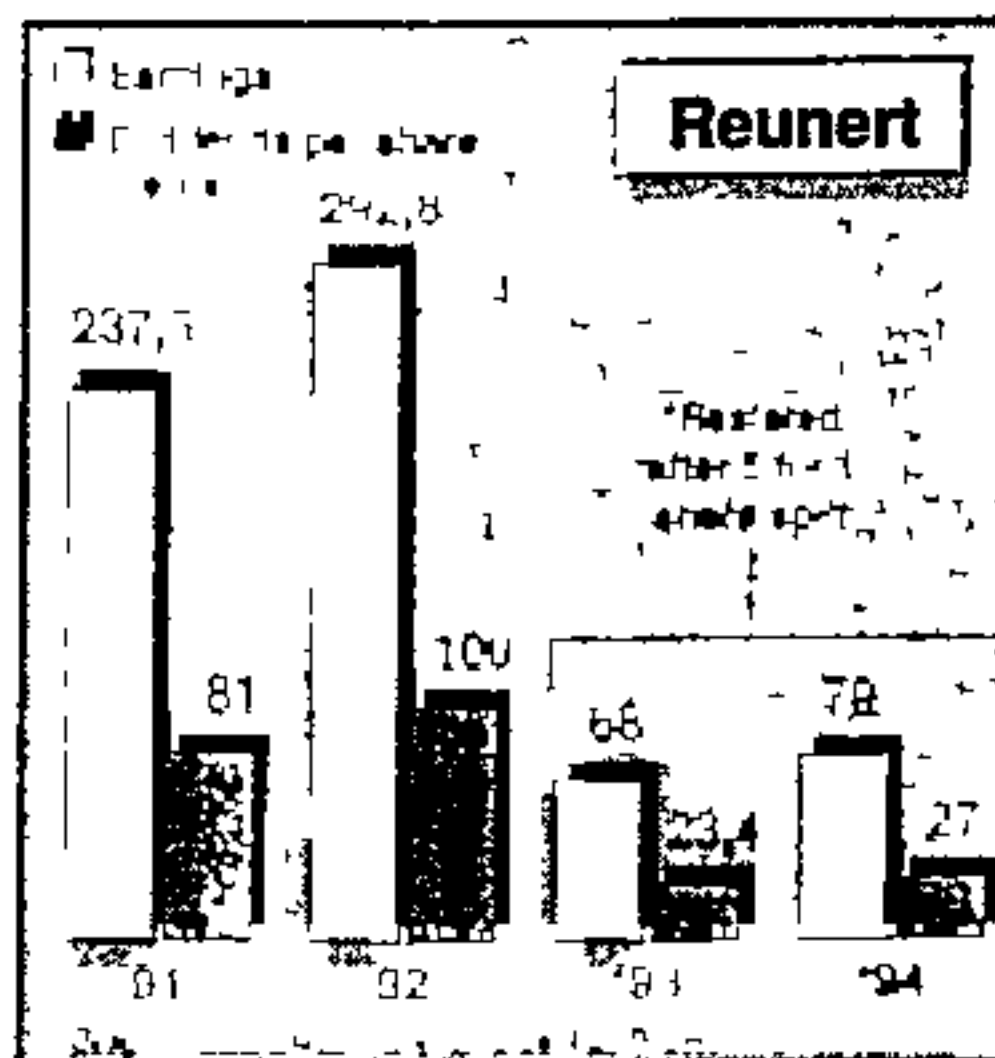
NETWORK expansions at parastatals Eskom and Telkom helped electronics and electrical engineering group Reunert lift earnings 16% to 79c a share in the year ended September, although the increase in secondary tax on companies (STC) put the brakes on earnings growth.

The group said earnings growth would have increased by about 20% had it not been for a rise in STC. A tax bill of R126,3m made for an effective tax rate of 41,5%.

Turnover rose 48% to R3,5bn, largely because of the acquisition of Panasonic, Nashua, Aromatic and related businesses in the consumer and commercial electronics division last year.

Operating profit rose 20% to R233,8m and pre-tax income was R304m (R257,8m). A final dividend of 19,5c was declared, lifting distribution for the year 15% to 27c a share.

Chairman Clive Parker said the results were not comparable with those of the previous year due to the impact of the three acquisitions and the revamp of the group's telecom-



munication interests, which came into effect in October last year.

However, its operations in the telecommunications, electrical and commercial electronic and defence sectors remained healthy. There was a strong likelihood that they would maintain the pace of their current earnings growth into the next financial year.

Margins in consumer products were generally lower than those in Reunert's other businesses, which led to a moderate growth in operating profit.

Interest received dipped marginally to R20,2m (R21,3m), even though

cash holdings grew by R86m to R375m.

The group has provided a breakdown of operating profit by market segment for the first time. This indicated that the electronics division contributed R106,8m to total operating profit and telecommunications R69,7m, while the consumer products division brought in R64,7m and defence R56,6m.

Parker said electrical and telecommunications companies were benefiting from the expenditure by Eskom and Telkom, which were extending their services to a large number of customers ahead of the government's reconstruction and development programme.

The balance sheet indicated that shareholders' funds increased 31% to R792m, while total assets stood at R2,2bn, a 29% increase.

Future plans included a R250m capital expenditure bill in the new financial year. The money would be spent by cable companies Consolidated Lamp Manufacturers and Circuit Breakers Industries. Expenditure would be directed at expanding capacity as well as improving international competitiveness and export contributions.

Argus

Biday 11/11/94 □ From Page 1

tory despite disruptions during the election which affected retail trade and restrained turnover (145) (232)

The post-election strikes in the retail and motor industries had also negatively affected the group's performance, but signs of a rise in advertising volumes would, if sustained, have a positive effect in the second half. The remainder of the year would also see the benefit of advertising in the run up to Christmas.

During the period, the group rationalised the printing operation of the Pretoria News by printing the paper at the Johannesburg facilities.

This reduced the number of printing centres to four, which had a positive impact on operating profit. The group was continuing to rationalise to improve operating efficiencies.

Argus would continue to focus on improving existing products and developing new products in conjunction with major shareholder Independent Newspapers. No new capital expenditure was authorised for the current year. The group would also change its financial year to the calendar year to coincide with that of Independent, and would cover a period of nine months ending in December this year.

Key parastatals to remain in state hands — Naidoo

CAPE TOWN — Minister without Portfolio Jay Naidoo told the ANC caucus yesterday that Eskom, Telkom and Transnet were key to the reconstruction and development programme and must remain in state hands

Briefing the caucus on the RDP, Naidoo specified that only "non-strategic and non-productive" assets would be privatised

A systematic review and inventory of state assets would take place, after which it would be decided which assets were of strategic importance and which were "white elephants"

This would be followed

TIM COHEN

by the reorganisation and sale of those non-strategic and non-productive assets in line with the RDP

Naidoo described fiscal discipline as "a tool for change", saying it forced reprioritisation within budgetary constraints and prevented the RDP from adding to the debt burden

"The alternative to fiscal discipline is borrowing, high government consumption and an increasing inflation rate which leads to the notorious economic structural adjustment programmes," he said

The current debt burden stood at R221bn or 22% of GDP while interest pay-

ments were serviced with 17% of the budget

Naidoo told the caucus the RDP fund would concentrate on housing and bulk infrastructure, integrated rural development and job creation over the next year

Government's belt-tightening exercise would include salary cuts for the executive and a freezing of wages for senior public servants, while resources would be saved as a result of the 5%-8% attrition rate among public servants

These savings would be used to close the wage gap in the civil service with a view to addressing the minimum living wage, training, rationalising the grading system and affirmative action

Public sector unions, community-based organisations and political organisations should be

involved in this exercise, Naidoo said

Government departments will be meeting later this week to present their budgets, which are expected to be in line with the priorities of the RDP

Speaking after yesterday's meeting, ANC Chief Whip Arnold Stofile said Cabinet had approved a new dispensation giving parliamentarians free airport parking for eight days a month

Approval had also been given to constituency allowances (backdated from September 1) for the 490 parliamentarians, in terms of which parties could claim R3 000 per MP per month for constituency requirements

MPs and Senators who had used their quota of free air tickets for this year would be allowed to draw on next year's allocation

Argus company's results full of beans

AMANDA VERMEULEN

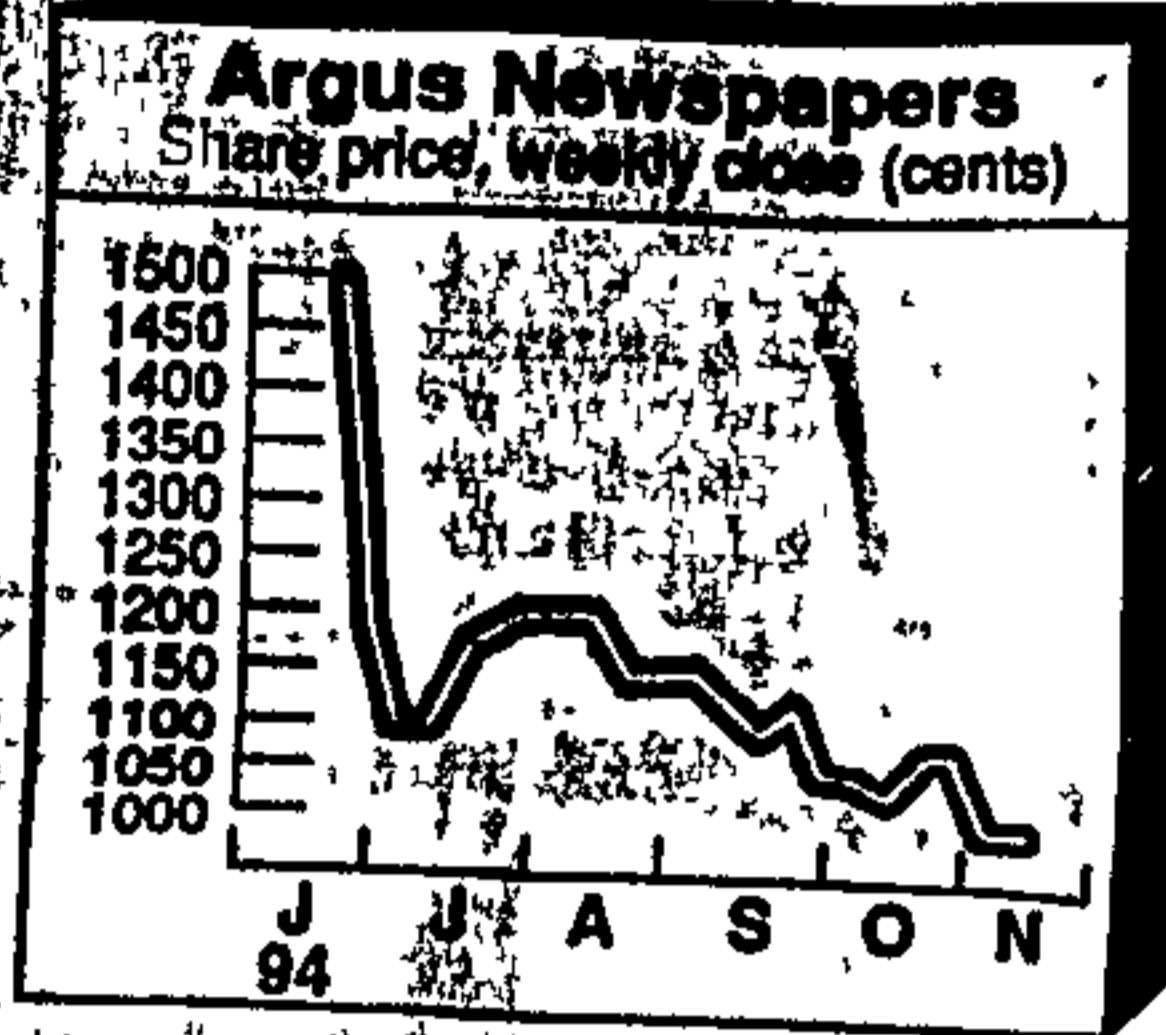
ARGUS Newspapers lifted attributable earnings 39,2% to R10,9m in the six months to September off the back of the closure of the Sunday Star and the change in ownership structure of the Sowetan.

Earnings a share increased to 24,3c (18,1c) and an interim dividend of 10c was declared. No dividend was declared in the six months to September last year.

Argus Newspapers was acquired from Argus Holdings in June for R155m by Dublin-based Independent Newspapers, after which it was separately listed on the JSE. Independent initially bought 31% but later increased its stake to almost 35%.

The group sold 50% of the Sowetan to Corporate Africa, a recently listed black-owned company headed by Nthato Motlana. It acquired the minorities in Natal Newspapers and the Pretoria News, as well as purchasing the Star building in Johannesburg, the Pretoria News building and the Argus property in Cape Town.

Although turnover dropped 1,8% to R367,6m, operating profit improved more than 20% to R17,8m, reflecting the closure of the loss-making Sunday Star earlier this year, and the sale of a percentage of the Sowetan. It also included the total profit of the Cape Joint Operating Agreement



The increase in operating profit was partially offset by interest paid on the properties acquired. Pre-tax income increased 9,5% to R17,8m, while taxed income improved 4,6% to R10,1m.

The share of retained income of associated companies of just over R1m against a loss of R137 000 in the previous period reflected the group's acquisition of 42,5% of New Africa Publications, which publishes the Sowetan. (232)

An extraordinary loss of R585 000 reflected the costs relating to the listing.

The board said the results were satisfac-

To Page 2

Merging of aircraft makers

Business Staff

ARG. 12-13/11/94

NATIONAL Airways Corporation, sole distributor of Beechcraft in southern Africa, has announced that the transition of Beech Aircraft Corporation from an independent aircraft manufacturer to part of a corporate conglomerate has been completed.

Beech Aircraft Corporation and Raytheon Corporate Jets have merged to become Raytheon Aircraft Company, a single subsidiary of Raytheon Company.

Art Wegner, the chairman, chief executive officer and president of Beech Aircraft Corporation is now the chairman and chief executive officer of Raytheon Aircraft.

Roy Norris, formerly the president of Raytheon Corporate Jets will be president of the new company.

(232)

The new company will produce and sell aircraft ranging from the small Beech Bonanza through to the 16-seat Hawker 1000 business jet.

Mr Wegner said that the Beech-Raytheon marriage was a natural step for improving manufacturing efficiencies and controlling costs through the combination.

The aircraft coming from the factories will continue to bear the names Beech Bonanza, Beech Baron, Beech King Air, Beech Starship, Beech 1900D, Beechjet, Hawker 800 and Hawker 1000.

Jonker shuffle

Business Staff

232 ARG
12-13/11/94

MARTIN Jonker Holdings is to transfer its motor interests, including Schus Nissan in Cape Town, to a new listed company.

The group's 90 percent stake in Schus Nissan and Martin Jonker Motors of Pretoria represents its only operating asset

It will be owned by the majority shareholders in MJH. About 99 percent of the group's 40 million issued shares are held by two shareholders

Minority shareholders will be able to choose between a cash offer and the right to retain shares in MJH under the new owners

Minorco gets 50% of Irish venture

MINORCO, Anglo American's offshore natural resources arm, had acquired 50% of the Lisheen zinc-lead prospect in Ireland for \$77m, the company said at the weekend. *B/DG 14/11/94*

The acquisition follows completion of the exercise by Irish exploration company Ivernia West of its pre-emptive right to acquire Chevron's interest in the project.

Minorco funded Ivernia's exercise of its pre-emption right in return for a 50% interest in Lisheen and operatorship of the project. Minorco will enter into a joint venture agreement to develop the project with Ivernia, in which Minorco owns a 24.5% stake.

Chevron, the original joint venture part-

MICHAEL URQUHART

ner with Ivernia, had put its stake on auction. Lac Minerals was the highest bidder, but Ivernia claimed it had the right to pre-empt Lac's bid under the joint venture agreement.

The case was referred to an arbitrator, who ruled in favour of Ivernia. This was challenged by Lac, but the action was dismissed with costs by the Irish High Court.

A feasibility study of the project had been completed, and an application for planning permission was being prepared for submission.

Total reserves at Lisheen are estimated at 23-million tons. *(230) (20) (232)*

Poultry boom boosts Imperial Cold Storage

PROFITABILITY in food group Imperial Cold Storage's poultry operations helped the group post a 20% increase in attributable earnings to 197,5c a share for the year to September.

MD Roy Smither said at the weekend the performance during the second-half had improved and earnings growth was "very satisfying" in the light of difficult trading conditions.

Sales increased 15,9% to R2,8bn as the rise in red meat prices saw demand for poultry increase.

Operating profit before interest jumped 84% to R124,5m. But Smither said the figures were not directly comparable with the previous year because of the consolidation of Sea Harvest's results for the full 12 months

Increased working capital requirements pushed up interest paid to R12,6m (R9,5m) and gearing was at 22%

Income from investments rose to R12,4m (R11,1m) which left pre-tax profit 80% higher at R124,3m

The tax bill jumped to R43,8m (R25,8m) after the 12-month consolidation of Sea Harvest's results and profits in the poultry division. After-tax profit including associate companies was 24% higher at R86,6m. Attributable profit rose to R75,1m (R62,4m) and a dividend of 60c a share (50c)

B1 Day 14/11/93
BEATRIX PAYNE

was declared

Extraordinary losses jumped to R119,4m from R64,2m after costs were incurred related to goodwill written off, discontinued operations and restructuring costs.

The group sold its 40% interest in Commercial Cold Storage for R30m and had increased its stake in Sea Harvest by 10% at a cost of R50m.

Its poultry operation had achieved good results despite the very cold winter and the outbreak of Newcastle disease which had killed chickens. Subsidiary Festive Farms was merged with OTK to form Earlybird farm last year (232) (232)

Sea Harvest's results improved during the second half as a result of better quality catches and firm prices on international markets. Cheese and butter results were down in the dairy division and after the sale of the Clayville plant the fresh milk operations were similar to last year.

The Cold Chain had had a difficult year with a strike and stock losses in the PWV. Enterprise Foods had performed ahead of expectations but the full benefit of the Renown merger would be felt next year.

Smither said the group was well placed to benefit from an increase in consumer spending

Minorco gets 50% of Irish venture

MINORCO, Anglo American's offshore natural resources arm, had acquired 50% of the Lisheen zinc-lead prospect in Ireland for \$77m, the company said at the weekend. *6/10/94 14/11/94*

The acquisition follows completion of the exercise by Irish exploration company Ivernia West of its pre-emptive right to acquire Chevron's interest in the project.

Minorco funded Ivernia's exercise of its pre-emption right in return for a 50% interest in Lisheen and operatorship of the project. Minorco will enter into a joint venture agreement to develop the project with Ivernia, in which Minorco owns a 24.5% stake.

Chevron, the original joint venture part-

MICHAEL URQUHART

ner with Ivernia, had put its stake on auction. Lac Minerals was the highest bidder, but Ivernia claimed it had the right to pre-empt Lac's bid under the joint venture agreement.

The case was referred to an arbitrator, who ruled in favour of Ivernia. This was challenged by Lac, but the action was dismissed with costs by the Irish High Court.

A feasibility study of the project had been completed, and an application for planning permission was being prepared for submission.

Total reserves at Lisheen are estimated at 23-million tons. *(200) (200) (232)*

Healthy margins keep Saambou on growth path

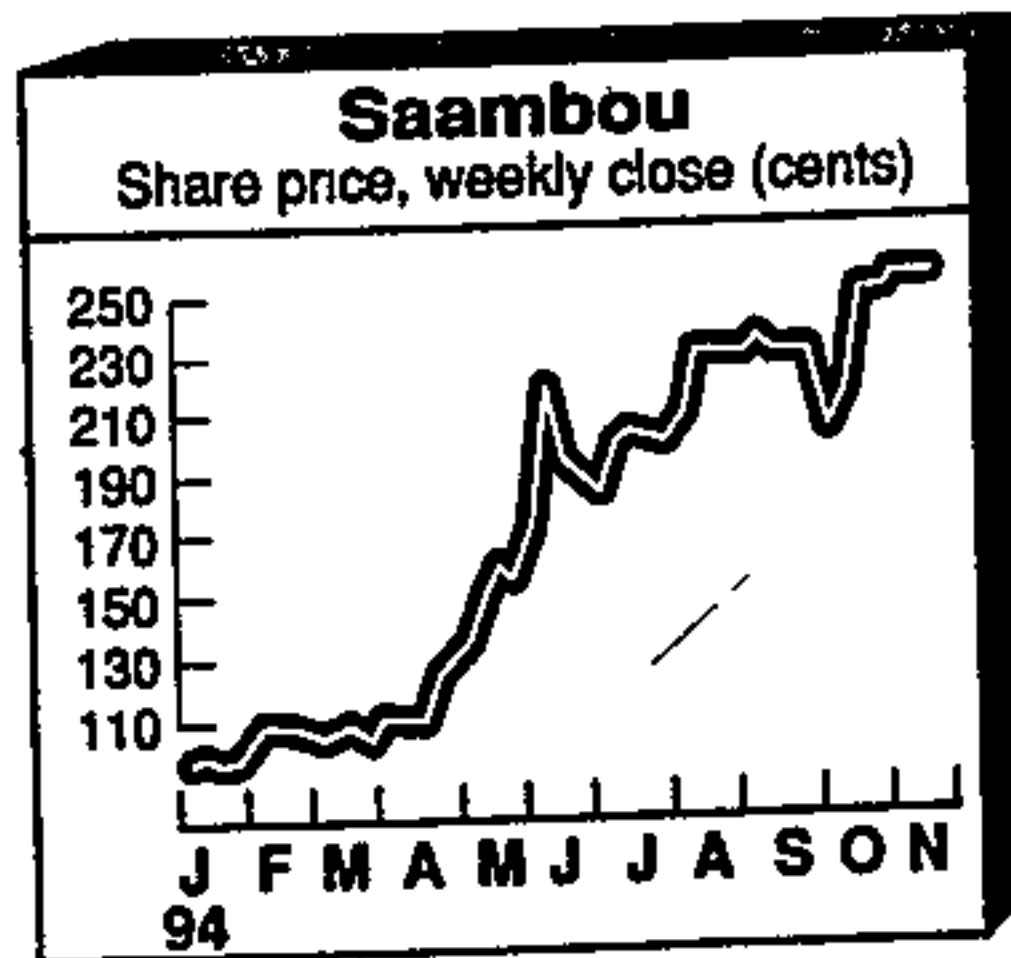
SAMANTHA SHARPE

HEALTHY margins and a robust increase in advances helped Saambou continue its strong growth phase to post a 47% rise in earnings to 9c a share for the six months to September.

The results consolidate the decisive turnaround in the bank over the past two years. Saambou has nearly tripled its share price to a high of 255c from a low of 92c at the same time last year. The group's dividend rose 50% to 1,5c a share.

An increase in lending volumes and improvement in interest margins helped lift net interest income 23% to R110,9m, with profits from subsidiaries boosting growth in non-interest income to R32,1m from R28m.

Saambou MD Johan Myburgh said the bank had disposed of 21% of problem child Saambou Woningen' underperforming property assets, which



included both stock and advances.

"These underperforming assets have been reduced by R31,6m to R118,7m in the period under review. Total assets have, however, grown 14% to R5,4bn," he said.

Myburgh said the group had targeted real growth in assets of 7,5% with the aim of growing the asset base on a managed basis. The 47% rise in attributable earnings to

R11,3m was achieved after a 38% increase to R29m in provisions for bad and doubtful debts and a 40% rise to R7m in general risk provisions.

Myburgh said the increase in provisions compared with levels for the last six months of last year and would probably grow at the same rate for the rest of the financial year.

Operating expenditure rose to R86,9m compared with R77,4m at the same time last year. The tax charge rose to R7,8m from R5,7m. But the company would start to pay corporate tax only in March 1997, with the tax charge benefiting from an earlier assessed loss situation. The company made a loss in 1990.

Myburgh said the group would continue to focus on the individual, salary earner and pensioner. "We are still on track for what we set ourselves to achieve in terms of constant growth in both earnings a share and return on capital." (232)

gically important investments

Associate company Longrail acquired the entire issued capital of Highway Carriers for R68,2m. Payment is to be settled by issuing new Longrail shares at 140c each (R12m) — though the counter stands on 200c after the company's cautionary Highway management will in turn renounce R50m of consideration shares to Imperial with the result that Imperial's stake in Longrail will increase to 65%.

Through wholly owned subsidiary Regent Insurance, Imperial acquired a 25% stake in the long distance haulier in May 1993 with the option of taking a further 26%. Earlier this year, the stake was raised to 49%. Though Longrail will become an Imperial subsidiary, executive chairman Bill Lynch says present management will remain in place.

The second acquisition, a 67% stake in Lombards Transport for R12m, was made directly by Imperial. Having succeeded with Longrail, management aims to turn around Lombards' unprofitable operations. The deal will also be financed by issuing shares.

Unitrans has long been regarded as the transport blue chip that dwarfs competitors. But Imperial's advances have challenged this. Unitrans turns over about R436m and Imperial R452m. Including the Longrail stake, sales rise to R582m — a third bigger than Unitrans'. On its own, Longrail is larger than Cargo Carriers (R180m), which for many years has been regarded as the industry's poor second choice.

But pre-tax profit figures are telling and help to justify Unitrans' blue-chip status. With pre-tax profit of R54,6m, Unitrans' margins are a healthy 12,5%. Imperial's are less attractive — 7,5% excluding Longrail and lower at 6,9% if it is included. This indicates both have some way to go for profits to be comparable with Unitrans'.

It should be noted, though, that 64% of Unitrans' 1994 operating income (1993 44%) was derived from profits made on the sale of used vehicles. Imperial treats disposals similarly but on a smaller scale.

Considering the similarities of the businesses — Imperial wholly owns Quattro Carriers, Tanker Services, Sunripe Transport and now Lombards — and the competitiveness of the industry, there must be synergies in, for example, combining some or all of the operations.

Transport is important to Imperial, having contributed 29% to pre-tax profit at the June year-end and now worth around 34%. Contributions by the car rental, leasing and tourism division amounted to 29%, motors 17,5%, insurance, finance and property about 25%.

Complicating matters, Imperial has obtained a 49% stake in Tyco Truck Manufacturers for R17,6m and 100% of Intercity Investments, a holding company of five Nissan dealerships, a Mercedes-Benz/Honda dealership and a Delta dealership for R16,7m. The Tyco purchase by



Imperial's Lynch driving

in the fast lane

(295) (232)
Imperial's life assurance company is purely an investment in a motor vehicle related business.

Lynch says all four added businesses will increase Imperial's turnover by about R500m, gross assets by more than R175m and shareholders' funds by R80m. Funding of R97m will come through a share issue for which, he says, a private placing with institutions is under way — in terms of the JSE ruling allowing share placings to fund acquisitions.

Imperial's success, evident from the good earnings record and rising share price, suggests management will have little difficulty convincing institutions to join the ride.

Marlou Greig

LONGRAIL/IMPERIAL Muscling into transport

(295) (232)
Subtle changes have taken place since Imperial entered long-distance haulage but the latest acquisitions have altered the rankings of companies in the industry.

The latest two Imperial transport acquisitions, worth R74,7m, represent strate-

New-look Barlows finishes ahead of earnings forecast

BY CHARLOTTE MATHEWS

The new-look Barlows, which unbundled its interests in CG Smith, Reunert, Rand Mines and Rand Mines Properties in January, improved earnings above forecast to 170,5c a share in the year to September.

This is 35,3 percent better than the pro forma 126c a share in the same period in 1993 and slightly above the forecast of 168c a share made in October, when the group announced a \$75 million convertible bond issue.

Turnover grew by 9,4 percent to R12,9 billion and operating profit lifted 25,3 percent to R583,5 million as margins improved on a combination of higher operating efficiency, increased market shares and a focus on cost control.

The interest bill dropped to R178,3 million from R230,8 million, showing gearing at only 13,4 percent.

The group also holds R707 million in cash, which operations director Russell Chambers said yesterday would be used to fund higher working capital requirements in the current year.

The tax rate eased to 36,9 percent from 45,6 percent, thanks to STC credits on various investments.

Attributable profit surged by 37 percent to R338,6 million. A total dividend of 56c has been declared.

An extraordinary credit of R33,7 million arose on profits on disposals, including the Randgold stake, less goodwill written off.

Chairman Warren Clewlow said he was pleased with the results.

The largest contributor to earnings was PPC.

Barlows Equipment lifted earnings significantly as demand for earthmoving equipment, parts and service and for materials handling equipment strengthened.

Federated-Blakie achieved an operating profit on higher



Warren Clewlow pleased with results.

volumes, reflecting the home building industry's emergence from recession in the later part of the year.

All divisions of Plascon contributed to a better performance and Robor Industrial Holdings increased its earnings through market focus and good asset management.

Barlows Consumer Electric Products made a small loss because the market for consumer appliances remained depressed, but higher demand for motor vehicles helped Barlow Motor Investments improve earnings.

The overseas operations, housed in J Bibby & Sons, reported a pre-tax profit of £19,6 million, mainly because of a reduction in the loss made by the capital equipment division in Spain and Portugal, as well as lower borrowings and a stronger pound.

Clewlow said Barlows' experienced management, strong brands, market share and ample production and financial resources placed it in a good position to make a worthwhile improvement in earnings in the coming year.

Barlows shares firmed 50c to R33,25 on the JSE yesterday, putting them on a P/E of 19,5 on the latest figures, where they are ahead of the building sector average of 15,8, but slightly behind the diversified industrial holdings sector average of 20.

Restructuring at Barlows pays off

Bibby 15/11/94

BEATRIX PAYNE

BARLOWS reaped the benefits of its unbundling and a boom in fixed investments during the second half to show a 37% surge in earnings to 170,5c a share for the year to September, it said yesterday.

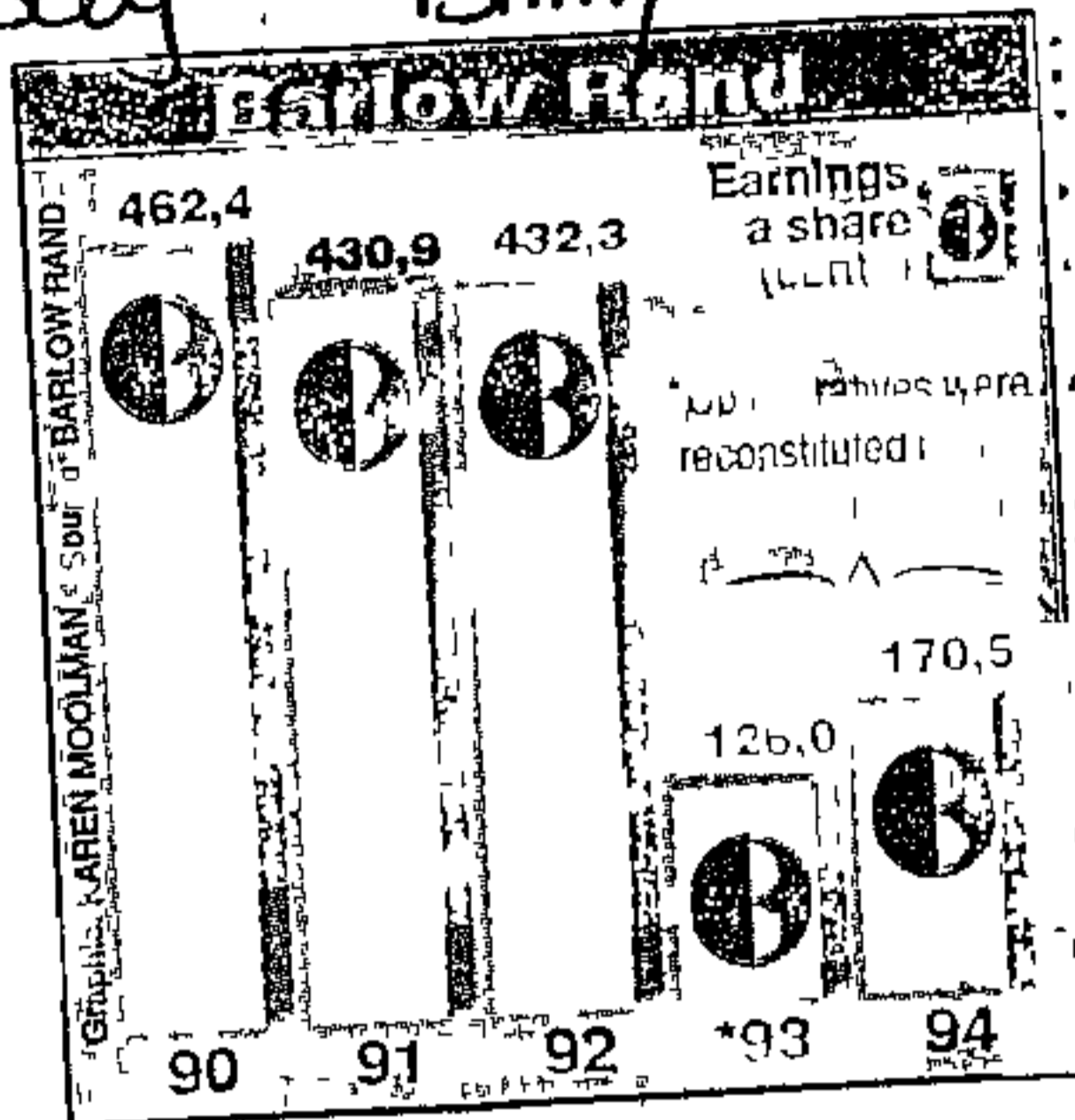
The results were slightly ahead of expectations as the group — which was now focused on construction and building interests — had announced in October that earnings would rise 33,3% to 168c a share.

"This shows that restructuring to our current position was correct and once the uncertainty over the election period was over, all the sectors improved," financial director Des Arnold said.

The comparative figures for financial 1993 were reconstituted in line with the restructured group.

Turnover rose 9,4% to R12,9bn despite the disposal of certain non-core businesses largely related to the group's offshore operation J Bibby. (232) (232)

Operating margins improved on the back of improved operating efficiencies, increased market shares and a focus on



cost control. As a result, operating profit before interest rose 25,3% to R583,5m.

With reduced borrowing, interest paid fell to R178,3m (R230,8m). Income from investments rose to R231,1m (R214,2m), which left pre-tax income 41,7% higher at R636,3m. The tax bill increased 31,7% to

To Page 2

Barlows

Bibby 15/11/94 From Page 1

R223,9m despite a fall in the effective tax rate to 36,9% (45,6%). The higher tax payment reflected an increase in profit, but had been reduced by the group's secondary tax on companies' credits. This left after-tax profit 47,8% higher at R412,4m (R279m). Profit after tax including associate companies rose 38,4% to R413,6m.

Profit attributable to ordinary shareholders increased to R338,6m (R247,3m) and a final dividend of 38c a share was declared, lifting distribution to 56c a share.

The group declared an extraordinary profit of R33,7m (R62m loss) after write-offs and the sale of certain assets including Randgold. Gearing was down to 13,4% and the group had R707m cash on hand, chairman Warren Clewlow said.

Increased demand for cement and lime and higher income from investments saw a strong performance from Pretoria Portland Cement (PPC). (232) (232)

Demand for earthmoving and materials handling equipment "strengthened considerably". Federated-Blaikie reported an operating profit as the home building industry emerged from a recession and volumes

improved during the last four months of the period, he said.

Plascon continued to show growth and Robor Industrial Holdings saw earnings increase on the back of "focused marketing and good asset management".

But Barlows Consumer Electric Products reported a loss as the market for small consumer appliances remained depressed. Barlow Motor Investments produced higher earnings as demand for new vehicles rose, despite the effects of the motor industry strike.

J Bibby was restructured and produced better results as the Capital Equipment division in Spain and Portugal reduced its operating loss before interest to near breakeven point.

After raising \$75m on the international bond market, funds were in place to expand the group's recently acquired Caterpillar operations in Angola, Malawi, Zambia and Mozambique.

The group was well placed to "play a positive role in the national interest" and a "worthwhile increase" in earnings was expected for the year ahead, Clewlow said.

CG Smith subsidiaries head for mixed results

BEATRIX PAYNE

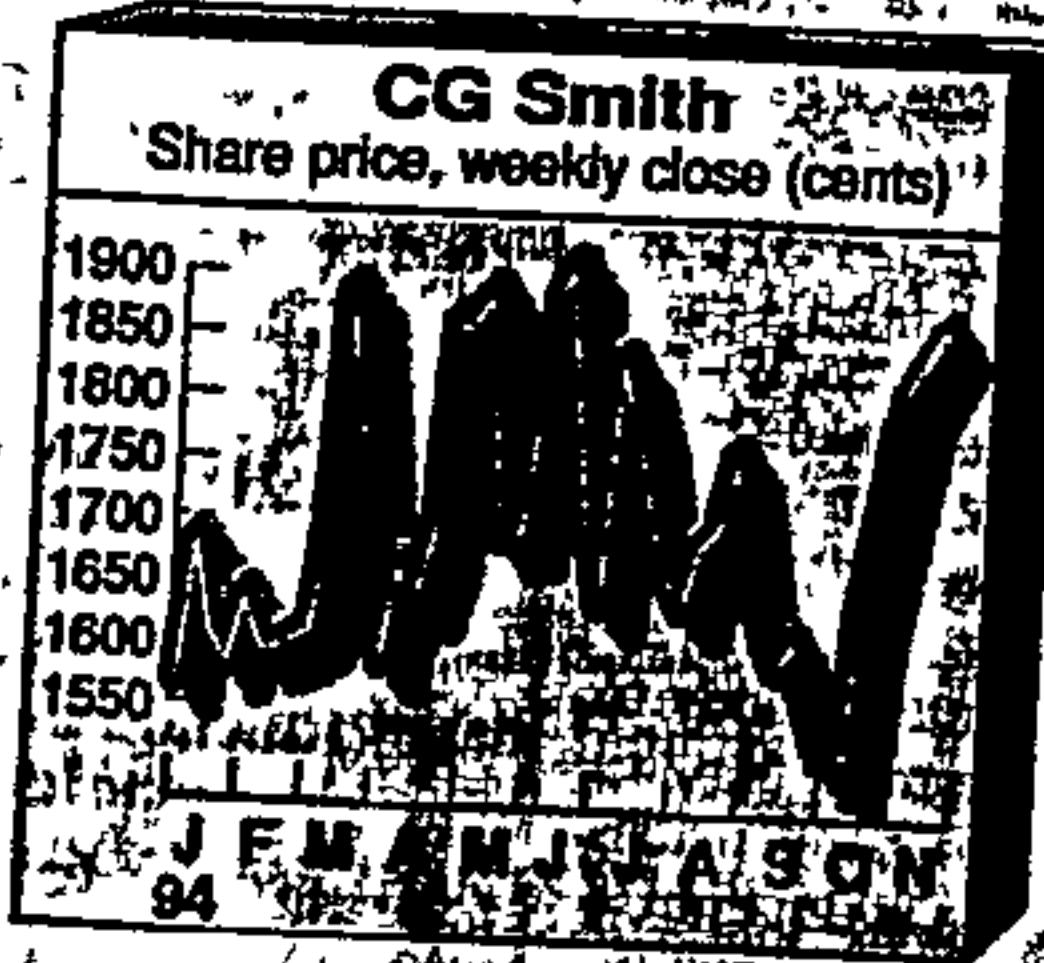
A MIXED performance from its subsidiaries was likely to see CG Smith Holdings show a 10%-12% rise in earnings for the year to September, analysts said yesterday. The group is due to report results this week.

The effects of an early upswing in consumer spending had been evident, particularly during the second half, but profits at many subsidiaries were affected by rationalisation costs, CG Smith said.

These costs had been taken above the line and it was difficult to estimate their extent. But with the benefits paying off during the current financial year, there was no sector within the group likely to post earnings growth of less than about 25% for financial 1995, one analyst said.

"We are fairly firmly into an upswing in consumer spending, but the transition levy could be a wildcard." Despite the levy leaving the majority of consumers unaffected, it was likely to hit middle-income groups. But it was likely to have only a short-term effect on spending.

The group's chief subsidiary, CG Smith Foods, was likely to show earnings growth of below 10% on the back of disappointing results from Tiger Oats, one analyst said.



"The food industry has been particularly upset this year with deregulation and problems in the maize industry," he said.

CG Smith Food reported an 8% fall in earnings to 152.1c a share for the half year to end-March. It was reported that the reduced contribution by CG Smith Sugar and operation losses in the egg and broiler operations had triggered the losses.

Illovo Sugar, formerly CG Smith Sugar, reported an 11% rise in attributable earnings for the year to September after shrugging off the effects of drought during the first half. The division performed ahead of expectations, but its recovery was difficult to predict as it relied strongly on agricultural conditions.

Tiger Oats posted a 3% rise in earnings a share after sales rose 9%.

to R10,97bn. The group said earnings would have been higher but for a bad debt of R20m incurred by the international division.

Packaging division Nampak had shown "very good results" and had performed ahead of expectations, one dealer said. Rationalisation costs had obscured many of the benefits, but it reported a 17% rise in earnings to 71.9c a share after turnover rose 5.4% to R4.8bn.

Romatex's 37% earnings rise reflected a recovery off a low base and there was still a certain amount of value that could be added to the group, the dealer said.

The main benefit of the separation of Romatex from Island View Holdings would be to unlock latent value in Island View.

The holding company would hold the Island View storage, automotive components, extruded fabrics and non-woven products divisions.

ICS Holdings had done "very well", particularly during the second half, and reported a 20% increase in earnings to 197.5c a share.

One analyst said most investors preferred to invest in the group's listed subsidiaries as earnings growth in the holding company could obscure the better performers. He said unbundling of the group was a possibility as some of the subsidiaries had solid underlying growth.

FilmNet buys back shares from Dutch broadcaster

M-NET's loss-making European pay-TV operation FilmNet bought back shares in September previously owned by Dutch commercial broadcaster RTL 4SA, giving M-Net and Swiss-based luxury products group Richemont equal and total ownership of FilmNet.

None of the M-Net group's senior executives were available yesterday for comment. The transaction involved all the shares RTL 4 bought in July 1992.

FilmNet Television Europe MD Hans Klok said FilmNet's objective was to develop, extend and improve pay-television in Europe. "RTL's decision not be part of FilmNet equity offers new perspectives on strategic alliances in the future, particularly in the Dutch market."

RTL 4 CEO Henri Roemer said FilmNet's capital increase in March reduced RTL 4's share to 6.8% from 10%. "As a consequence, FilmNet is no longer of interest to RTL 4 in a strategic partnership," he said.

AMANDA VERMEULEN

While FilmNet continued to make a loss, it was expected to break even in 1996. But it was constantly expanding its services, with the latest venture being the launch of the first pay-television channel in Greece. The channel would broadcast 24 hours a day, with a focus on international films and a strong sports bias.

The Greek operation would be controlled by Greek company Super Hellas, while MultiChoice Greece would handle subscription services in a joint venture with Greek commercial channel Mega, NetHold and L-TV, a pay-television channel of the MultiChoice group in Cyprus.

M-Net said yesterday MultiChoice would target the Middle East next year, and had already been involved in discussions with pay-television operators in several countries in relation to subscription management. M-Net will be publishing its interim report tomorrow.

Coal trucks to be tested

MICHAEL URQUHART

PROBLEMS with the wheels on coal trucks could affect 15% to 20% of the truck fleet on the Richards Bay Coal Terminal (RBCT) line, regional manager Thys Engelbrecht said.

Two derailments on the line in early October had disrupted coal exports. Spoornet is still working to get the line back to full capacity.

Engelbrecht confirmed there had been a third derailment on the line, but said it had taken place in a repair siding and would not affect capacity.

A manufacturing problem on wheels bought 10 to 12 years ago meant certain wheels were not up to standard tolerance levels, he said. Impurities in the casting process had caused the problems.

Engelbrecht said the affected trucks would have to go through a lengthy testing process. Trucks which did not reach the required tolerance level would be withdrawn.

Meanwhile, affected trucks were being run below tolerance. Teams were being drawn from other regions.

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CG Smith earnings grow despite lacklustre sales

BEATRIX PAYNE

FOOD, packaging and pharmaceuticals holding group CG Smith posted a 12,5% rise in earnings to 106c a share for the year to September on the back of tighter cost control, chairman Derek Cooper said yesterday

The rise was fractionally above market expectations and was all the more remarkable as volumes during the year had shown virtually no growth, he said

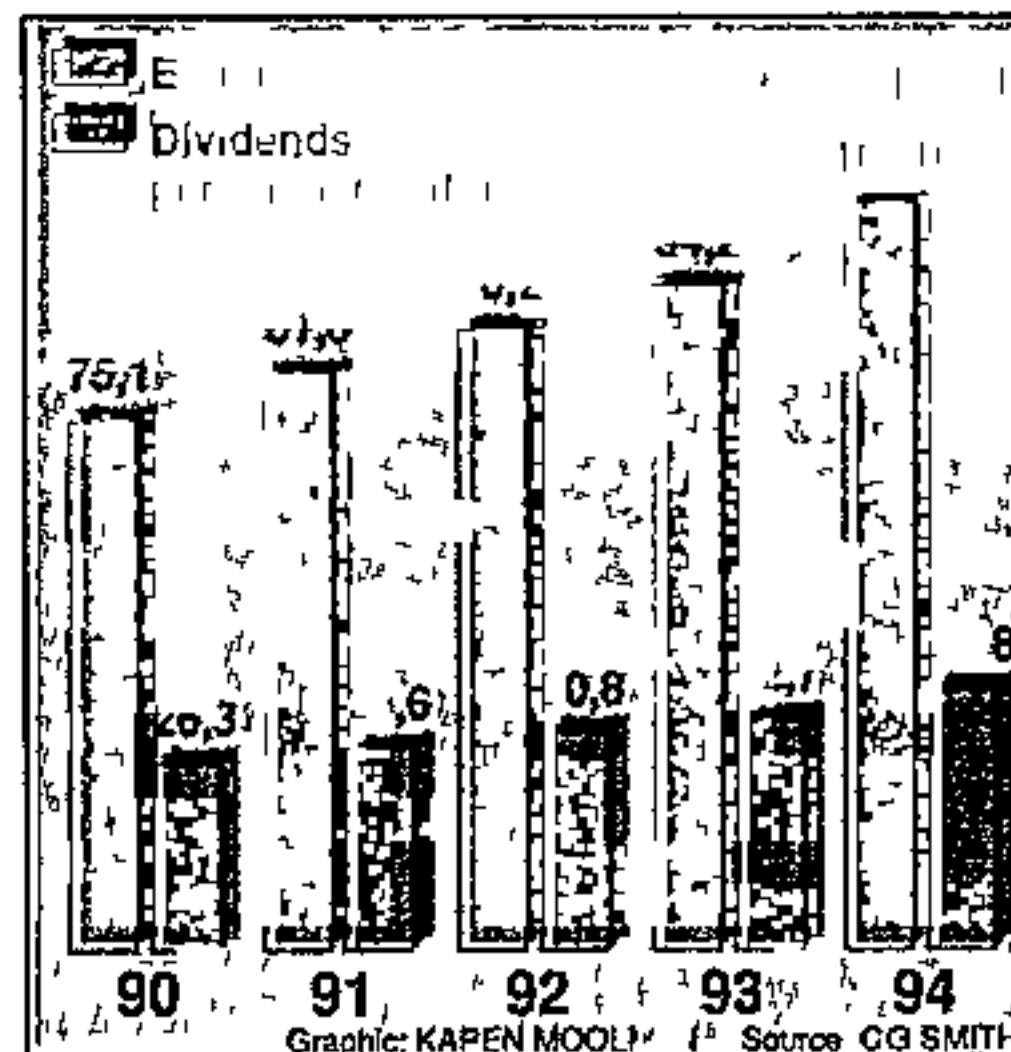
"Growth in sales of non-durable products was very sluggish this year and we are very pleased with the results," he said

Sales rose 9,1% to R20,9bn and the operating margin improved slightly on the back of cost reductions and internal efficiencies. Operating profit rose 9,3% to R1,6bn

Funding costs halved to R60,2m from R122,9m as "sound asset management" benefited cash flows. The tax bill rose to R511,1m (R436,8m) as the effective tax rate rose 1% to 34%, profits improved at certain subsidiaries and the STC rate increased

This left after-tax profit, including associate companies, 11,8% higher at R1bn. Funds attributable to shareholders rose 12,6% to R499,3m

Extraordinary items more than



doubled to R134,8m (R51,6m) after goodwill written off and the disposal of certain operations. The group declared a dividend of 36,8c (32,7c)

CG Smith Foods posted a 7,1% rise in earnings to 327,1c a share after Illovo Sugar rallied during the second half. An improved sugar crop saw earnings at Illovo increase by 11% for the full year (100) (232)

Turnover rose 10,4% to R15,3bn despite difficult trading conditions which placed pressure on volumes and margins

Operating profit increased 9,7% to R935,5m and funding costs fell to R57m from R94,4m during the previous year. This left pre-tax profit 15,8% higher at R878,5m

A fall in the nominal rate of company tax was offset by the transition levy and an increase in STC and the tax bill rose to R281,3m (R216,3m)

Attributable earnings increased to R309,1m (R288,7m) and a dividend of 106c a share (99c) was declared. Extraordinary items surged to R156,9m (R57,3m) on the back of restructuring at its subsidiaries

Cooper said the restructuring of CG Smith's subsidiaries had been crammed into the last 18 months due to deregulation of the agriculture sector and other

Tiger Oats fell victim to depressed consumer spending and posted a 3% rise in earnings. However, the group was undergoing a major restructuring and a number of its operations had been realigned

Cooper said the restructuring of the group's overall operations had helped to improve competitiveness and it was well placed to benefit from "any increase in consumer spending on non-durables"

Vice chairman Robbie Wilhams said spending on non-durables had "firmed" since September

"We are quietly confident of real growth in earnings during the current financial year," Cooper said, adding that company earnings should be above inflation

M-Net reaps benefit of more subscribers

Star 16/11/94
■ BY CHARLOTTE MATHEWS

Steady growth in subscribers and advertising revenue boosted M-Net's attributable profit to R14,5 million in the six months to September.

Comparisons with the previous year are meaningless since M-Net transferred some of its businesses to MultiChoice in October 1993.

The two companies now trade as a single linked share on the JSE.

M-Net's turnover was R252,7 million, on which operating profit of R24,3 million was made. Earnings a share were 6,6c.

The company's policy is to declare only a single dividend at the end of the financial year.

The number of M-Net subscribers at the end of September was 900 000 and various M-Net channels are now available in 32 countries in Africa.

M-Net chairman Ton Vosloo said yesterday there was still some scope to expand penetration of the SA market, already high.

Elsewhere in Africa penetration levels were still low and there was substantial potential to expand the number of subscribers.

M-Net transmissions to Egypt begin next month

MultiChoice, whose businesses are subscription

management services, specialised services and cellular telephones, made a bottom-line loss of R32,7 million on turnover of R493,8 million.

The loss was mainly because of the investment of R131,6 million in new developments in pay TV and cellular phones.

Development losses are expected to continue for the next two years before overall profitability is achieved.

This translated into a loss of 14,7c a share, compared with a loss of 9,6c a share in the six months to March 1994.

At the end of September, MultiChoice offered subscription services to 900 000 households. FilmNet, which offers European subscription TV channels, had lifted its subscriber base to 715 000 from just under 700 000 six months previously and was targeting to reach 800 000 homes within the next year.

Cellular phone operator MTN, in which MultiChoice holds a 25 percent stake, has substantially exceeded budgeted growth (202) 232

Vosloo, who is also chairman of MultiChoice, said the company was gratified with this performance.

Cellular service provider M-Tel, 60 percent-owned by MultiChoice, is also meeting expectations.

TML associates knock earnings

A 28% surge in Times Media Limited's (TML) operating profit in the six months to September was overtaken by a fall in associated companies' earnings — leading to a 20% decline in earnings a share to 74c

Earnings excluding retained earnings of associates were up 4% at 87c a share. An interim dividend of 28c (24c) was declared. Associates contributed a R3m loss to the bottom line, from a R7.1m profit in the same period last year, after the sale of associated companies and the effect of development losses in the M-Net/MultiChoice group. The net effect was an 18% drop in profit before extraordinary items to R17m.

The period ended with significant cash resources — R127.5m — which could be deployed in further business development. The directors said the group's strong financial position would enable it to take advantage of new business opportunities.

Turnover rose to R215.5m (R184.8m) as the economic upturn, election advertising and cellular phone launches boosted adver-

tising volumes. Turnover totalled R377.7m in the year to March 31.

Core publishing operations, particularly Business Day, the Sunday Times and the Financial Mail, increased operating profits, which gave rise to an operating profit before abnormal items of R30.2m (R23.6m). Higher interest receipts led to a pre-tax profit of R35m (R23.9m), and taxed profit was R20m (R13.6m). Profit on the sale of interests, such as newspaper titles to Argus Newspapers, generated an extraordinary profit of R40.3m (R5.9m) to give a profit after extraordinary items of R57.3m (R26.6m).

Circulation revenue increased with higher cover prices and the launch of Playboy. However, intense competition meant there was little scope for advertising rate hikes despite a 15% increase in advertising volumes for the three newspapers of the Transvaal division.

To Page 1

TML

The Eastern Cape division also produced good results, helped by contributions from commercial printing contracts.

Niche publishing operations produced steady results, despite Thomson Publications incurring substantial costs with May's launch of the new Software World magazine. The magazine division, while not yet profitable, produced better results than last year. Playboy had established itself as the market leader and was expected to become profitable soon.

The exhibition division produced lower contributions after the business was transferred to a new company, TML Reed Exhibitions, and the sale of 50% of the new company to Reed Exhibition Companies. The board expects the benefits of this arrangement to become apparent in time.

TML's share of the M-Net/MultiChoice group earnings switched to a negative R3.3m (R2.4m). This was in line with expectations as MultiChoice is developing its European pay TV interests and its SA cellular phone interests. The SA pay TV interests of M-Net continued to perform well, the directors said.

The effects of the M-Net association are expected to continue, but trading conditions are also expected to remain buoyant.

Following a comprehensive restructuring of English language newspaper interests, TML is now 92% owned by Omni Media, the re-named Argus Holdings. Omni has indicated that it might make a bid for the 8% minority interests. If so, it is likely to float off the core newspaper interests as a separate listed company.

B Day

16/11/94

AMANDA VERMEULEN

B Day

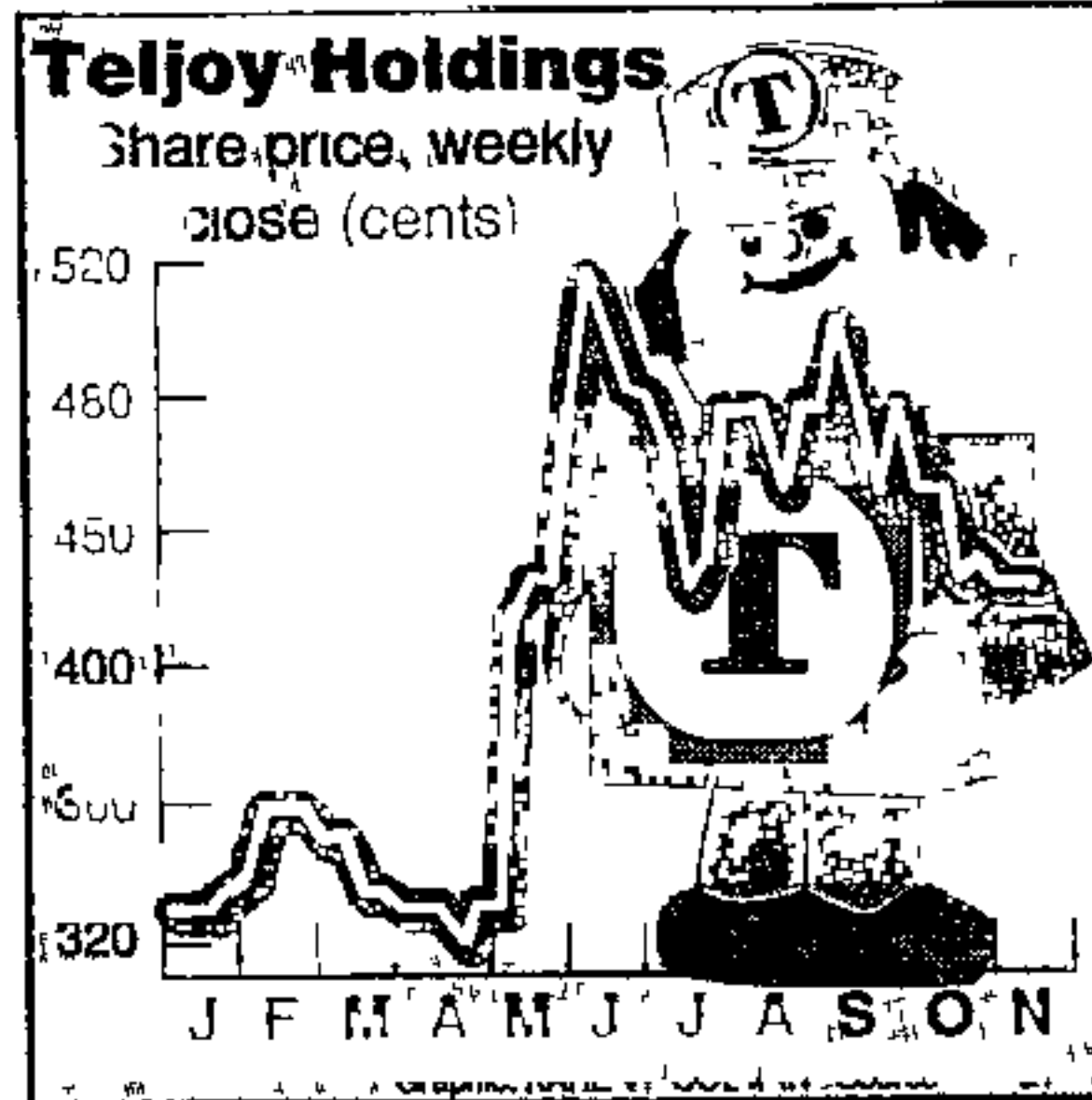
16/11/94 From Page 1

Teljoy reaches 'critical mass'

SELLO MOTLHABAKWE

TELEVISION rental and cellular phone service provider Teljoy lifted earnings 3,2% to R8,8m in the six months to September after borrowings related to an increase in the cellular division's subscriber base hoisted finance charges 77,9%

Teljoy chairman Theo Rutstein said cellular phone subscriptions had overshot the company's budget, reaching critical mass levels far sooner than expected.



Management had opted for short-term borrowings, which resulted in net financing charges rising to R4,6m (R2,6m). This was partially offset by a 29,8% reduction in the tax charge to an effective 22%. Full provision was made for secondary tax on companies and the transition levy.

Earnings before equity accounting for Teljoy's 50% interest in cellular phone subsidiary Afrilink rose 9,8% to R9,4m. An equity-accounted loss of R560 000 was attributable to Afrilink's late entry into the cellular phone market.

Consistent performances in the television rental and Mastercare divisions saw operating income improve 11,6% to R16,6m. Earnings a share were 15,2c (14,7c), and the interim dividend was maintained at 4,5c.

Rutstein said the short-term borrowings resulted in an increase in the gearing ratio from 76% at year end to 154%.

The company expected borrowings to increase in the short term, but drop sharply in financial 1996.

To Page 2

Teljoy

However, the high level of borrowings — coupled with rising interest rates — would result in increased finance charges in the short term. Attention was consequently being paid to the appropriate balance of long-term and short-term funding.

The company's core rental business remained a cash generator, with capital expenditure financed from revenue.

Rutstein said Teljoy's cellular operations had achieved "remarkable success" and had performed above expectations in its first six months of operation. The division had captured market leadership, accounting for more than 50% of Vodacom's

subscriber base. Management had discovered certain fraudulent activities in the cellular phone market. Detectives had been hired, and this had resulted in the recovery of a substantial number of handsets, some of which belonged to Teljoy.

He said the rental and Mastercare divisions were poised to benefit from opportunities arising from the launch of the Pan-Amsat satellite next year, and their entry into residential areas formerly considered too dangerous in which to do business.

Rutstein said the earnings growth would be maintained in the second half.

From Page 1

Tongaat boosted by restructuring

BIDay 17/11/94

BEATRIX PAYNE

STEEL and sugar group Tongaat-Hulett, boosted by its recent restructuring, reported a 43% rise in attributable earnings to R101,1m for the six months to September.

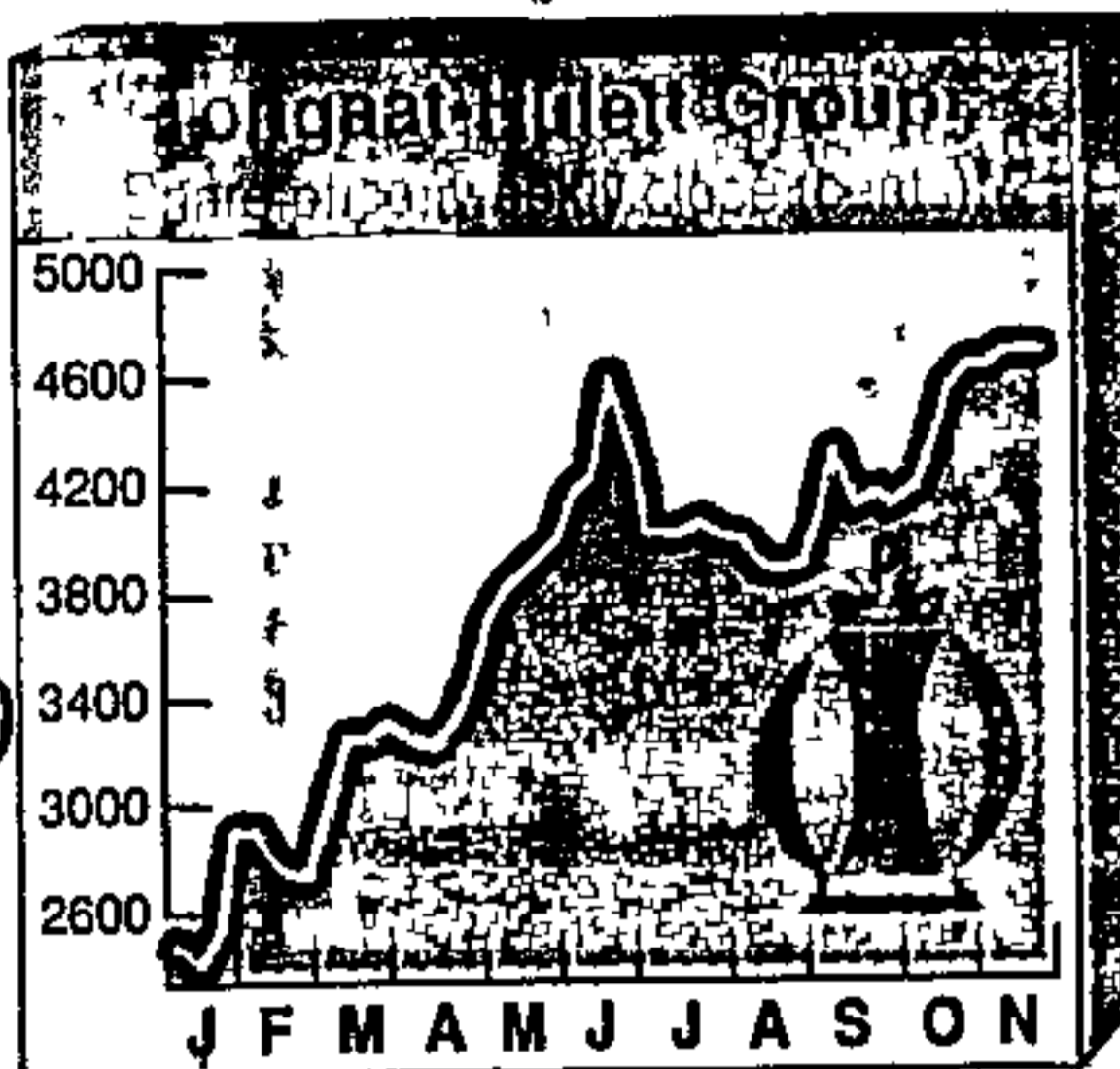
Earnings a share rose 41% to 111,3c and a dividend of 30c (20,8c) was declared

MD Cedric Savage said the group was likely to continue to perform strongly in the second half

Turnover increased 18% to R2,3bn despite trading disruptions in April and May. Improved margins as a result of cost cutting at its operations saw operating profit surge 50% to R172,7m (R115m)

Interest charges fell to R17,9m (R22,9m) after a strong cash flow and substantially reduced borrowings. This left pre-tax profit 68% higher at R154,8m. Net borrowings fell 42% to R285,4m and Savage said the group expected to have no borrowings by year-end. The tax bill surged 134% to R50,6m as certain tax allowances in its farming operations no longer applied. After-tax profit rose 48% to R104,2m.

The group declared an abnormal income



of R18,7m arising from tax credits, but that was offset by abnormal payments related to the transition levy and a R13m provision for retirement medical benefits.

The dividend would be awarded as a capitalisation issue but shareholders could elect to receive it in cash.

All divisions showed an improved performance. The biggest contributor to profit

To Page 2

Tongaat

BIDay 17/11/94

From Page 1

was the sugar division, which showed "satisfactory" growth in earnings, although the drought was still affecting its performance. The division reported a net operating profit after tax of R46,7m (R20,5m). Tonnage rose 38% to 458 000 tons and the group had benefited from "good" export prices.

The Heatonville irrigation scheme, which was opened this month, would have a beneficial effect on earnings.

The building materials division experienced stronger demand off a low base and net operating profit rose to R8m (R1,9m). Capacity levels had reached about 80%.

Net operating profit from the consumer foods division rose to R8,9m (R7,3m) after

it refocused its operations on retail, catering and exports. A number of new products would be launched next year through the venture with CPC International.

The starch and glucose division showed "steady" growth and earnings from both the aluminium and textiles divisions doubled. Savage said the board would make a final decision in March on a proposed R1,6bn expansion of rolled products capacity in the aluminium division.

The group had committed R286m to capital expenditure to reinforce the competitiveness of its core businesses and Savage expected earnings to continue to grow in the second half.

SRG gets stake in Aussie chain

WOOLTRU's Select Retail Group (SRG) had acquired a 90% stake in Australian fashion chain Sportsgirl-Sportscraft, SRG MD Eddie Parfett said yesterday

The remaining 10% of shares would be held by the Australian group's MD, Frank Whitford, who would retain his position in the group.

SRG operates through Truworthis, Topics and Daniel Hechter, and Sportsgirl through a 131-store chain catering for men's and women's fashionwear

The total consideration of R129m included borrowings and would be partly financed by offshore funds. The balance would be financed through bank facilities arranged in Australia by SRG.

Wooltru CE Colin Hall said the group

B/Dou
BEATRIX PAYNE

was very excited about the deal but it was not set to contribute to the bottom line within the first year. 18/11/94

"This investment represents less than 2% of our equity and we are not in it for immediate profit," he said.

Truworthis MD Michael Mark said the chain had been making a loss over the last year. He said the group was likely to return to profitability "reasonably quickly".

The chain had been short of capital investment but overhead costs had been "very well contained", Whitford said

Both markets had compatible seasons and Parfett said there were "enormous possibilities" in the venture

Privatisation, sale of assets key to funds

(232)

~~231~~

CT 18/11/94

JOHANNESBURG — Achieving the aims of the Reconstruction and Development Programme depended on the sale or privatisation of many of the state's assets, coupled with private-sector growth.

This was said by Free Market Foundation executive director Mr Leon Louw at yesterday's summit.

The cost of the programme far exceeded what the government had hoped to spend on it.

"There is less scope for redirecting existing expenditures towards the RDP than had been assumed.

"The only hope therefore, for achieving the RDP, is if most of its goals are the result of private-sector growth and activity."

In addition to stimulating private-sector growth, the state needed to sell some of its vast land holdings and assets suited to privatisation.

Research showed that assets suited to privatisation had been substantially undervalued in the past. More recent estimates valued them at about R600 billion.

"R600 billion is the equivalent of nearly R20 000 for every black South African, or R100 000 for every household of five. In other words privatisation, if done in ways that benefit ordinary people directly, could bring about material, tangible and immediate benefits for the disadvantaged" — Sapa

ARGUS NEWSPAPERS
Structural change

18/11/94
 (232)

Cutting unprofitable operations and a late surge in advertising revenue boosted the bottom line for Argus Newspapers, in first results to be published since its sale to Tony O'Reilly's Independent Newspapers and the resultant separate listing in June

Strong 20% growth in operating profit was influenced by the closure of the *Sunday Star*, full profits from the Cape Joint Operating Agreement, and the changed ownership structure of the *Sowetan* newspaper Argus sold 50% of the *Sowetan* to recently listed Corporate Africa, the stake is now held by New Africa Investments

MORE FOR MARGINS

Six months to	Sep 30 1993	Mar 31 1994	Sep 30 1994
Turnover (Rm)	374	359	368
Operating Income (Rm)	14,8	44,5	17,8
Attributable (Rm)	7,9	23,5	11,0
Earnings (c)	18	54	24
Dividends (c)	—	16,9	10

Firm operating margins are a reflection of depressed conditions in the previous period, though turnover remains static CE John Featherstone says retail advertising began to pick up only in mid-May

"Turnover was partly affected by our March year-end. Most retailers spent heavily in March, assuming that April would be a write-off with the elections and public holidays. Then we had the Pick 'n Pay strike and the motor industry strike which affected advertising," he says

Since May, however, advertising revenue has picked up strongly. With Argus traditionally a second-half company, that points to good results for the full year as long as the economy continues to recover

Against these results, the performance of the share price appears disappointing. At R11,25, it has failed to regain the high of R15 it reached soon after listing

At the same time, however, that high was reached on thin volumes, and it could be argued that the price was artificial. Independent Newspapers paid about R11,45 a share for the controlling interest in Argus. On a price of 15,6 there could be some value in the share.

Shaun Harris

JD GROUP *Feb 18/11/94*
Evidence of turnaround

Activities: Furniture retailer operating seven chains — Bradlows, Russells, Joshua Doore, Price 'n Pride, Score, Giddy's and Montana Harmony

Control: No major shareholder

Chairman & MD: I D Sussman

Capital structure: 70,9m ords Market capitalisation R939,4m

Share market: Price 1 325c Yields 1,4% on dividend, 8,2% on earnings, p e ratio, 12,3, cover, 5,7 12-month high, 1 500c, low, 500c Trading volume last quarter, 1,7m shares

Year to June 30	†'90	†'91	†'92	*'94
ST debt (Rm)	0,2	0,3	15,1	8,3
LT debt (Rm)	0,2	nil	18,9	121,8
Debt equity ratio	—	—	—	0,16
Shareholders' interest	0,37	0,54	0,50	0,50
Int & leasing cover	3,8	3,0	—	4,0
Return on cap (%)	12,6	10,4	6,8	11,2
Turnover (Rm)	646	542	457	1 638
Pre-int profit (Rm)	83	46	36	147
Pre-int margin (%)	12,9	8,4	7,8	9,0
Earnings (c)	143,2	90,9	103,1	162,1
Dividends (c)	22	22	22	28
Tangible NAV (c)	597	666	736	926

† 12 months to Dec 31 * 18-month period

Selling furniture is a tough game, competition is fierce, margins are tight, the

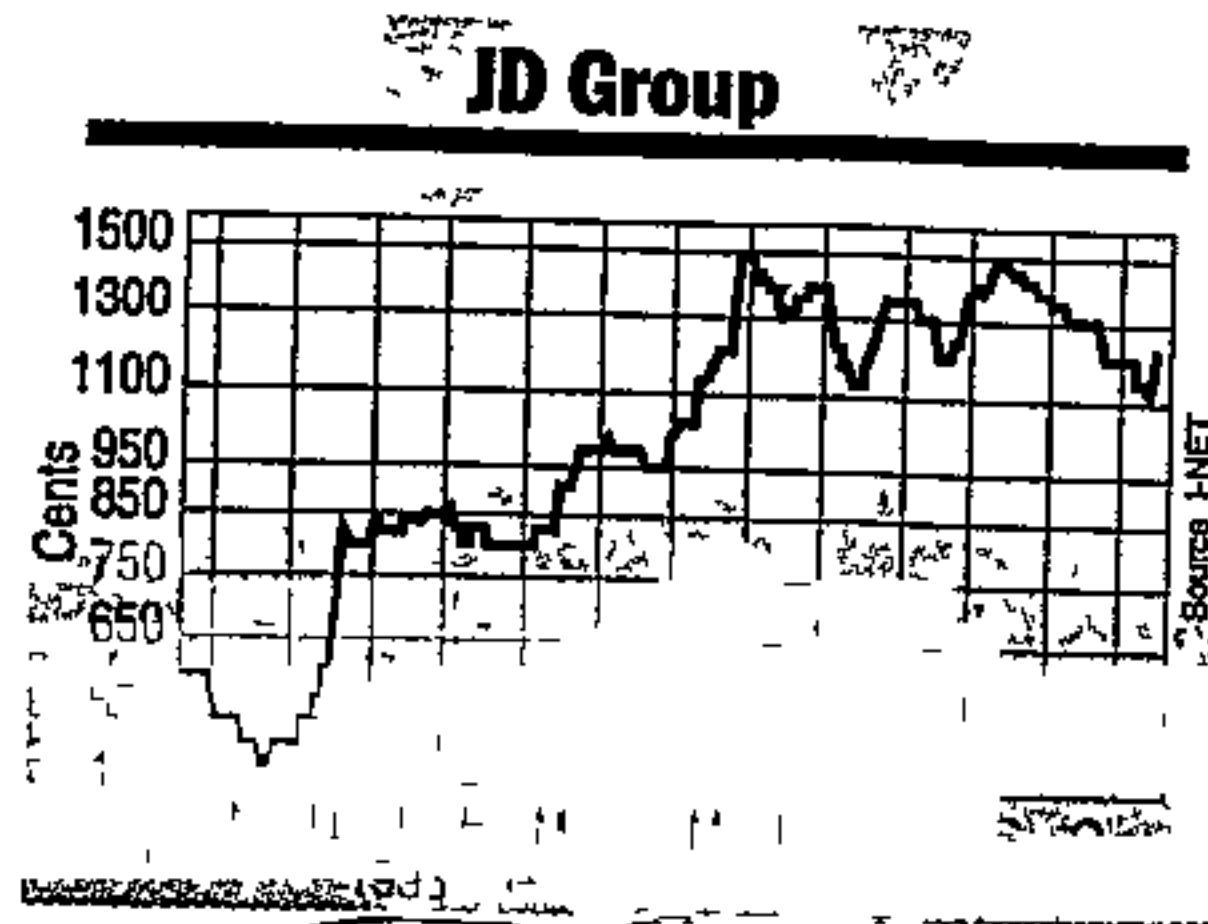


Sussman effort to reduce repayment terms

recession has bitten deep And SA's biggest retailer, JD Group, has just completed an 18-month year which makes comparisons impossible and conclusions difficult

The share price rose sharply from the year-ago 490c to R15 in May and then, not surprisingly, stopped It has meandered along since

Feb 18/11/94
 One reason for this good performance is that the group is gaining market share MD David Sussman says sales since the year-end show an increase of 10% — despite negative effects of the motor strike and the transition levy on consumer spending — and JD is ahead of budget at the bottom line; it has done this with fewer outlets, which suggests it didn't need such ex-



posure, one reason why Rusfurn got into such trouble in the first place

Nevertheless, management has evidently achieved what many sceptics thought impossible — in less than a year, JD has absorbed Rusfurn and turned it around This is an impressive showing by an aggressive management team Pro forma figures for the 12-months to June show EPS up 21% to 125c.

Adjusted figures show turnover for the year to June up at R1,82bn and margins of the extended group better at 9,9% against 1993's 7,8%, benefiting from a different sales mix.

The inclusion of financing vehicle JD Sales — re-acquired and incorporated after the increase in STC made the previous structure unattractive — was behind the jump in finance costs to R72m from an annualised R24m

Gearing of 0,77 (0,16 excluding JD Sales) is high, though Sussman says this should fall below 0,50 within the next two years Much effort has been channelled into reducing repayment terms the resultant positive effect on cash flow is only now being seen

Earnings were bolstered by the large S24 tax allowances, which will effectively eliminate tax over the next four years

Group debtors arrears at the end of June were 11,9%, down from 14,1% the previous year Total write-offs in respect of bad debts were 4% of the overall gross book, the average collection period, says Sussman, is 12 months

He is confident of JD's ability to achieve ongoing real growth in earnings, reduce gearing and improve margins

Despite the good run in the price, the counter, on a p e of 11,6, is rated will below Ellern's 19,6

This suggests the market wants further evidence of quality — and sustainable — earnings growth

Marvlon Greig

We'll keep our jewels'

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WM(BM) 18-24/11/94

Jay Naidoo lays down the law on privatisation, aiding the RDP and the public sector
Reg Runney reports

TELKOM and other parastatals will not be privatised, according to Minister without Portfolio Jay Naidoo. In a hard-hitting and wide-ranging speech at a breakfast hosted by the *Mail & Guardian* in Johannesburg last week, Naidoo also said the salaries of certain levels in the public sector would be frozen.

And he warned companies against merely renaming their social investment departments as reconstruction and development programme (RDP) units, calling for a more creative approach.

At the breakfast, where the *WM&G* Investing in the Future Awards were handed out, Naidoo spelt out the basic approach of the RDP. "Essentially we are talking about a growth and development strategy. Many cynics and perhaps people who naively misunderstand the RDP, see it as a set of ad hoc charitable projects."

Naidoo suggested the "belt-tightening exercise" be called Operation Overhaul, because its aim was overhauling the system that has wasted important and limited resources. It was an attempt to revitalise the economic, social and political fabric of society. Naidoo said South Africa had achieved a political miracle, but the task ahead was to shake the rest of the system out of the lethargy.

One of the components was the cabinet salary cut. "This is more than just symbolic. It is an indication of our seriousness in addressing a fundamental issue: the wage gap between those at the higher levels of decision-making and those at the lower levels." Naidoo said he hoped the spotlight would now fall on narrowing wage gaps in the public and private sector.

The second crucial element was fundamentally restructuring the public sector. He said the civil service was bigger than South Africa could afford, with anything between one and 1.2-million people

The public sector had to be cut down to an affordable level and made to deliver efficient and effective services to the whole population. Within the public sector there were enormous discrepancies, with most workers at the bottom level earning less than R1 000 a month, while at the upper echelons the basic salary package of directors general was R266 000, beside perks.

The government would use scarce resources to close this gap. It would begin to address training and affirmative action, increased efficiency and productivity, and career pathing. This meant that at a certain level wages in the public sector were going to be frozen and those resources released to close the wage gap. Despite the threat of strikes.

"We have allocated R2,5-billion to salary increases this year. The majority



Minister Without Portfolio Jay Naidoo: 'Do we want to buy Corvettes for R1,2-billion, or build houses with that money? That is the choice' PHOTOGRAPHS RUTH MOTAU



Toyota SA executive chairman Albert Wessels (centre) was at Johannesburg's Market Theatre Precinct to receive an Investing in the Future award. With him are Triple Trust Organisation director Hubert Hlabangane (left), and National Economic Forum secretariat head Debra Marsden (right)



Virginia Oglvie-Thompson accepts an award from Business Mail editor Reg Runney for Southern Life's role in the Triple Trust Organisation

of that is going to go towards bringing the bottom up — and if people don't want to accept it, then it is too bad."

Now R151-million was being made available for a small area relating to overtime payments for professional staff in the hospitals. But not a cent more would be allocated.

"The third element is reprioritisation," Naidoo continued. "It is important people understand this is the kernel of what the RDP is about."

While the R2,5-billion RDP Fund provided for in the Budget would kick-start RDP programmes and, more importantly, begin to leverage changes within the Budget, this would mean difficult economic and political choices. "Do we want to buy Corvettes for R1,2-billion, or build houses with that money? That is the choice."

There were also choices to be made within departments. "Eliminating the wastage, the corruption, the mismanagement of funds is at the core of the

RDP, and to begin to shift resources towards priorities of the RDP."

While the RDP fund would be used to build necessary schools or clinics, changes in the health and education budgets would pay for the running costs of those institutions.

The next element of Operation Overhaul was measurement of the government's performance, with key management information systems being put into place, allowing both the government to monitor itself and society to monitor government.

The final element was the review of all state assets, to see which did not fit into the objectives of the RDP and could be sold off. "But we maintain there are important state institutions central to the RDP. We will not sell off crown jewels such as electrification, the core of telecommunications and the public transport system."

Social investment winners

TOP honours went to Toyota SA, Southern Life and Pick 'n Pay in the *Mail & Guardian's* social investment awards.

Toyota SA chairman Bert Wessels and Southern Life Foundation executive director Virginia Oglvie-Thompson accepted awards for their companies' contribution to social investment at a breakfast ceremony in Johannesburg last Friday.

They were co-winners of this year's *WM&G* Investing in the Future Project Award; Toyota for its Toyota Teach Project, and Southern Life for its role in the Triple Trust Organisation.

Mary Rodney accepted an award for Pick 'n Pay, winner of the social responsibility reporting award.

The awards are granted in conjunction with the annual supplement to the *WM&G*, Investing in the Future.

Crown jewels

■ From PAGE B1

Those that related to the provision of basic services to the majority the government would certainly use to advance the RDP goals.

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Linked with major decisions on state assets were releasing resources to address poverty and meeting basic needs and sustainable economic growth. A campaign would be launched to get communities involved.

Naidoo warned that the RDP was not a bible, and people had to think for themselves about how to make their contribution. He called for a type of wartime effort, or the kind of effort that rebuilt England and Germany after the war.

It was myth that South African wages were too high and that this made South Africa uncompetitive, he said. The competitive edge did not lie in cheap labour, though labour was a factor, but in investment in human resource development, in science and technology, in marketing techniques and in identification of niche markets internationally.

"We are prepared to support that economic growth path, but we have to be able to compete in the value-added part of the production chain. We will

never compete with the one-dollar-a-day economies."

Naidoo said investment in the productive sector of the economy had to be increased. "We cannot survive as a casino economy, with paper chasing paper on the JSE.

"The real test of whether we succeed as a country is how many permanent jobs we create. That is what ultimately sustains the developmental path or the RDP."

The state's role was to redirect billions of rand into investments in infrastructure, housing, electrification, transport. This created enormous opportunities for entrepreneurs.

Businesses had a responsibility, he said, to shake off their lethargy and stop claiming everything they did was RDP-related. He had noted social responsibility departments were suddenly being transformed into RDP outfits, but this was not what the RDP was all about.

Businesses had to put their thinking caps on and look at investment in research and development as well as in design.

Labour, too, faced a challenge. "The common challenge to both business and labour is that we are reintegrating into a world economy that is both ruthless and competitive. And unless we face the challenge together, there won't be anything left to fight about."

Wm (B M) 18-24/11/94

MCCARTHY RETAIL

Refining the package

Unexpected synergies make the group more than the sum of its parts

Two years after the merger of SA's largest motor vehicle dealer with the collection of retailing interests held under the Prefhold banner, the logic of the deal is becoming apparent.

Results for financial 1994 show a strong performance from McCarthy Retail, the operating company holding the motor and mainly furniture interests, and which is in turn 85% held by McCarthy Group A 68% increase in operating profit, to R281m, on a 17% increase in turnover, is notable, particularly as it was achieved during a year when private consumption expenditure grew by only 1%.

Despite a 73% rise in tax payments, to R97.2m, influenced by about R14.6m in non-recurring charges EPS grew a solid 24%. For CE Terry Rosenberg, EPS growth is the beginning of the underlying, two-pronged strategy. He will need a few more years before he can show a trend of steady growth in EPS, his second objective, though, of lowering what he calls McCarthy's 'perceived risk' comes through clearly on the balance sheet, where borrowings are down R62.4m to R137.5m.

Bolstered by cash holdings of R105m, more than three times that of a year ago, the debt equity ratio is negligible. Interest payments were reduced by nearly a fifth to R42m and interest and leasing cover have firmed (see table).

Steady growth in earnings and the lower debt, Rosenberg believes are what McCarthy needs to achieve the rating it deserves. The shares have been significantly re-rated this year. McRetail's price gained 208% and McCarthy Group's 145%. Prospects for the current year, though, which include developing new insurance products and the possibility of counter-trade within the Anglo American Industrial Corp within (a 31% shareholder) to offset currency risks, suggest even better ratings.

Should consumer demand for McCarthy's vehicles, semi-durable goods and clothing increase, as early signs of economic recovery seem to indicate, the shares could be among the top performers in the retail sector.

McCarthy's diverse and apparently eclectic business — it sells vehicles, spare parts, appliances and furniture, nonfood household items, clothing, marine, sport and music products building supplies, and also has short-term insurance and finance interests — was certainly a factor which made the market turn a cold shoulder to the merger.

Synergies were not obvious. About all the two groups seemed to have in common was that they both had head offices in

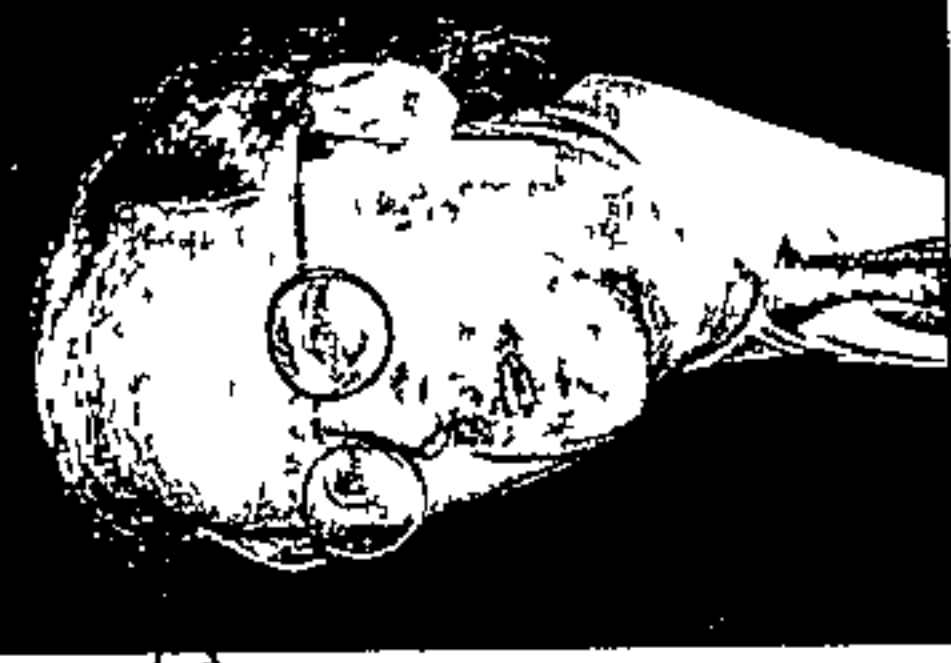
Durban For the first year at least, investors were confused by the merger and the shares lagged.

Chairman Brian McCarthy believes the past financial year's results begin to indicate success. A merger was not what he had in mind early in 1992 when he was looking for a non-executive director for McCarthy's board to replace Colin Hall, who was relieving himself of responsibilities to head Wooltron.

"I had met Terry Rosenberg on a number of occasions," says McCarthy, "and thought he would be right for our board. He was introduced to the other directors and they agreed, but I had to do a bit of arm-twisting to get Terry to accept the position. At that time, he did not want to accept non-executive positions."

Rosenberg relented and after joining the McCarthy board was introduced and updated on the motor vehicle retailer's accounts. "We were discussing the possibility of a relationship between McCarthy and Prefhold, though the sort of link envisaged was something like a cross-shareholding," McCarthy says.

Six weeks later, however, Rosenberg made an appointment to see McCarthy and outlined the rationale for a merger between the groups. "Until then, a merger had not been considered but it began to make sense at McCarthy, we had a strong but mature business. We needed to diversify, we were keen to get closer to the emerging black market, and we saw growth opportunities in that market through the three Prefhold



Rosenberg

house insurer, has a full licence Focus will initially be on mechanical breakdowns. Other benefits being seen are increased efficiencies and cost savings by combining head office structures and information technology. With a joint administration base and large branch network, businesses such as insurance bring in additional income at little cost to overheads.

For the chairman, though, the most tangible benefit is in the profit growth in financial 1994. Turnover growth in the two central pillars, Motor Holdings and Prefhold, was more than acceptable at 15% and 18% respectively.

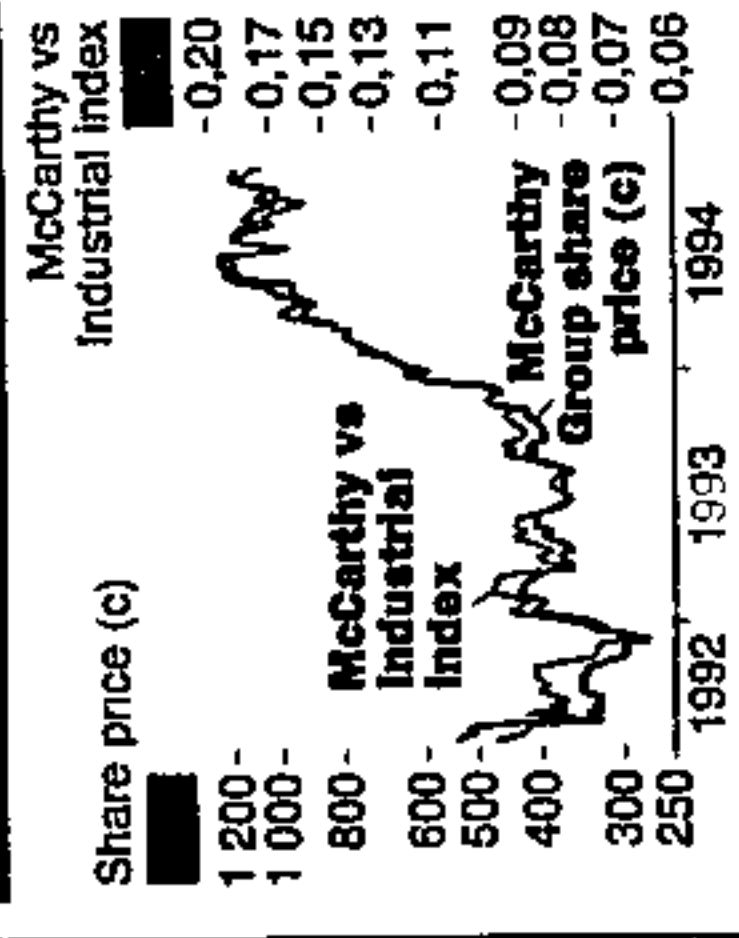
Market conditions in the motor industry seem to be improving, but, before the merger turnover growth was a stodgy 7%. In its last interim report before the merger McCarthy Motors did well to limit its decline in sales to 8% against the industry's 11%. But that still reduced earnings by 11% to R20.9m.

Sound management and a wide spread of types of vehicles sold, as well as diversification into related services, have historically kept what is now called Motor Holdings a steady performer. MD Terry Swart points out that, even during recession, McCarthy picks up the benefit of customers buying down, where margins are not necessarily lower.

But the converging trends between Motor Holdings' and Beares' contributions to operating profit (see graph) underscore the point of combining a mature business with a growing one. Operating margins are moving in opposite directions. Rosenberg sees growth opportunities in Motor Holdings in the year ahead. Thus will come partly through diversification — But get Rent-A-Car, acquired two years ago

Continued on Page

BETTER RATING



Source: I&L

Continued from Page 30

when it was losing more than R1m a month, is now contributing about R2m a year in rental income alone — and new developments.

"With duties on imported cars down to 80% and further cuts anticipated from the Gatt discussions, importing cars becomes more feasible. We are speaking to two major manufacturers overseas and hope to have a deal in place before year-end."

Swart says the UK dealerships had a disappointing year, largely through the weakening of the yen exchange rate, reducing Toyota's market share from 3% to 2.7%. He says, however, that the focus is on the positioning and improvement of the UK dealerships, which, with two new franchises for upmarket models (Lexus and Supra), should improve the UK business. Overall, Swart expects profit from Motor Holdings to beat inflation this year.

Bearse, the core of Prefhold, had a good year but prospects are linked to its position in the black market (65% of the customers are black) and possible benefits from the RDP point to sustained growth. Rosenberg says that if Bearse can just maintain market share, growth will be strong — the appliances market, worth about R4bn at year-end, is expected to increase to about R10bn as Eskom endeavours to provide electricity to 800 000 homes over the next three years. Once the RDP housing programme gets under way, Bearse will benefit directly.

The basis of Bearse's success in the mass market is the finance packages it offers. Yet analysts mention control of the debtors book as one of the potential weak points.

Prefhold MD Hymie Sibul says that, despite problems in many townships which made collections difficult, bad debts and arrears trends are satisfactory and in line with expectations. Gross bad debts as a percentage of debtors increased from 2.63% in financial 1992 to 3.66% in 1993 but last year declined to 3.32%.

Though its contribution is relatively small, profits from clothing arm Clobea there are several opportunities for organic growth in clothing, particularly in regions like the Cape. But McCarthy has also expanded its clothing interests through the acquisition of Guys & Girls, a chain of 53 cash retail clothing stores, mainly in neighbouring states. Rosenberg says the acquisition fits in with the long-term strategy of expanding into Africa.

Game was disappointing, though reorganisation made it profitable last year. It has recently shown the strongest turnaround in the group. Rosenberg says it has increased its number of stores from 10 to 17, which resulted in opening costs being written off upfront. "Profitability has been up in the last six months, with new management and a dedicated focus on stock management."

Outside the core businesses, McCarthy

18/11/94

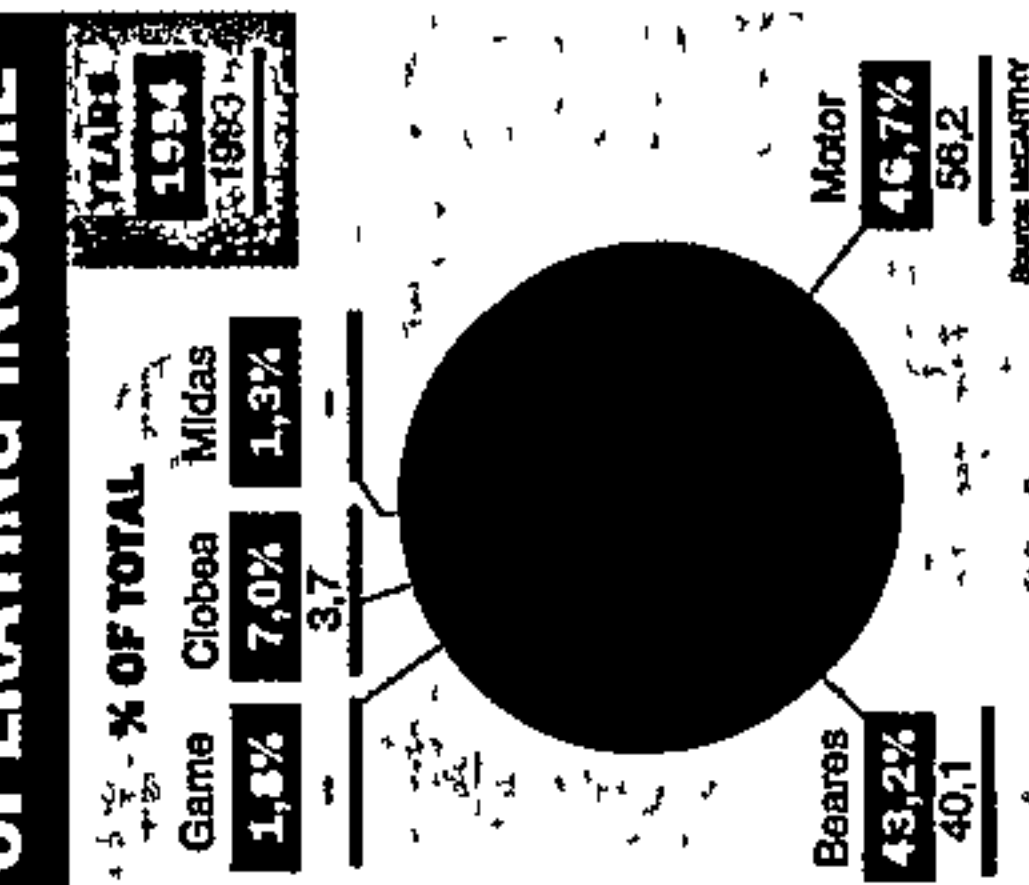
has been doing some interesting diversification. Lake Budget, Midas (involved in automotive products) was ready for turnaround. Initially, when Midas saw EPS plunge into the red, McCarthy held 37% of the company. That was increased to 80% last year as the company came through with strong results after an extensive cost-cutting and restructuring programme back to the core business. Latest interim results from Midas end-August showed EPS up by 49% and gearing down from 53% to 23%.

McCarthy also holds the franchise for many Yamaha products. Through the motorcycle market has been dead for some time and the sale of marine equipment, mainly outboard motors, suffered from the drought, Rosenberg is excited about the future of the franchise.

"Apart from the drought being over, we recently acquired the franchise for Yamaha musical instruments. We expect to get between R6m-R7m from the franchise this year," Rosenberg says.

He has some interesting ideas to finance the imported products. One of the problems last year was the strong yen and weak rand, which often meant the price of Yamaha products had increased before the shipment arrived. "I've had discussions with Amic about the possibility of establishing a system of counter-trade. We could remove the

OPERATING INCOME



currency risk by sending Yamaha International products manufactured by Amic, for example aluminium castings." Discussions have also taken place with Yamaha, though Rosenberg emphasises that nothing has yet been signed.

Insurance will be of increasing importance this year, with the granting of a full short-term licence to Prefsure in April. McCarthy has a large captive client base — about 60 000 customers on the motor side, 630 000 active clients at Bearse — which offers strong growth potential for insurance products. In addition, Rosenberg wants to start offering credit life products and has

applied for a life assurance licence.

"The beauty of in-house insurance is that we get extra business at no infrastructural cost. We have vast distribution channels and administration and information technology to support Prefsure. They bring in additional revenue without adding to overhead costs."

Now that insurance will straddle both main pillars of the McCarthy business, it illustrates an important theme running through most of the group. At first glance, McCarthy still seems to be a disparate collection of businesses. But, apart from the benefits of a merged administration and computer system already mentioned, increasing commercial and financial synergies are being developed among businesses at the operating level.

An example is Budget. Since being acquired by McCarthy, the car rental business has been integrated with other activities in Motor Holdings. Apart from the rental income it contributes, the fleet of cars is replaced every nine months from the group's franchise dealers. The used cars are returned to McCarthy dealers and sold. Spare parts and servicing are provided in-house.

Similarly, Prefhold has a hardware and basic building materials company called Bonus Building Supplies, which offers credit to home builders, largely in the rural areas.

With the RDP housing initiative, the stores are being expanded from 20 to 40, allowing customers 24 months to pay for the basic materials needed to build a house.

More houses mean more furniture sales. Electrification of those houses will boost the sale of appliances. McCarthy could soon offer a financial and insurance package to cover home-owners right from the building of a house through to the furniture and appliances that go into it.

This type of vertical integration is what is making the merger work. McCarthy's position in the market — aimed largely at the emerging black market — is almost certainly where the greatest growth is going to be.

So far, McCarthy's emergence in that market has not shown its full potential. The merger took place when both main businesses, which tend to be cyclical, were at the bottom of the downturn. Both markets are rising now and increased private consumption expenditure will add cream on the top.

That suggests the shares on nearly identical ratings, remain undervalued despite sharp appreciation over the past year, especially the past six months. With McCarthy's main businesses cyclical the shares will probably remain at a discount to the sector. On present ratings, though, with a p/e ratio of 12.6 compared with the sector average of 27, they must offer value, possibly better than most retail shares now.

Shawn Fierri

RMBH/MOMENTUM LIFE

Fun 18/11/94

End of the consolidation period

RMBH

Activities: Diversified financial services, mainly life assurance and merchant banking

Control: Directors and management 39%

Chairman: G T Ferreira

Capital structure: 73m ords Market capitalisation R2,5bn

Share market: Price R34 Yields 1,5% on dividend, 3,8% on earnings, p e ratio, 26,4, cover, 2,5 12-month high, R35, low, R19,25 Trading volume last quarter, 556 000 shares

Year to June 30	'91	'92	'93	'94
Total assets (Rbn)	2,8	3,0	17,0	21,8
Sharehold funds (Rm)	121	146	172	542
Attributable (Rm)	30,3	37,0	44,4	94,2
Earnings (c)	55	67	81	129
Dividends (c)	57,9	67,2	80,6	128,9
Return on equity (%)	27	28	28	19

When shares sit on top ratings in the sector, like RMB Holdings and 68%-subsidiary Momentum Life, prices become difficult to justify, even after EPS growth of 60% and 43% respectively. Investors are clearly discounting good earnings growth for some time to come and one questions whether the shares have run ahead of expectations.

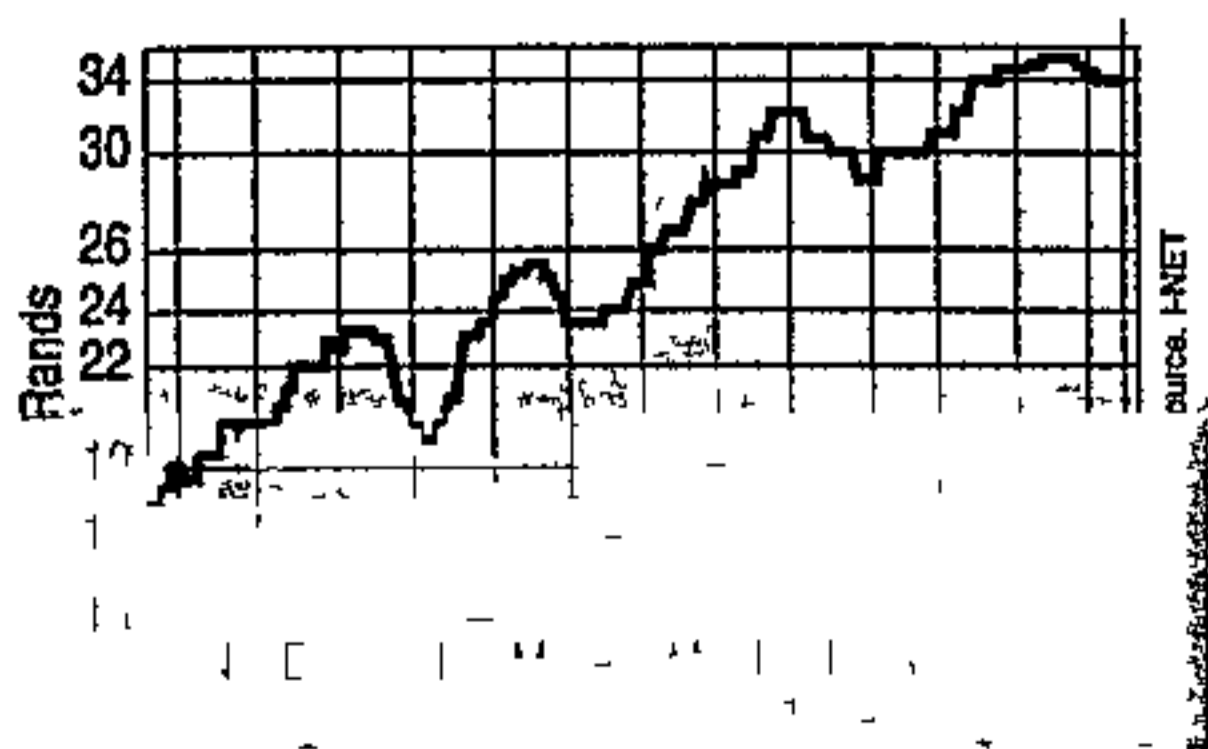
Despite being expensive, though, there seems to be considerable value in the shares, particularly RMBH, which is on less demanding ratings than Momentum. Analysts are forecasting EPS growth of at least 28% for RMBH for the next two years.

Disclosure in the annual reports has improved considerably.

A breakdown of RMBH's taxed income shows the contribution from life assurance up 50% to R36m, short-term income more than trebling to R14,1m after a full year's contribution from 50%-held Aegis Insurance (three months in the previous period) and income from banking up 27% to R33m.

The only loss (R1,7m) came from health insurance, represented by 70%-held Momentum Health. That is a young company establishing itself in the market. Momentum chairman Laurie Dippenaar says results for the first quarter of the new financial year are on track to meet ambitious targets. The company is considering a rights issue.

RMB Holdings



Ferreira wants to expand internationally

MOMENTUM

Activities: Bank controlling company Main activity is life assurance, also merchant banking through subsidiary Rand Merchant Bank

Control: RMB Holdings 68%

Chairman: L L Dippenaar Joint MDs R B Gouws, J D Krige

Capital structure: 135m ords Market capitalisation R2,6 bn

Share market: Price 1950c Yields 1,7% on dividend, 3,1% on earnings, p e ratio, 32,2, cover, 1,9 12-month high, 2 050c, low, 900c Trading volume last quarter, 418 000 shares

Year to June 30	'91	'92	'93	'94
Total assets (Rbn)	7,1	10,5	11,6	14,4
Premium income (Rbn)	1,0	0,9	1,1	1,3
Invest income (Rm)	541	587	540	615
Taxed surplus (Rm)	18,0	21,0	53,0	81,4
Earnings (c)	26	30	42	61
Dividends (c)	15,0	16,5	23,0	32,5

this year.

Total taxed income RMBH received from Momentum and its subsidiaries, including Rand Merchant Bank, was R81,4m, up 54%. The contribution from foreign subsidiary Australian Gilt Holdings and other income, nearly doubled to R13,2m.

Apart from the solid growth this shows in nearly all subsidiaries, it indicates the spread of earnings RMBH is getting from different areas of the financial services sector since listing two years ago. About a third of income comes from assurance, a third from merchant banking, the balance roughly divided between short-term insurance and foreign currency earnings.

RMBH is also getting a useful R31,7m from associates, largely its 20% interest in

232

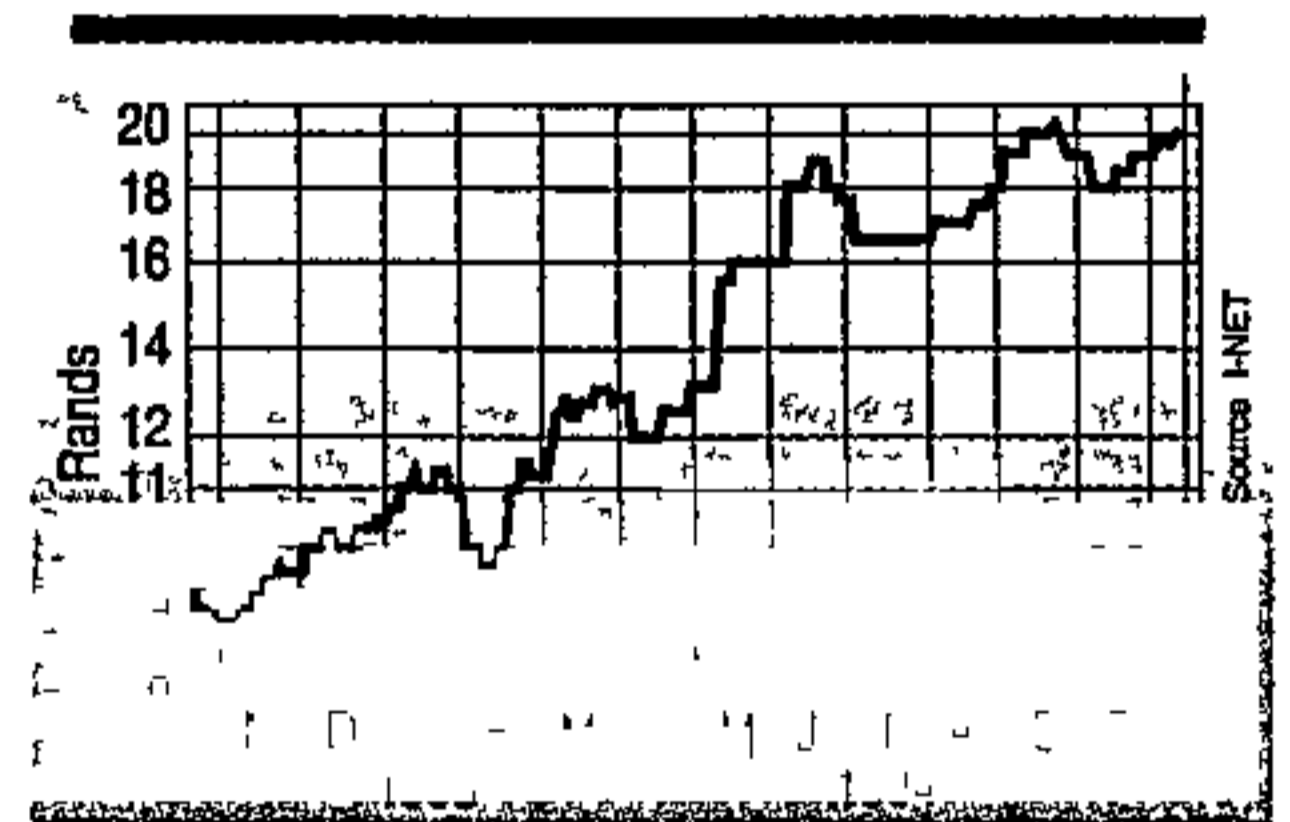
share-swap partner NBS Holdings, but also from reinsurer Hollandia and merged broking group Glenvaal Dewar Rand. Again, this shows a spread of income from different parts of the financial services industry.

Chairman G T Ferreira says the broader group has completed a period of consolidation, during which it concentrated on optimising synergies and maximising profitability between the various interests.

"Instead of spreading our wings wider, we will probably concentrate on expanding our existing businesses through internal growth and, where applicable, through acquisition and merger," he says.

If an acquisition is made, it will probably be a foreign interest or joint venture. Ferreira makes no secret that RMBH wants to expand internationally, partly to get a wider spread of foreign currency earnings. But RMBH is in no hurry. Ferreira says the group is reconsidering its international strategies and evaluating the areas in which it may have a sustainable competitive advantage. Exchange controls remain an obstacle. Ferreira says it is one of the remaining economic barriers to SA business becoming full members of the international

Momentum Life



economic community.

Apart from looking offshore, it seems RMBH will concentrate on sustaining earnings growth. This is largely dependent on Momentum, which Dippenaar says has successfully completed two years of its five-year strategic plan. Problem areas inherited from the takeover two years ago seem to have been ironed out and previous underperformers, like property, are making a valuable contribution.

This expected growth is what investors are paying for and why the shares are expensive. RMBH's share price appreciated by nearly 77% over the year, Momentum by 117%. Part of the price investors are prepared to pay must relate to the quality of management, which since the Momentum takeover and RMBH listing two years ago has impressed the market.

P.T.O.

COMPANIES

Fun 18/11/94

Ratings are also misleading because of the hybrid nature of both groups. RMBH derives most of its income from assurance, which makes its p/e ratio difficult to compare to a group like Investec, on a lower p/e of 22,3 in the banking sector Momentum gets a large part of its income from a merchant bank, which must influence its p.e rating ~~28~~ 232

Still, the market perception is that both groups are going to continue performing well. At this stage, there seems no reason to think this is wrong.

Shaun Harris

Ster Kinekor barred from cinema complex

MINISTER of Trade and Industry Mr Trevor Manuel said yesterday Ster Kinekor had been prohibited from showing films at the Musgrave cinema complex in Durban. CT 19/11/94

He said the directive, recommended by the Competition Board and published in a special Government Gazette yesterday afternoon, would apply until the board had completed an investigation.

It had been issued to prevent Avalon Cinemas suffering damages should Ster Kinekor be involved in restrictive practices. — Sapa

Powertech rewires struggling Gentech

Si Tiwaes (Buss)

By ZILLA EFRAI

POWERTECH has announced a major restructuring of Gentech, its struggling producer and supplier of domestic appliances.

The move involves a senior management reshuffle, including the appointment of David Evans, 57, former chief executive of Powertech industrial group, as Gentech's chief executive officer.

Gentech will be changed from a holding company to an operating company and the administration and management functions of its two operating divisions, Hoover and KIC, will be merged.

But the group's strong brand names, which include the likes of Daewoo, Indesit, Whirlpool and Hitachi, will be kept in the marketplace.

When Gentech bought KIC in 1993 and Hoover in July this year, both were experiencing financial difficulties.

Johan van den Bergh, Powertech's chief executive, says "We now have a much better understanding of the domestic appliance business and believe that we have done much of the groundwork to overcome the structural problems we inherited". Problems at Hoover mainly related

to inadequate access to components and products as, at the time of takeover, the company's sourcing had virtually ground to a halt.

Mr van den Bergh says overseas suppliers are now coming on stream and Gentech is confident that it will be able to meet customer requirements.

KIC has been plagued by labour problems and poor productivity which have affected its ability to supply the market adequately and it had to import increasing volumes of non-competitive products.

Remedial action to resolve these problems includes the retrenchment of about 340 people — or about 35% of the workers — at its Isithebe factory and the review of the sourcing strategy of completed products.

On the manufacturing side, Gentech will concentrate on areas where it can be a low-cost producer and remain competitive.

In other areas, the company will import high-standard products to meet customer requirements. There will also be a strong focus on service

Powertech has had a bumpy ride since it bought Gentech, formerly Picardi Appliances, in 1992. At the time there was some controversy over the arrangements made for minorities.

Gentech has bounced in and out of the red, turning in a trading loss of R2.5-million in the six months to August 20 11/94.

Nonetheless, a joint venture between South Korea's Daewoo Corporation and Arnic took a 30% stake in Gentech last year and Gentech also raised R39-million in a rights offer in the same year.

Mr van den Bergh says the restructuring is expected to improve its performance significantly.

He believes turnover could be boosted from R270-million to at least R400-million in the foreseeable future.

While Gentech operates in a competitive industry where margins constantly come under pressure from branded imports, it is set to benefit from increased electrification and better consumer spending.

Gentech made strong gains on the JSE in May to peak at 550c a share, but has since fallen back to trade around 320c with a strong price ratio of 30.8 times.

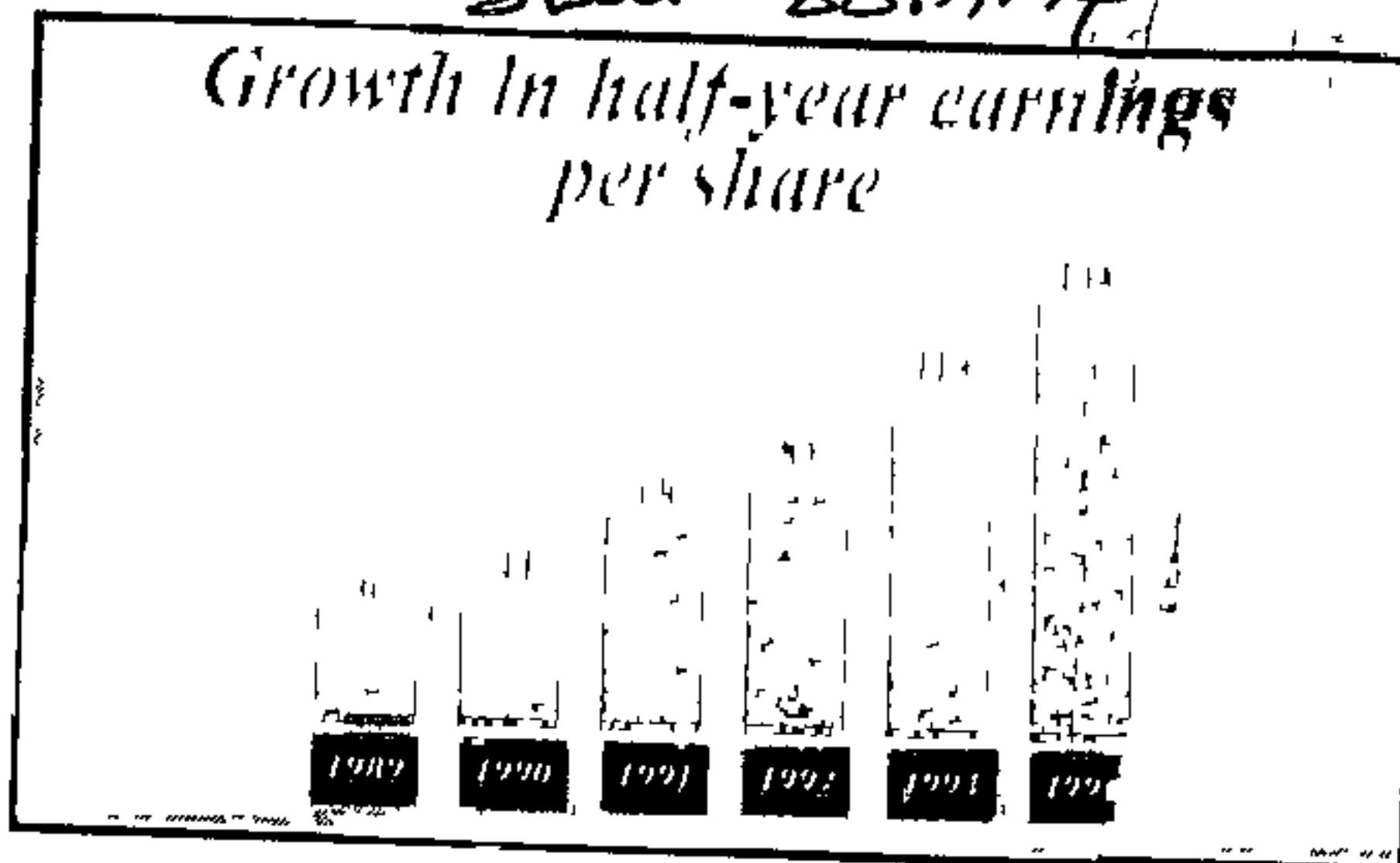


DAVID EVANS . . . Gentech's new chief executive

Foschini boosts profits and makes 4 for 1 share split

Star 22/11/97

Growth in half-year earnings per share



BY CHARLOTTE MATHEWS

Foschini, whose stores include Markhams, American Swiss, Pages and Sterns, lifted attributable earnings 26,2 percent to R67,2 million in the six months to October from the same period in 1993.

Financial director Roy Norman said yesterday the trading environment had been tough because of stiffer competition stemming from the growth in the number of in-store cards. Nevertheless, margins had been held and were at a satisfactory level.

Foschini does not disclose a turnover figure at the interim stage, which conflicts with Schedule 4 of the Companies Act. The percentage growth in turnover was 28,5 percent over the same period in 1993.

It also does not disclose operating income or the interest bill.

Norman said little information was given at the interim stage because it was believed the figures were only a snapshot to show the group was on the right track.

Earnings a share were 13c (113,3c) and a scrip dividend of 2 shares for every 100 held has been declared, with no cash alternative.

At Foschini's current price of R100, the scrip dividend is equivalent to 50c a share.

At the time of acquiring a stake in Oceana Investment in 1991, directors warned a scrip dividend would be paid for the next three years. This had had a positive effect of gearing, now at 33,9 percent.

Scrip dividends had been well received both by individual and institutional shareholders, Norman said.

To increase the tradeability

of shares, the group has declared a subdivision on the basis of four for one.

Oceana lifted taxed profits to £794 000 in the six months to October from £436 000 in the same period in 1993, an increase described by the directors as encouraging. They said, however, that sales in the first few weeks of the second half had shown a weaker trend.

Norman said there had not been a sharp increase in demand for clothing, but a steady upturn, in line with expectations. Barring any major adverse event, this was likely to continue in the next six months.

Profits were weighted towards the second half of the year, which included turnover from the Christmas season — especially benefiting jewellery sales — and the summer clothing ranges.

Foschini's pyramid company, Lewis Foschim Investment (Lefic), whose attributable earnings are 50 percent of Foschini's, reported attributable earnings of 72,3c (57,3c) a share. A capitalisation issue of 2 shares for every 100 held has been declared.

Lefic also announced a subdivision of shares, but on a basis of two for one.

A new class of ordinary shares will be created and issued on the basis of 200 new shares for every 100 ordinary shares held.

Foschini shares closed unchanged at R100 yesterday, where they were below their recent high of R112 reached in June.

But the shares have appreciated by a satisfactory R24, or 32 percent, since the beginning of January.

Glad tidings for Standard Bank

Star 22/11/94

■ BY CHARLOTTE MATHEWS

Standard Bank's securities services management division has been given a boost by receiving clearance from the US Securities and Exchange Commission (SEC) to act as a securities custodian for US investors in Africa.

To meet US regulatory standards, custodians have to prove they have assets of \$200 million in the country where they provide the service. However, the SEC has waived this requirement for Standard Bank because it has undertaken effectively to support its African banks in securities management.

Senior GM of Standard Bank's treasury, international and Africa banking divisions, Graeme Bell said yesterday the bank had also been appointed African representatives of the National Securities Clearing Corporation (NSCC),

which represents managers of investments for corporate investors.

These moves meant two powerful US bodies had acknowledged that Standard Bank met their standards and could offer US investors the same security and service they expected in the US or Europe.

Standard Bank has built up its securities services management division over the last two years. It now manages about R100 billion off-balance sheet for external investors, mostly invested in SA.

Several million has been invested in establishing electronic links with its ten affiliates in Africa, placing them on the international financial network.

The potential for profit generation from this division was significant, Bell said, since revenue would be generated in many forms, including currency, interest, dealing and delivery fees.

(232)

JD Group's rise

'ends scepticism'

By Day 22/12/94

MADDEN COLE

THE expansion of the JD Group from a small player in a matter of years to the single biggest player in the furniture sector had dismissed all scepticism about the group's ability to handle its rapid growth, the Investment Analysts' Society was told last night. (232)

Finance and administration CE, Colin Stem said doubts about the Russells takeover had been laid to rest.

The group's share price had increased 130% from R6 in September 1993 to yesterday's close of R14.

Price 'n Pride grew rapidly with the acquisition of Joshua Doore and a turnover of R119m three years later. This was followed in 1988 with the acquisition of Bradlows, Score Furnishers and World Furnishers. With the takeover of Rusfurn in June 1993, group turnover rose to R1,6bn

40 schemes worth R10 billion identified

Project financing for SA

22/11/94

Star

BY JOHN SPIRA

The International Bank of Southern Africa (Ibsa) has identified 40 active South African project financing schemes worth R10 billion.

Of these, Ibsa is examining projects to the value of R1,5 billion, at least half of which are expected to reach fruition, says the bank's managing director, Rod Gamble.

All would be funded on a project-financing basis in syndication with international and local banks.

Gamble says the huge value of schemes currently on the drawing boards demonstrates that a considerable amount of fixed investment is, in fact, taking place in SA and that SA corporations are indeed showing confidence in the nation's future.

Ibsa is owned by Banque Bruxelles Lambert (20 per cent), Banque Nationale de Paris (40 per cent) and Germany's Dresdner Bank AG (40 per cent).

Gamble revealed the scope of Ibsa's activities in SA at a seminar in Johannesburg yesterday at which Tyll Pahl, Dresdner Bank's head of

isolation, its infrastructure suffered. It has to be rapidly rebuilt and project finance arrangements are an ideal means of assisting the process.

"I believe Ibsa, as a result of the extensive global experience of its shareholders, has the ability to mobilise the necessary capital. No matter the size of the project, we can put together a team to ensure its successful implementation."

Pahl saw the World Bank's International Finance Corporation (IFC) as playing an important role in facilitating the mobilisation of capital for projects in SA.

"The IFC would take much of the risk out of investing in SA, which is still perceived as having a political risk profile. However, as this risk diminishes (as I am sure it will), the need for the IFC's involvement could well fall away."

Gamble said: "Conventional project finance is a mechanism to spread risk — particularly useful in large infrastructural projects."

"SA is now ready for this approach because of the enormous demand for infrastructural development in both the primary and manufacturing sectors."

project finance, suggested South Africans could be justifiably more positive about their future than they were.

"I personally see positive developments ahead. SA has the resources and opportunities. It has a history of 300 years of development and, unlike many other countries competing for global finance, it doesn't have a communist past with which to contend."

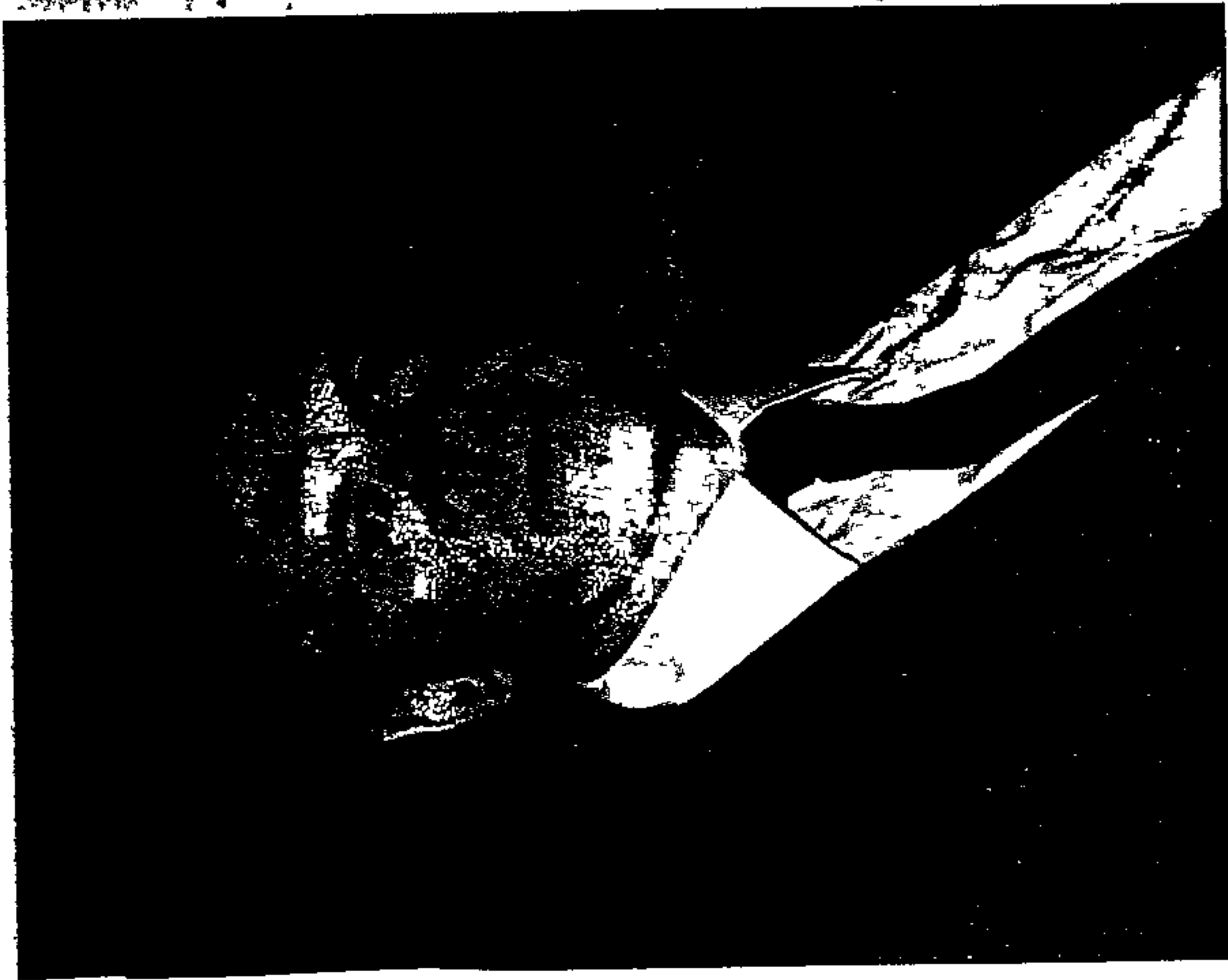
While conceding that SA still had to overcome stumbling blocks to the successful implementation of its Reconstruction and Development Programme (non-payment for services being one), similar problems in certain South American countries had been tackled with good results.

"The non-payment culture in your country has only reared its head in recent years. In other words, it isn't endemic in your society."

"I am therefore confident that the problem will be solved in the near future."

Pahl said that pure project finance, in which risks are shared among participants in a project, was a relatively new technique to South Africa.

"During the years of SA's



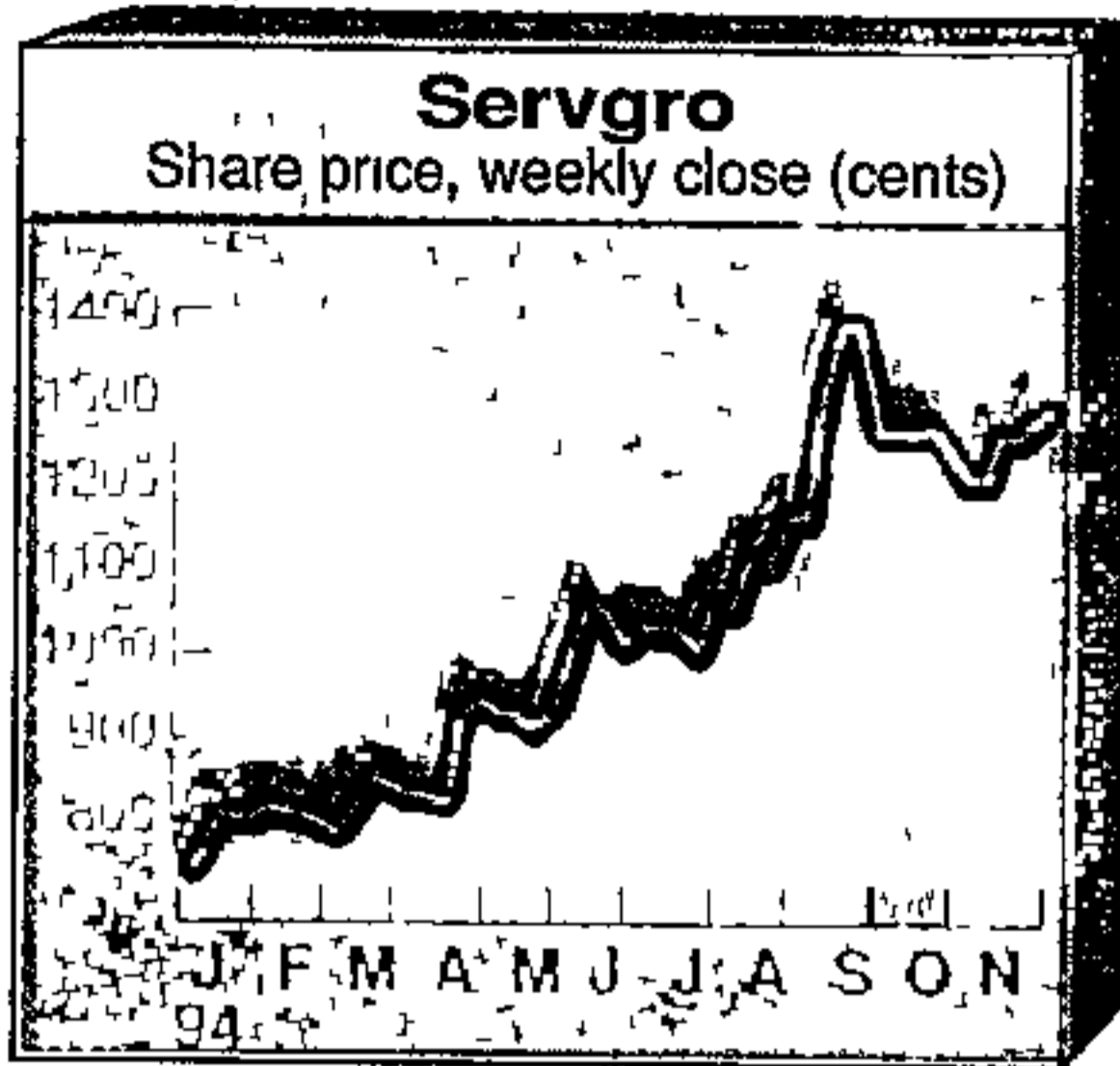
Tyll Pahl... positive developments ahead.

PICTURE GARY BERNARD



Servgro claims its rewards

SERVICES group Servgro, which has interests mainly in the leisure industry, lifted attributable income 18% to R32,2m in the six months to September, reaping the benefits of its more focused operations. Earnings a share increased 18% to 29,2c and the group declared an interim divi-



AMANDA VERMEULEN

dend of 9c (8c) (232)
 Servgro also announced that it would increase its stake in brokerage Price Forbes to 55% for R60m, which would be financed through a share issue. Details would be published next week.

Chairman Peet van der Walt said although trading conditions had been sluggish in the first quarter, they had improved in the second, contributing to the 8% increase in turnover to R535,6m.

Operating income grew only 2% to R65,3m and pre-tax income 3% to R59,2m. Income after tax rose 4% to R41,4m.

Disposals and rationalisations within Interleisure included the sale of Squires, RJ's and Video Magic. The rationalisation of the Medicaid interest of Price Forbes resulted in Medicaid becoming an associate company. This, said Van der Walt, caused a change in the composition of turn-

To Page 2

Servgro

over, operating income, income from associated companies and outside shareholders' interests, which meant operating figures were not comparable with the previous six-month period. Overall the group achieved a 12,2% (13%) operating margin.

Avis, Fedics and Interleisure all showed meaningful growth. Interleisure's performance had been boosted by a narrower focus on its core business of entertainment, and a 10% increase in attendances at Ster-Kinekor cinemas. The joint venture by Ster-Kinekor and Thebe Investments to take cinema to the townships promised further growth for Interleisure.

Van der Walt said Avis and the Fedics interests had increased their contribution to group performance. Teljoy's cellular interests had exceeded the group's expectations, and the market that service

provider Teljoy Cellular had captured was four times larger than expected. Consequently, it would probably require further investment to build infrastructure.

Naspers was successfully listed in September, unlocking substantial value for shareholders. The Servgro interest in Naspers was valued at R484m.

The group was well positioned to take advantage of privatisation, and contracting out by government (232). It was looking at possible acquisitions within its core profile, which could be financed with a combination of a share issue and the R49m in surplus funds. One area of interest was multimedia.

The remainder of the financial year was traditionally the better period for the group, and Van der Walt expected earnings to grow more than 20%.

From Page 1

Organic growth boost for Servgro

Stuur 23 July 4

■ BY CHARLOTTE MATHEWS

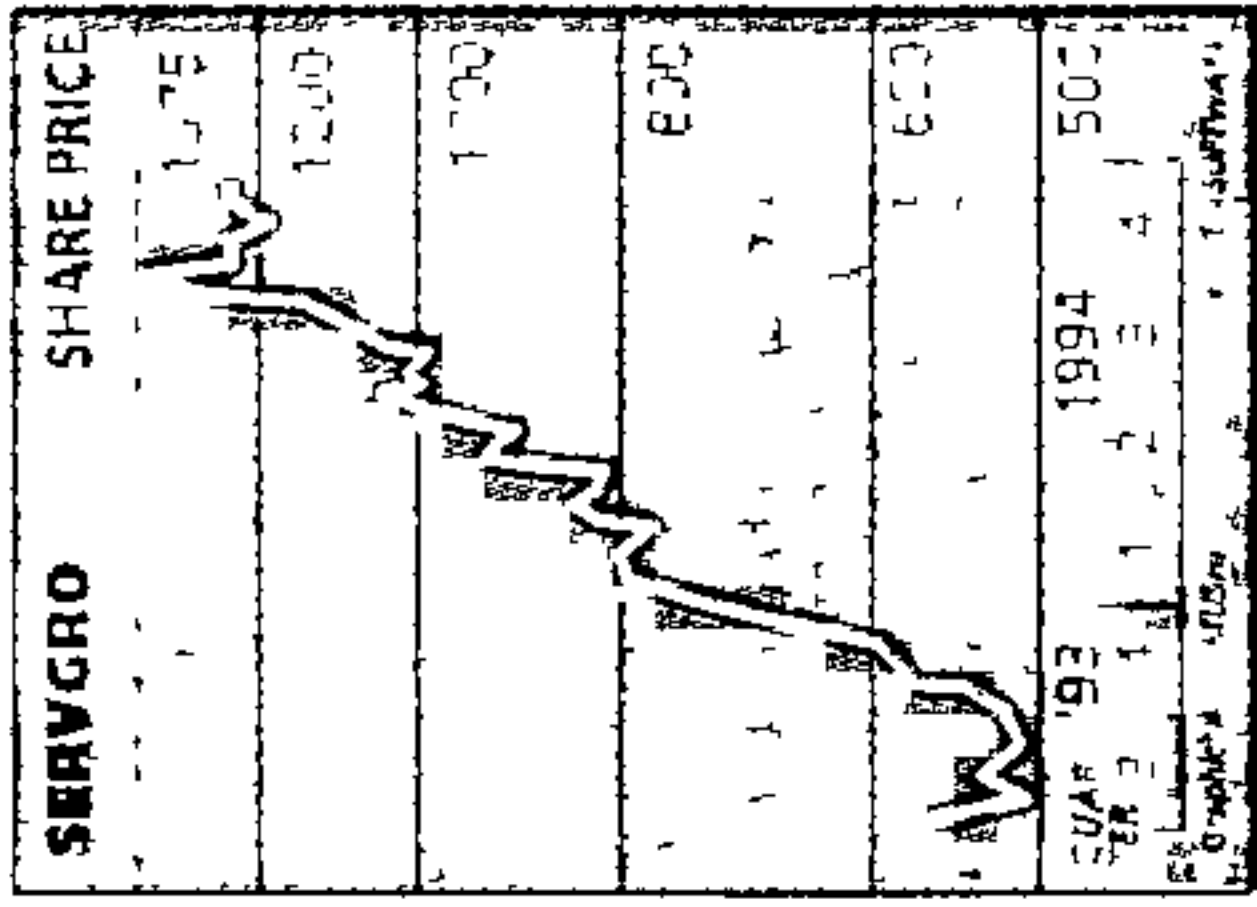
Organic growth in the six months to September lifted profits for Servgro, whose holdings include Avis, Teljoy, Naspers and Interleisure, by 18 percent to R32,2 million against the same period in 1993.

Turnover was 8 percent higher at R535,6 million, on which operating income of R65,3 million (R64,2 million) was made, showing margins easing to 12,2 from 13 percent.

Chairman Peet van der Walt said yesterday the group aimed to keep margins at 12 to 13 percent.

The interest bill was lower, with gearing at 13 percent from 17 percent. The tax rate was unchanged.

Income from associated companies — Teljoy, Protea Hotels within the Fedics subsidiary, Fleet Services within subsidiary Avis, and Medscheme within Price Forbes — rose to R6,2 million (R3,8 mil-



and outside shareholders' figures for the preceding year were not directly comparable.

An additional 7 percent interest in Price Forbes, bringing Servgro's holding to 55 percent, is being bought as a 14 percent share in the group has become available.

The other 7 percent has been placed in a trust until an appropriate investor is found. The deal is still subject to formalities.

Servgro has for the first time published the profit contributions of divisional interests. Van der Walt said the greatest improvements were in travel, catering and entertainment.

Contributions from Price Forbes and Teljoy were stable.

Servgro still holds R50 million for investment, having spent R20 million in the past six months on redeeming some preference shares and topping up its holding in various companies. (232)

Some interesting acquisition opportunities in the local mar-

ket were being investigated. The 18 percent improvement in earnings was likely to be improved on for the full year because the travel-related businesses were doing well, better results were expected from Interleisure and the second half for the whole group was generally stronger.

The shares were trading at R12,50 yesterday and at a P/E of 23,5. Although they are listed in the hotels sector because of the interest in Interleisure, the P/E might be more fairly compared to the diversified industrial holdings sector, where the average is around 17.

Van der Walt said market perceptions of the value of Servgro's R484 million interest in Naspers had inflated the P/E ratio of Servgro shares. If Naspers were excluded from Servgro's market capitalisation and earnings, the market was actually undervaluing the rest of the businesses, particularly in view of growth prospects

Thebe pays R9m for control of Hosken group

AMANDA VERMEULEN

THEBE Investments has strengthened its position in the financial services sector with a R9m acquisition of 50,01% of insurance broking and employee benefits group Hubert Hosken & Co

Thebe acquired 50% of Hosken from Hosken Consolidated Investments, and 0,01% from Servgro-owned brokerage Price Forbes, which retains a 49,99% interest, it said yesterday

The transaction was facilitated by Thebe's merchant banking services company, Msele Finance Holdings. The new company will be called Msele Hosken and will be the largest black-controlled insurance broker in SA

Hoskens has a premium income of more than R400m with revenue exceeding R40m. It operates through a short-term division, Hubert Hosken Insurance Brokers, while the Trilogy Benefits Group offers employee benefits, actuarial services and health care administration

Thebe MD Vusi Khanyile said the acquisition represented a further step in Thebe's strategy of building a strong financial services arm. Thebe earlier this year formed Msele Finance Holdings, acquired a majority stake in Citizen Bank, and recently announced its participation with Fedsure in Safrican Insurance

He said the plan was to consolidate its investments in the sector, developing them to achieve greater market share. Once the Thebe group had achieved "critical mass" it would look at listing one of its divisions or the group

Hoskens MD Chris Sounes said the transaction was important for the group as black empowerment was a stated aim of the company. The deal would give Thebe access to insurance broking expertise and would offer Hosken a growth opportunity in the black community

It had become important for the group to prove it was committed to black empowerment, particularly to its largest employees' benefits client, Eskom. It is understood Eskom had been pushing for some sign that Hoskens had the same commitment to black empowerment as it had

● See Page 15

Johnson Matthey lifts profit 28%

810004 25/11/84
JOHN CAVILL

LONDON — Johnson Matthey, the £1bn precious metals and high technology group in which JCI and Minorco each has a 10% stake, lifted profit before tax 28% to £45.2m in the six months to September (232)

Sales rose 33% to £1.14bn and, with earnings a share up 27% to 16p, the group is raising the interim dividend to 4.2p

Precious metals recorded the biggest sales rise of the group's four divisions, climbing 53% to £682m

Profit was 7% higher at £10.8m,

with higher sterling prices for platinum and palladium offsetting the drop in the rhodium market

Sales of catalytic systems for exhaust emissions were 30% higher at £165.7m — reaching record levels in the US — with operating profit increasing 20% to £15.9m

In materials technology turnover was marginally higher at £223.8m, but a sharp increase in margins saw profit gain 36% to £18.3m

TML leads Omni pack

OMNI Media, formerly Argus Holdings, lifted attributable earnings 2,1% to R24,5m for the six months to September

The income statement for the comparable period had to be restated to exclude Argus Newspapers' earnings, and to consolidate Times Media (TML) as a 36,4% subsidiary

Earnings a share dropped 9,1% to 50c, and an interim dividend of 16c (15c) was declared. Turnover was up 26,4% to R828,6m, while trading income increased 38,1% to R53,9m

CNA Gallo's reduction in working capital levels and TML's cash holdings, which arose from the sale of certain businesses, resulted in net interest income of R739 000.

Losses arose in M-Net/Multi-Choice as it continued to incur devel-

opment costs of the cellular industry and overseas subscription TV.

TML recorded enhanced trading profits off the back of strong advertising support which, combined with substantial interest income and the lower rate of taxation, resulted in a 47% increase in earnings prior to associates CNA Gallo increased earnings 13%, while CTP/Caxton reported a 10% growth in earnings. M-Net reported an 18% decline in earnings for the period (1993) (232)

The group's balance sheet reflected a reduced gearing position.

An extraordinary item of R42,9m arose as a consequence of Omni Media's restructuring of its printing and publishing interests.

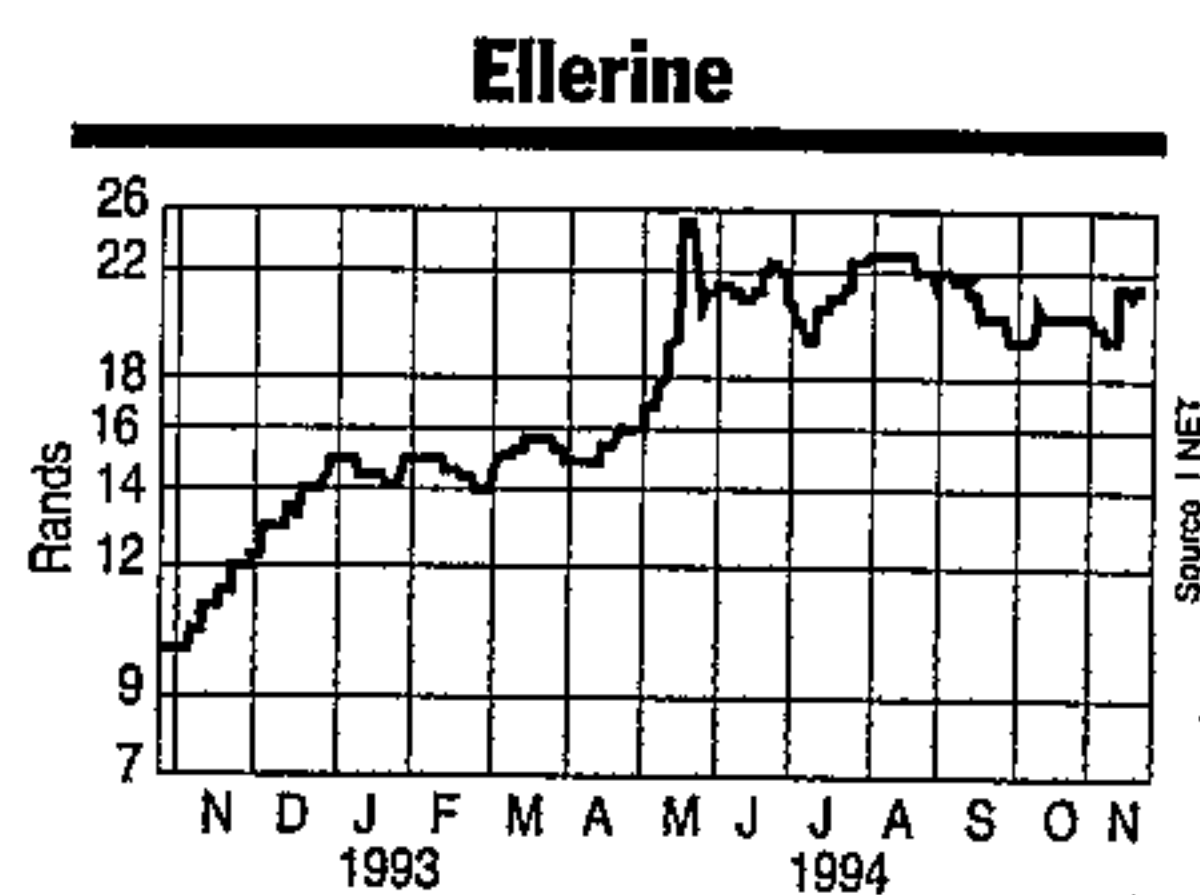
AMANDA VERMEULEN



Ellerine emphasis on managing debtors' book

opened during the year — the merger of JD Group with ailing furniture retailer Rusfurn now poses a real threat to its market share. Better managed under JD's lively team, many of the stores in Rusfurn's chain now compete efficiently and head-on with Ellerine.

Ordinarily this would have provided the perfect excuse for a war to secure market share. That it didn't is strong evidence that demand, pent-up after years of recession coupled with additional growth — not only in furniture sales but also brown goods — arising out of the vaunted RDP, may ensure



there is room for these two major furniture retailers

Reduced social violence contributed to the 11% rise in full-year turnover to R839m. The advance in operating income was slightly greater at 13%. The 22% jump in pre-tax profit to R133m is thanks partly to the large decline in the interest bill from R5,5m to a more manageable R3,7m.

But the biggest influence on earnings was a R6,5m abnormal item relating to interest received on a tax return. This follows a successful appeal against the decision of Revenue authorities to tax certain income received in prior years, resulting in a refund of R16m. Interest on this amount added a one-off 5,4c to EPS and is brought to account through an abnormal provision.

Fm 25/11/94

The balance sheet remains in good shape debt has been reduced by a third to R45,4m and gearing is down to 12%. Chairman and MD Eric Ellerine says in the year ahead strong emphasis will be placed on management of the debtors book and on collections.

For the 1995 year, analysts are forecasting earnings growth of 20%, placing Ellerine's forward p/e ratio at around 16. Supply of the scrip is limited, so buying opportunities should be taken. *Marlou Greig*

ELLERINE

Formula still working

Fm 25/11/94

Activities: Retail furniture and appliances predominantly on HP, through Ellerines, Town Talk, Royal Furnishers, Oxford Rhein Gold and Furn City chains in SA, Swaziland, Botswana, Lesotho and Namibia.

Control: Malbak 59,5%

Chairman & MD: E Ellerine

Capital structure: 71,8m ords Market capitalisation: R1,54bn

Share market: Price: 2 150c Yields 1,7% on dividend, 5,1% on earnings, p/e ratio, 19,6, cover, 3,0 12-month high, 2 500c; low, 1 100c Trading volume last quarter, 521 000 shares

Year to August 31	'91	'92	'93	'94
ST debt (Rm)	22,9	43,5	71,9	45,4
Debt equity ratio	0,10	0,17	0,23	0,12
Shareholders' interest	0,53	0,54	0,54	0,55
Return on cap (%)	24,6	20,2	19,7	19,4
Turnover (Rm)	592	588	758	839
Pre-int profit (Rm)	104,8	97,8	114,6	136,6
Pre-int margin (%)	17,7	16,6	15,1	16,3
Earnings (c)	77,4	70,2	88,9	109,6
Dividends (c)	25,7	23,3	29,6	36,5
Tangible NAV (c)	313	360	436	543

There is little that hasn't been sung in the way of praise for Ellerine, blue chip of the furniture industry. Where others have floundered, Ellerine has vigorously employed its long-developed and successful formula, one which has seen it return real earnings growth year after year.

Results for financial 1994 were no different: earnings advanced 23%. In the most demanding of trading conditions, with disruptions before the elections, Ellerine surprised analysts by staging a recovery of note in the second half, to lift earnings 31% on the previous year's second half. A 20% growth in volumes in the four months before the year-end helped swing the figures after a disappointing 3% sales increase in the first half.

There is, however, no room for complacency, the playing fields are changing. Whereas Ellerine's growth has been organic rather than by acquisition — 13 stores were

Surge in
leisure
helped Servgro

A SURGE in tourism and leisure helped Servgro to lift earnings 18% to 29.2c a share in the six months to September, writes JULIE WALKER.

For the first time, the company gives a breakdown of contributions to attributable income.

Risk consulting and insurance services (Price Forbes) is the biggest contributor with 31% of the R32-million earned, followed by 26% from cinema and film (Interleisure), 18% from travel and fleet services (Avis and Interpark), 13% from Teljoy and 9% from catering and hotels (Fedics and Protea).

Peet van der Walt, Servgro's executive chairman, says caterer Fedics and car rental group Avis had a strong six months.

He says the travel business, at present, is "just booming" *S/Times*

Hotel group Protea picked up from July.

Servgro is to buy another 14.7% of Price Forbes from an offshore seller to give it 55%. *(Buss) 27/11/94*

It will place 7.5% of Price Forbes in a trust for future allocation. *(232)*

Mr Van der Walt expects Servgro's earnings to climb at an even faster rate in the second six months — this as a result of improving trading conditions *(232)*

Food sector listing for Kolossus

BY CHARLOTTE MATHEWS

Food and leather group Kolossus Holdings, which was formed as a wholly owned subsidiary of Vleissentraal (Co-op) last year, will list on the JSE next month with a market capitalisation of R360 million.

Group MD Tito Vorster said on Friday Kolossus had three divisions — food technologies, brand investments and leather resources.

Food technologies owns animal production units, abattoirs, food processing, canning factories and a distribution chain (232) (232)

Brand Investments contains interests, generally around 50 percent, in a range of brands including Bull Brand, Ball & Coalter Foods, Senvleis, which has the Country Bird broiler chicken business, Meatcor and Vetmesting 28/11/94

Leather resources has tanning and curing centres, which serve the garment, shoe, small goods and upholstery markets.

The group, with a total of 4 337 staff, with 23 executive management and supporting staff, has lost only one day through strike action in the past year.

Since January 1994, over 60 percent of its skilled vacancies have been filled by non-white employees.

One of its embryonic projects is setting up meat franchises — Mighty K Meats — both as container-based operations with black entrepreneurs and in conjunction with existing butcheries.

Kolossus will list 36 million shares through a private placing at 600c a share.

Already, 68 percent of the shares have been taken up, with Vleissentraal holding 40 percent, Absa 11,2 percent and a management consortium 16,7 percent.

Earnings a share for 1994 are 80,75c on the basis that the R216 million raised by the listing will reduce Kolossus's gearing from 72 to 38 percent. The forecast EPS for 1995 is 99,04c.

On the 600c a share listing price, this puts them on a historical P/E of 7,4 and a projected P/E of 6, against the food sector's current average of about 21.

Monopolies have free rein

CLIVE SAWYER

Weekend Argus
Political Correspondent

IN spite of hard work by Competition Board investigators and police in building up cases, there have been no prosecutions for restrictive trade practices since 1986

Competition Board chairman Pierre Brooks said it seemed that "in the general scheme of things" restrictive trade practices were not regarded as serious offences. People in charge of law enforcement seemed to have other priorities

Dr Brooks said the courts did not seem to have the necessary expertise to deal with the cases. Disclosing the dearth of prose-

■ The Competition Board has disclosed that there have been no prosecutions for restrictive trade practices for years — and has pleaded for tougher enforcement of competition laws.

■ In deciding on monopolies, the board often had to choose between preserving competition or allowing job losses

■ Special tribunals should be set up, along the lines of those in European Union countries, to hear competition cases

■ Many private sector companies were complaining about un-

fair competition from parastatals

■ South Africa's competition policy would have to take account of the General Agreement on Trade and Tariffs (GATT).

Dr Brooks said there was a keen debate on a new competition policy for South Africa

Noting that the board was dominated by white men, he told the committee that the government should feel free to change its membership

Dr Brooks is the only full-time member of the board. He is assisted by part-time members

drawn from academia and business

A small civil service staff assists with investigations

If South Africa was to take its competition policy seriously, it should provide proper resources, he said

The economy was highly concentrated, partly because of disinvestment. This had left gaps in the market that were filled by domestic conglomerates.

"Unfortunately, in South Africa there are a number of firms which are very autocratic in their behaviour (and) dictate to smaller firms," he said

These firms took reprisals for non-compliance
Dr Brooks said smaller companies often lacked the resources to

fight "vexatious" business terms in court

In evaluating acquisitions and takeovers, the government could not force anyone to enter or leave a market. Often one company was taking over another in the same market because the other was failing

Dr Brooks said the concept of monopolies was "emotive", with different ideas on definition.

More than one company could constitute a monopoly, depending on shareholding or interlocking directorships

It should not be assumed that a monopoly was illegal in itself or not in the public interest

"If people are competing in the open market, and someone by superior performance gets a

monopoly, they should not be penalised"

Dr Brooks said some parastatals had expanded into traditional private sector areas in search of additional profits

This had led to several companies from the private sector of having to compete with companies funded by taxpayers, not threatened by bankruptcy, and immune from considerations of profit.

"The government will have to do something about the competitive interface between public and private sector," he said

"It should ensure that its parastatals do not abuse their position and lord it over the private sector.

232 ARG 5/11/94

Sharp recovery for Rothmans

LONDON — Rothmans International, the 68%-controlled tobacco subsidiary of the Rupert family's overseas wing, Richmond, increased pre-tax profit 18% to £276m in the six months to September.

While net sales revenue crept up only 4% to £1.27bn, the group enjoyed a sharp recovery in profit in Europe and growth in Asia, led by its star market, Malaysia.

Due to the non-recurrence of last year's tax credit, earnings a share were 14.5% higher at 19.7p, and an interim dividend of 7.5p was declared, against nil last year when the final dividend was 16.5p.

Sales gained the most in Asia, led by Japan, with an increase of 11% to £230m. In Europe sales rose 6% to £540m.

Operating profits were marginally lower in North and South America, export markets and the Pacific. But in Europe they leapt 44% to £70m while in Asia they grew 29% to £59.6m.

Rothmans chairman Lord Swaythling said the European figures reflected big

JOHN CAVILL

improvements in Britain and France — but both were affected by special factors. The UK rise was "largely cosmetic" because two budgets in 1993 — which increased excise duties on tobacco — had produced two troughs, which had not happened in the current year.

In France profit recovered from "a low base because of the price war of the previous two years", he said. This year prices and volumes had risen significantly.

"We had another good year in Malaysia, which is our star market, with strong gains in Japan.

Although Japan has required a lot of investment, there are signs of a breakthrough which will reduce losses and come through to profit in the future"

The results, better than expected, lifted Rothmans' share 17p to 440p, capitalising the group at £2.9bn.

Biday 28/11/94

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(232)

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BIDAY 28/11/94

(232)

Toco overcomes election and holiday disruptions

SAMANTHA SHARPE

INDUSTRIAL products manufacturer and marketer Toco Holdings overcame election disruptions and the many public holidays in the early part of the year to report an 18% increase in attributable income to R11,5m for the six months to September.

The group posted a 16% rise in turnover to R209,6m, while a 19% increase in operating income to R17,6m also helped boost the bottom line.

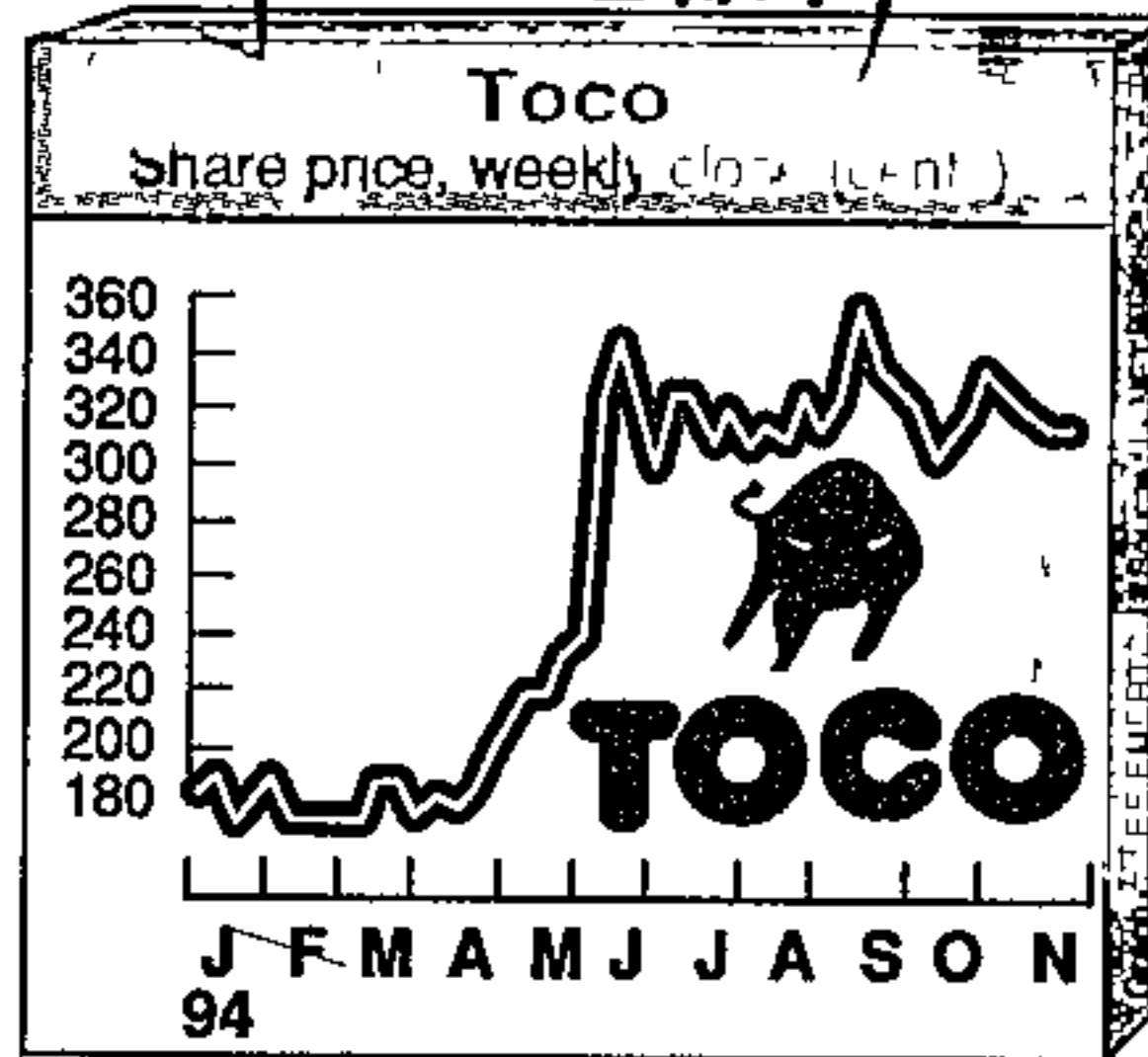
The growth in turnover and operating income contributed to an 11% rise in earnings to 13,8c a share. No dividends were declared, but bonus shares would be announced with the full-year results.

Toco chairman Paul Todd said the results were "satisfactory" given the disruptive environment of the election and the profusion of public holidays.

"The lifting, gasket, steel, parking and automotive refinishing divisions all performed satisfactorily, and have excellent prospects for the second half of the year," he said.

Todd said the group's export order books were full and he was confident Toco would be awarded a portion of the contract for vitreous enamel cladding for the Hong Kong underground, which would have a positive impact on earnings.

The group's building division had managed to overcome the "serious industrial



unrest in the wake of the elections" Appropriate action had been taken and the division was back to full production.

Expected losses from the building division had been fully accounted for in the half-year, he said.

The group had reduced its gearing from 54% to 35% at the interim stage, he said.

Group MD Adrian Goodman said the first of ten promissory notes for its Park Plus division had already been paid.

"Park Plus continues to expand steadily in North America and other global markets. We believe that our venture into the rental market will provide a more regular income stream in the medium to long term," Goodman said.

Rothmans may boost Richemont earnings

By Day 29/11/94

BEATRIX PAYNE

GOOD results from Rothmans and a global improvement in luxury goods spending could see Rembrandt's offshore arm Richemont post a 20%-25% rise in rand earnings for the half-year to September, analysts said yesterday

But the wild card for the balance sheet will be the extent of the group's losses in its media arm Network Holdings as a result of its investments in FilmNet and loss-making Italian pay-TV company Telepiu

One analyst said the losses in Filmnet were likely to be at similar levels to last year's. During the year to March the group reported a loss of £25,7m in the division

But another analyst said losses for the year from the group's media interests were likely to be £39,7m at an average exchange rate of R5,5

The group acquired its 25% stake in Telepiu after its March year-end. Shortly after the acquisition it was reported that Richemont MD Johan Rupert expected the channel to take about four years to break

even. But he was confident that the group could absorb the losses (198) (232)

The analyst said the group intended to put enough cash into the division to build up an entry barrier to its competitors and it was likely to turn profitable in about three years

The group's main subsidiary Rothmans reported an 18% rise in earnings to £276m for the six months to September. Earnings a share rose 14,5% to 19,7p

One analyst described the results as above expectations. "We had expected attributable earnings to rise 8%-9%"

But another analyst said the 18% rise in earnings masked the fact that volumes during the six months had been "relatively stagnant". Turnover for the six months increased 4,3% but inflation in the UK was about 2% and improved sales in France were largely on the back of a price war which had driven prices upwards

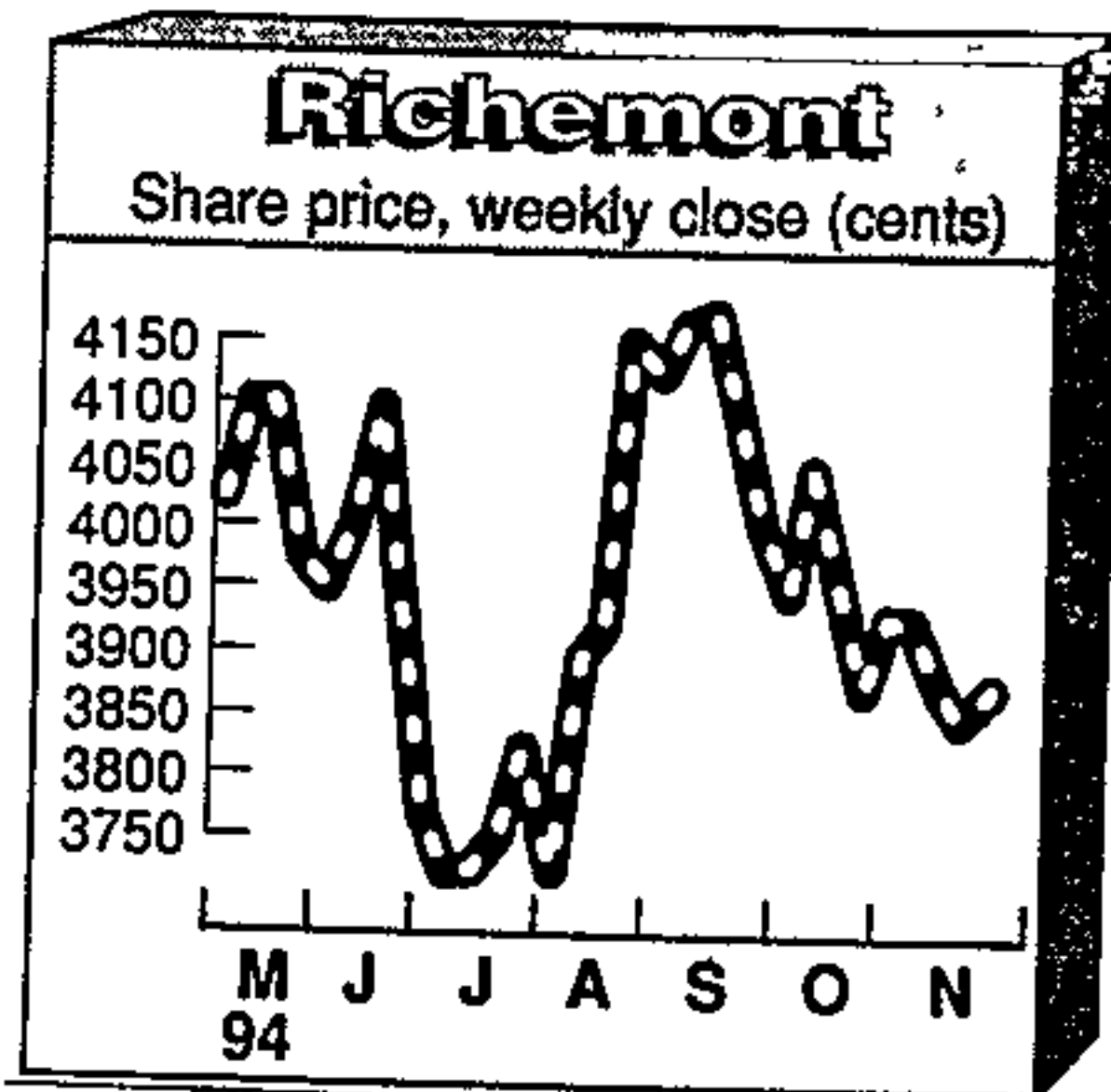
The group's luxury goods division Vendome had performed well in its markets in Japan and the US as spending on luxury goods increased, one analyst said

Vendome was set to show a 15% rise in earnings for the year on the back of increased consumer spending in Japan and the Far East.

One analyst said the group's share price "performed quite badly over the last few years and did very little"

But another said the group's net asset value was now at an all-time high of 51,78c which — at current prices — made it a comparatively cheap stock.

Positive sentiment on the back of Rothmans' results saw Richemont's share price close 25c firmer at R38,75



Sale of subsidiary lifts Anbeeco's bottom line

SELLO MOTLHABAKWE

WATCH distributor Anbeeco returned to profitability in the six months to October, posting an increase in attributable income to R1,6m (R988 000) as proceeds from the sale of subsidiary Supalek boosted its bottom line

Profit on the disposal of majority interests in Supalek — sold to Hong Kong-based investment company Gold Fortune for R6,3m earlier this year — was R1,9m

No decision was made regarding the deployment of the proceeds

The decision to sell Supalek followed a two-year effort by the group to broaden Supalek's product range. Dismal results during that period encouraged management to sell to Gold Fortune, which in turn made an offer to a joint Daewoo-AMIC JV industrial conglomerate to acquire a controlling interest.

Turnover for the group was reduced to R29m (R51,8m) after the sale.

Pre-tax income stood at R2,6m.

Earnings a share rose to 10,1c from 6,6c previously. An interim dividend of 3c was declared.

The company's remaining minority interest in Supalek, valued at R1,4m, had a market value of R3,2m.

The group's net asset value a share was 159c (142,3c).

The balance sheet reflected an increase in ordinary shareholders' funds to R23,9m from R21,3m, while the group's long-term liabilities increased to R1,1m from R571 000.

The group said turnover for the watch distribution division showed 13% growth on the back of aggressive marketing to gain market share.

This, combined with improved operating margins attributable to the focus on cost containment and working capital management, had boosted pre-tax profit 100% in the past financial year.

The group would continue to focus on growth opportunities within the watch distribution sector. It expected to experience real growth despite the prospect of pressure on disposable incomes from the transitional levy, interest rates and higher inflation.

Midas buys out Cape group for R13m

MOTOR parts and accessories group Midas announced yesterday it had bought 57% of Cape-based Quay Buffalo for R13m

The McCarthy Retail subsidiary said this would raise its stake in Quay Buffalo from 43% to 100% and would be settled by a Midas share issue and cash in equal proportions. The Cape company is a major regional wholesaler and retailer of motor spares and accessories. ~~(199)~~ (232)

The deal is effective from September 1. Had the acquisition been in place for the year to August, Midas's earnings a share

MICK COLLINS

would have been 87,4c instead of 74,9c

Midas CE Sarel de Vos said Quay Buffalo had an annual turnover of R80m and was staffed by 280 people who would retain their jobs. The company had customers throughout the Western Cape, Eastern Cape and Border regions and operated nine Midas franchises. 29/11/94

He said Midas was the second biggest franchise company in SA with more than 300 outlets.

Ford back in SA to reinvest

Sowetan 29/11/94

By Mzimkulu Malunga

US CAR manufacturer Ford yesterday announced its return to South Africa to reinvest an undisclosed amount of money

Only the Ford management and their partners, Anglo American Corporation, know how much the US company would invest, but sources estimate it could be more than R200 million. Ford has acquired a 45 percent stake in Anglo's motor assembler, South African Motoring Corporation (Samcor) which assembled Ford's cars in South Africa after the company disinvested in 1987.

The company also bought back 14 percent of the 24 percent of holdings it gave to Samcor employees when it pulled out of South Africa. (2) (232)

Food division eats into NSB profits

Star 29/11/94

■ BY THABO LESHILLO

Unlisted National Sorghum Breweries (NSB) has posted a 59 percent drop in operating income to R13,4 million for the year to June, due to its loss-making Jabula Foods division.

The division, acquired from the Premier group, lost a whopping R17 million.

Net income attributable to shareholders after extraordi-

nary items fell from R20,6 million to R11,9 million.

Executive chairman Mohale Mahanyele said steps were being taken to scale down operations at Jabula.

Operating profits from the NSB's traditional beer core business were marginally lower at R32,7 million compared with R34,3 million.

Dividends for the year totalled 14 cents, twice covered

by earnings. Sales rose 2 percent to R543,5 million, in spite of a decline in consumer spending and the election disruptions.

Income from investments fell from R7,25 million to R235 000 because of the large investment in the NSB's clear beer division, Vivo Breweries, which opened in August.

Mahanyele said prospects were encouraging.

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Interim earnings at Anglo rise 27%

BIDAY 30/11/94

MICHAEL URQUHART

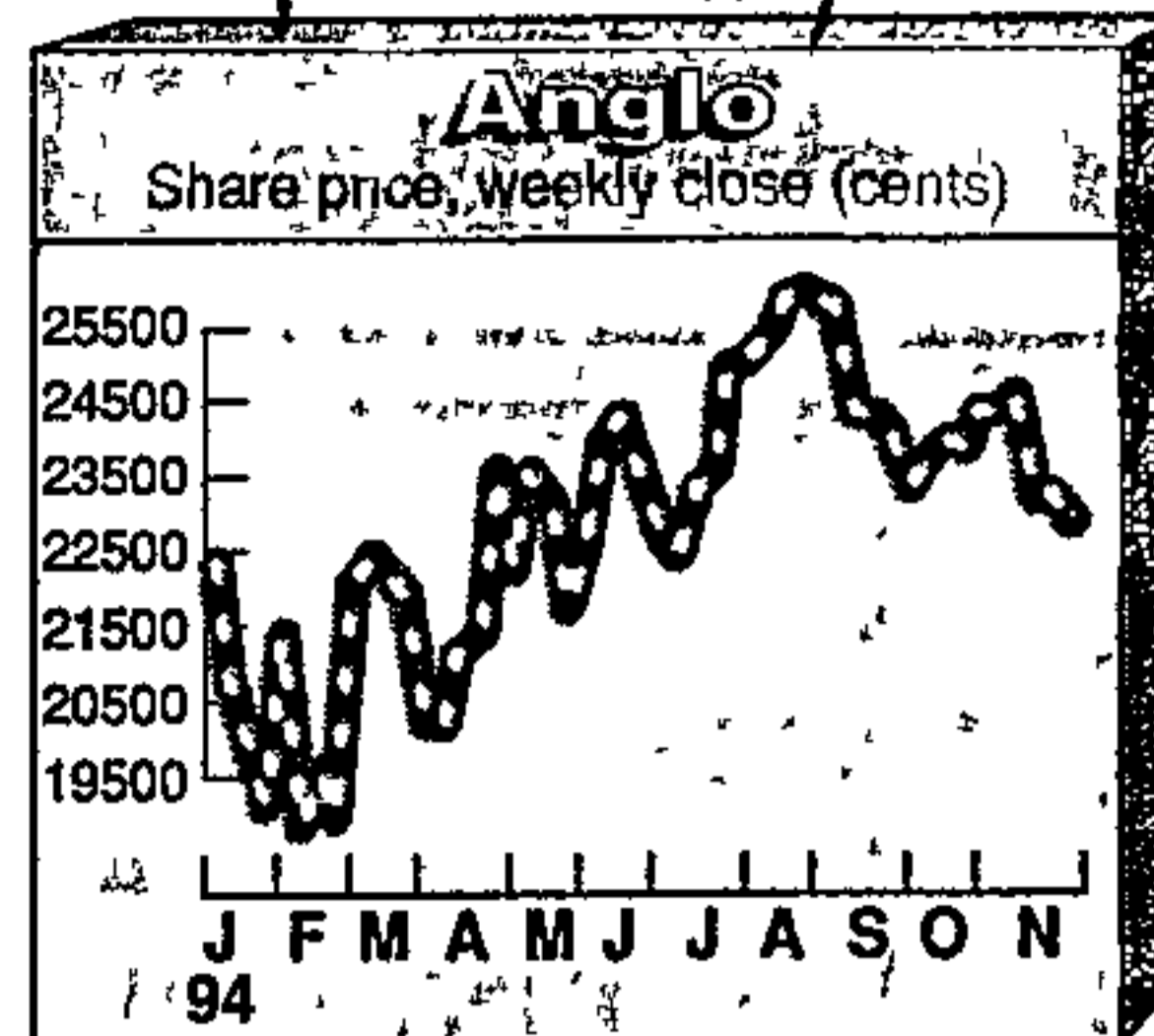
ANGLO American Corporation, SA's biggest group, increased net attributable earnings 27% to R794m for the six months to September, compared with R627m for the same period the previous year

Net earnings, including associates' retained earnings, rose 18% to R1,56bn, as JCI and Minorco weighed in with higher contributions (210) (232)

The interim dividend was lifted 16% to 110c, on earnings a share of 341c, and was covered 3,1 times by attributable earnings and 6,1 times by net earnings

Anglo said results for the remaining half were likely to follow a similar trend of improving earnings

Amcoal had been a star performer with a 33% increase in attributable earnings. Higher volumes of export coal had helped increase trading income 24% to R265m. PPRust, Rustenburg Platinum and Sa-



mancor had been the main contributors to mining income

Surplus on realisation of investments had soared 96% to R149m, based on the continued switch by Amgold into long-life, high-grade gold mines and the sale of An-

□ To Page 2

Anglo

BIDAY 30/11/94

□ From Page 1

Anglo's interest in Argus Newspapers

Taxation was up 28% at R141m, mainly as the result of Amcoal's increased profit

Chairman Julian Ogilvie Thompson, commenting on general economic conditions and the overall outlook for SA, said privatisation could accelerate the reconstruction and development programme in a financially responsible manner, while helping address the deficit, debt and balance of payments constraints

In order to extract privatisation's full economic potential, including widespread black economic empowerment and the attraction of significant foreign investment, a carefully structured and sequenced programme of privatisation would have to include parastatals (210) (232)

He said the fact that growth in SA would be closer to 2% than the hoped-for 3% showed how little scope for error there was, and how high the cost was of rectifying mistakes. The difference between the two figures was more than accounted for

by strike activity, extra public holidays and the one-off 5% transitional levy.

But an encouraging sign in the latest upturn was that for the first time in decades it had been led by increased private sector investment, Ogilvie Thompson said

All stakeholders had an obligation to look for measures which raised productivity in a mutually beneficial way. SA could not afford the labour practices of the world's richest and most productive countries. The SA mining industry was unique in facing regulatory restraints prohibiting work on Sundays, and the new calendar of public holidays threatened to reduce further the number of working days for the industry

Anglo would go to foreign financial centres to promote investment in SA, particularly in Anglo and its associates. Ogilvie Thompson said the exercise was aimed at educating foreign investors about the changes in SA, and would not be used to raise funds for Anglo

Deal worth \$100m, say analysts

Ford returns with stake in Samcor

BIDAY 29/11/94

US MOTOR group Ford has returned to SA after a six-year absence by buying a 45% stake in Anglo American's motor group Samcor in an investment estimated to be worth \$100m.

Anglo American and Ford's joint announcement of the agreement yesterday followed three months of discussions between Ford, Anglo American Corporation, Anglo American Industrial Corporation (Amic) and the Samcor Employees' Trust

Ford international automotive operations executive vice-president Wayne Booker said the deal made Ford and Anglo equal partners in the motor group, which makes Ford and Mazda vehicles at its Pretoria plant. (52) (232)

Neither Booker nor Amic chairman Leslie Boyd would disclose the value of the deal, in which Ford bought 14% of Samcor from the Employees' Trust and 31% from Anglo. Before the deal, the trust held 24% of Samcor and Anglo American Corporation and Amic held 76%.

Industry sources estimated the value of Ford's investment at \$100m, or about R420m at the financial rand exchange rate

Trust chairman Bantu Mtembu said its 14% stake had been sold for R50m. The cash would go to the trust.

Boyd said the figure raised by the Employees' Trust could not be used to calculate the total value of the investment as the other part of the deal involved "buying back equity and putting new equity in"

MUNGO SOGGOT

Booker said Ford would inject "new cash, new equipment and product investment" into Samcor. He would not discuss details of future products.

He said Ford was "confident enough" that SA tariffs on imported vehicles would not be reduced too quickly and too low — a move which would induce local car manufacturers to import fully built-up cars from their parent companies. "One assumes the SA government is not interested in adding to unemployment."

Booker hoped government's plans for the industry would support local content and offer export incentives for manufacturers to compete with Asian producers

The Board on Tariffs and Trade in September proposed a gradual reduction in import tariffs to 30% by 2001. It said recently revised proposals — which responded to industry reaction to the initial proposals — would be published in the Government Gazette in December. A final decision on tariffs would be made in July.

Booker said Ford Motor Credit Company, a Ford Motor Co subsidiary, was planning a joint venture with Anglo and a local financial institution. "The new joint venture company will provide dedicated automotive financing support to Ford dealers and retail customers in SA."

"Many of us at Ford consider SA to be

To Page 2

Ford

BIDAY 29/11/94

From Page 1

one of our traditional homes and we are delighted to be returning" (52) (232)

Samcor MD and CEO Robert Herbertson would be succeeded by Jim Miller, formerly director of Ford in eastern Europe and of Ford export operations in Europe. Herbertson would be appointed Samcor non-

executive chairman.

Ford Canada and Anglo's car operations, Amcar, merged in 1985 to form Samcor. In 1988 Ford Canada divested its equity interest in Samcor and donated most of it to the Samcor Employees' Trust.

● See Page 10

'Expand state role in mining'

CT. 11/2/94,

(232)

Own Correspondent

JOHANNESBURG. —
The ANC has called for a
more active and radical-
ly expanded role for the
state in promoting min-
erals development and
black empowerment in
mining.

In its latest document
on mineral and energy
policy, the ANC also
calls for radical com-
mercialisation of state-
supported bodies —
mainly the Atomic Ener-
gy Corporation but also
Soekor, Alexcor and Sa-
sol — to free resources
to fund new promotional
agencies, including a
small mines bureau.

Extensive use should
be made of tax policy in
a "carrot-and-stick" ap-
proach to promote min-
eral beneficiation

The draft document,
released yesterday for
public debate, said the
state should play a con-
structive, intervention-
ist role in promoting
black ownership



Remgro loses out on Gencor unbundling

Star 11/2/94

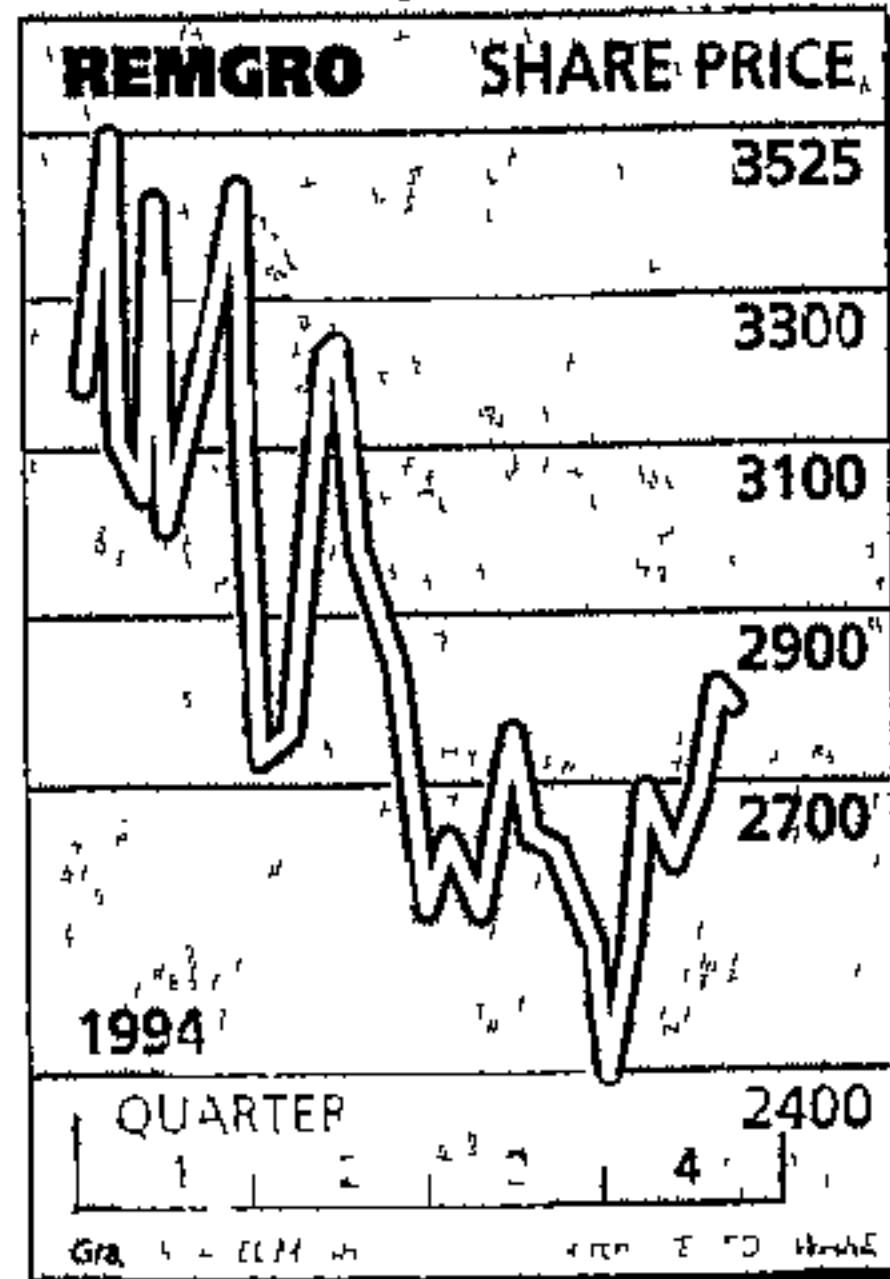
■ BY CHARLOTTE MATHEWS

Changes in accounting for Remgro's investment in Gencor after its unbundling, together with development losses from Vodacom, resulted in a fall in Remgro's income from normal business operations in the six months to September.

Excluding Vodacom and the Gencor investments, Remgro's other interests increased their contribution to net profits by 10,3 percent

Turnover was R2,5 billion against R2,2 billion in the comparable period. Net income was R508 million from R531 million, mainly as a result of a higher interest bill of R45 million (R24 million) and a drop in net income from associates.

Earnings a share from nor-



mal business operations dropped by four percent to 97,30c a share but were two percent higher at 81c excluding the share of net income retained by associates. As previously reported, the interim

dividend was raised 15 percent to 19,60c.

The contribution to Remgro's income from its investment in Gencor has dropped by about R52,6 million. Since the unbundling of Gencor's interests, Engen, Malbak and Sappi are no longer equity accounted and dividends received are included under Remgro's income. The financial results of the unbundled Gencor are equity accounted.

Rembrandt Controlling Investments, which owns 51 percent of Remgro, made earnings of 72c (75,3c) from normal business operations while Tegkor, which has an effective 20,7 percent interest in Remgro, made 63,20c (66,10c). TIB, which holds an effective 17,4 percent in Remgro, made 67c (70c).

(232)

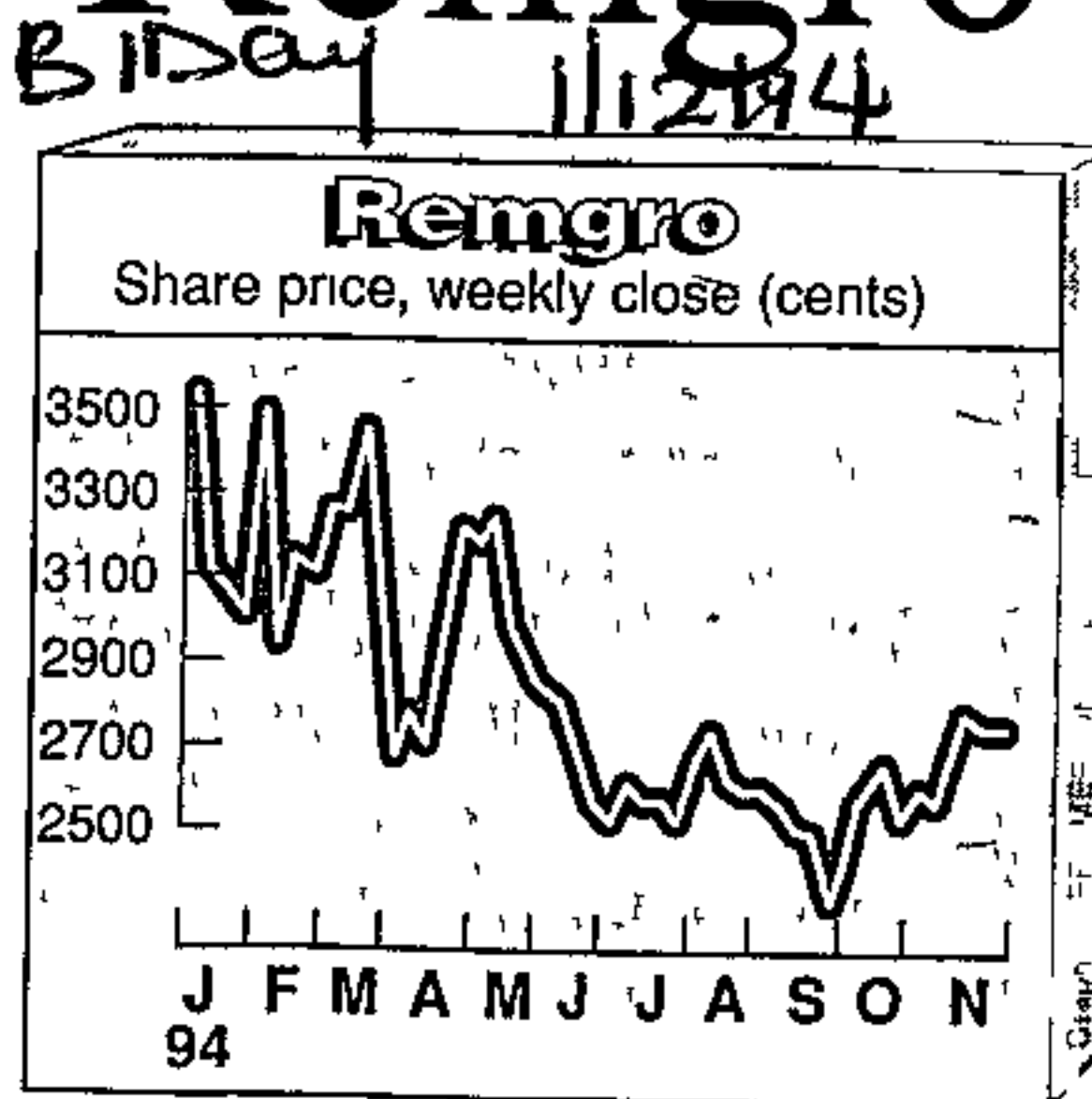
Northam's write down hits Remgro

AMANDA VERMEULEN

GOLD Fields' write down of its investment in Northam Platinum knocked the Rembrandt Group's net income from normal business operations for the six months to September

Remgro reported a 4,3% decline in net income to R508m after extraordinary items of R123,3m (R16,9m). This included R114,3m arising from the group's attributable share of the write down by Gold Fields of its investment in Northam Platinum. Gencor's unbundling and cellular network Vodacom's losses also contributed to the decline in earnings.

Earnings a share fell to 97,3c (101,7c) but the interim dividend rose to 19,6c (17c). The board said its interests in Engen, Malbak and Sappi, resulting from Gencor's unbundling, were not equity accounted. Only dividends from these companies were accounted for as income. (232)



The financial accounts of the unbundled Gencor were equity accounted. The results for the six months to September 1993 included Remgro's attributable portion of Gencor's earnings prior to restructuring and unbundling. Consequently, the contri-

To Page 2

Remgro

tribution from these sources to Remgro's net income for the 1994 half year decreased R52,6m to R60,1m. (232)

Funding of the group's interest in the Vodacom group started after September 30 last year. In accordance with the group's conservative accounting policy, the investment was accounted for according to the equity method.

As expected, Vodacom incurred losses during the establishment of the cellular network, and the group's share of these losses was R13,4m.

Earnings from the group's remaining interests increased 10,3% to R461,1m.

Remgro did not incur any liability from secondary tax on companies. The transitional levy of R24,3m was included in the taxation figure.

Capital commitments at the end of the period amounted to R83,1m (R328,5m).

On October 1, the group increased its interest in Huntcor to 82,9% from 65,9% for R244,1m. The transaction was not expected to have any material effect on net income in the 1995 financial year.

Technical Investment Corporation, which held 20,7% of Remgro, reported a 4,5% decline in net income from normal business operations to R105m.

Technical & Industrial Investments, which had a 17,4% stake in Remgro, showed a 4,3% decline in net income from normal business operations to R88m, and Rembrandt Controlling Investments, which owned 51,1% of Remgro, reported a 4,4% decline in net income from normal business operations to R259m.

From Page 1

Log-Tek scores a high with six-month results

SELLO MOTLHABAKWE

ELECTRONIC, transport maintenance and human resource group Log-Tek lifted attributable profit 135% to R955 000 for the six months to October on the back of improved efficiencies in business processes which raised operating profit 50%. *Siday 21/2/94*

Turnover rose 39% to R25,2m while operating profit shot up to R2,5m from R1,7m Net interest improved to R953 000 from R903 000 Pre-tax profit reflected a 102% increase to R1,6m.

Extraordinary profit had improved to R179 000 after the previous year's loss of R337 000.

Earnings a share were 133% higher at 20,3c and a dividend of 5c was declared.

The balance sheet reflected a slight increase in short-term borrowings to R8,7m from R6,3m while long-term borrowings declined to R801 000 from R5,5m previously

Deferred taxation had increased to R1,6m from R1m. Net asset value a share moved up to 90,5c (67,7c)

Management said the results indicated a highly satisfactory performance for the period under review. The group had complied with all requirements relating to the disposal of its headquarters Included in current assets was the R2,9m representing the group's future net cash inflow from the disposal The funds would be deployed to reduce interest-bearing debt. *(232)*

Prospects for the group centred on a strengthened order book with further growth in earnings a share forecast for the remainder of the year. There were good prospects for software developed in-house for government inventory management and private companies

It offered no comment on plans to sell software to a large US distributor which were announced earlier this year Plans to operate training colleges in Zimbabwe, Namibia, Botswana and New Zealand were on course.

Foreign investors waiting for the green light

All likely to benefit from privatisation

Star 2/12/94

THE sale of state assets will give the RDP a multi-billion rand boost but could cost jobs in the short term.

■ BY CLAIRE GEBHARDT

The biggest fire sale in South African history is about to start now that government has given the green light to privatisation

And analysts believe there will be no shortage of foreign buyers as blue chip utilities such as Eskom, Telkom and most of Transnet are dumped onto the open market

To overcome trade union objections, privatisation will be linked to RDP development, reducing power concentration and increasing competition

More compelling is the need to attract international equity flows given a burgeoning R220 billion public debt which already swallows up 55,8 percent of GDP

Interest payments constitute 17,3 percent of budget spending leaving fewer funds available for the RDP

UK-based global investment banking firm CS First Boston says affirmative action can be incorporated into privatisation by channelling partial ownership to employees, pensions funds and housing associations

According to chairman David Mulford voucher participation is one way to ease polit-

PRIVATISATION ESTIMATES — NET ASSET VALUES

Selected items only	Standard Bank estimates US\$ bn	Government estimates US\$ bn
Eskom	5-6	
Government holdings in Sasol and Iscor	1.4	
Foskor	0.3	
Telkom	2.2	
Denel		1.1
Airports	?	
Transnet		3.4
State forests and buildings	?	?

ical difficulties

In Russia this meant giving 144 million citizens a voucher which could be exchanged for shares in any one of 14 000 companies which were up for grabs

Vouchers

"The programme could be limited to cover only part of the value of assets sold — say 20 percent — the balance being sold for cash"

Citizens could also sell their entitlements or entrust them to a Voucher Fund where they would be managed

Mulford told a Euromoney conference in Johannesburg recently that this would create "popular capitalism" and boost stock market liquidity

To attract international capital, some vision of a combination of future meteoric growth and/or very attractive low valuation, and/or excellent liquidity created by free two-way flows of capital and currency was needed, he said

(232) "At this moment, you could argue that South Africa has none of these."

Big US and international funds keen to make substantial investment in South Africa were up against high valuations and an illiquid equity market by world standards.

"They know that if they try to buy in size they will drive the price up against themselves"

Although a complete list of State assets is not easily accessible, analysts estimate that as much as R500 billion could be raised were government to part with its massive stake in the economy.

This includes holdings in the Industrial Development Corporation (IDC), Sasol, Iscor, Foskor, Denel, Sappi, SA Airways as well as state forests and buildings

Although Minister without Portfolio Jay Naidoo has said certain assets of strategic importance will be retained, most believe there will be no sacred cows

South Africa's privatisation drive will simply link up with a world-wide movement to escape years of sluggish growth of state-controlled economies caused by inefficient managers, unproductive workers and corrupt bureaucrats

For close to a century most governments took on ownership of at least some national assets, particularly in capital-intensive sectors or industries seen as critical to national security.

But privatisation also involves enormous political risks because it virtually assures higher unemployment in the short term.

Overstaffed

Public sector companies tend to be overstaffed and private owners generally cut costs by shedding labour first.

And in a country where about 43 percent of the population is without formal sector employment the risks escalate

Standard Bank group economist Nico Czypionka says government will have at least two years grace in which to structure privatisation before RDP spending kicks in meaningfully

He believes foreigners will find "asset sales" of public sector entities such as Telkom and Eskom very attractive because of their difficulty in starting green fields ventures

Analysts say that part of the problem is the fact that South Africa is a mature market with deeply entrenched monopolies capable of resisting foreign intrusion

MALBAK

Ready to perform

FM 2/12/94

Activities: Consumer-based conglomerate
Control: Gencor and Sankorp (46%)
Executive Chairman: G S Thomas
Capital structure: 307,7m ords Market capitalisation R6,39bn
Share market: Price 2 075c Yields 1,9% on dividend, 6,5% on earnings, p e ratio, 15,4, cover, 3,5 12-month high, 2 200c, low, 1 225c Trading volume last quarter, 10m shares

Year to August 31	'91	'92	'93	'94
ST debt (Rm)	550	713	428	446
LT debt (Rm)	189	161	154	251
Debt equity ratio	0,27	0,04	(0,12)	(0,06)
Shareholders' interest	0,49	0,52	0,55	0,53
Int & leasing cover	4,2	9,3	29,7	n/a
Return on cap (%)	12,6	11,4	10,8	10,4
Turnover (Rbn)	8,44	10,03	11,00	12,61
Pre-int profit (Rm)	537	654	712	765
Pre-int margin (%)	6,4	6,5	6,5	6,1
Earnings (c)	124	114	122	135
Dividends (c)	32,5	33,5	35	38,5
Tangible NAV (c)	684	766	904	948



Thomas almost in line with underlying assets

Press comment on Malbak's 1994 results was almost universally favourable, with consensus that the 11% earnings growth recorded by this consumer-based conglomerate for the year to end-August had been ahead of expectations, especially after the modest 5% gain at the interim stage

The broader investing public, however, seems to have been more difficult to convince. Though the share price has gained strongly in recent weeks, the picture over the past year reflects a somewhat disturbing deterioration in market rating on two fronts — Malbak has underperformed significantly relative to the industrial market and, possibly more importantly, its own shares have not kept pace with the underlying value of the assets

To deal with the latter first, the annual report gives tangible net worth at August 31, calculated at market or directors' valuation of all underlying assets (including subsidiaries), as 2 035c, a 30% increase on the 1 571c at the 1993 year-end. Against this, Malbak's own share price rose only 20% over the period, so the discount to net worth doubled from 5% to over 10% at the

1994 year-end. However, executive chairman Grant Thomas says this situation has reversed since August 31 and, calculated on current market prices, Malbak at 2 075c is almost exactly in line with its underlying assets

Nevertheless, measured against the broad industrial market, but based on p e relatives, the current discount at which Malbak is trading relative to the market has widened from 13,5% a year ago to 23%, not much different to what it was in October 1991 before the Sankorp asset-shuffle which saw Malbak emerge as the focused consumer orientated group it is now

The implication is that whereas the market a year ago was enthusiastic about the prospects for the "new" Malbak, perceptions since then have become jaded, probably because it has yet to beat its 1989 EPS peak of 136,1c, underscoring the considerable deterioration over the past five years in real terms

The question now, however, is whether the market's downgrading of the share is fully justified on fundamentals. Here it is probably only fair to admit to some personal bias, since the group has performed almost exactly in line with the FM's own expectations in its review of the 1993 annual report the conclusion reached was that there were "reasonable prospects" that 1994 EPS would at least equal the 1989 high (in the event, they were 1,5c short) and

that, thereafter, Malbak would probably embark on another strong growth phase (echoed this year by Thomas who has forecast "good real growth" for 1995)

That said, it is difficult to understand what the market could reasonably have expected from Malbak that it has not produced. Being heavily dependent on consumer spending, it was obviously going to be strongly influenced by conditions during the period before the elections. Considering that these took place two months into the group's second half, the 15% EPS growth achieved for the second half can hardly rate as disappointing

Another noteworthy plus is that despite limited opportunities to grow turnover, there were pleasing improvements in most key asset management ratios — emphasising that Malbak has made good use of the opportunities offered by the recession to weed out operational weaknesses. Some examples here include a recovery in the asset-turn ratio from 1,67 times in 1993 to 1,72, and further success in reducing working capital requirements which, net, are now down to 13,3% of turnover from 13,6% a year ago

Less pleasing is that most profit ratios have remained under pressure, with declines in the trading margin (6,1% against 6,5% previously), and the pre-interest return on total assets (10,4% against 10,8%) However, helped by a slight decline in the effective tax rate and, possibly, by the fact that the group is somewhat less liquid than in 1993, this did not follow through to the bottom line where return on equity improved marginally to

BALANCING EARNINGS

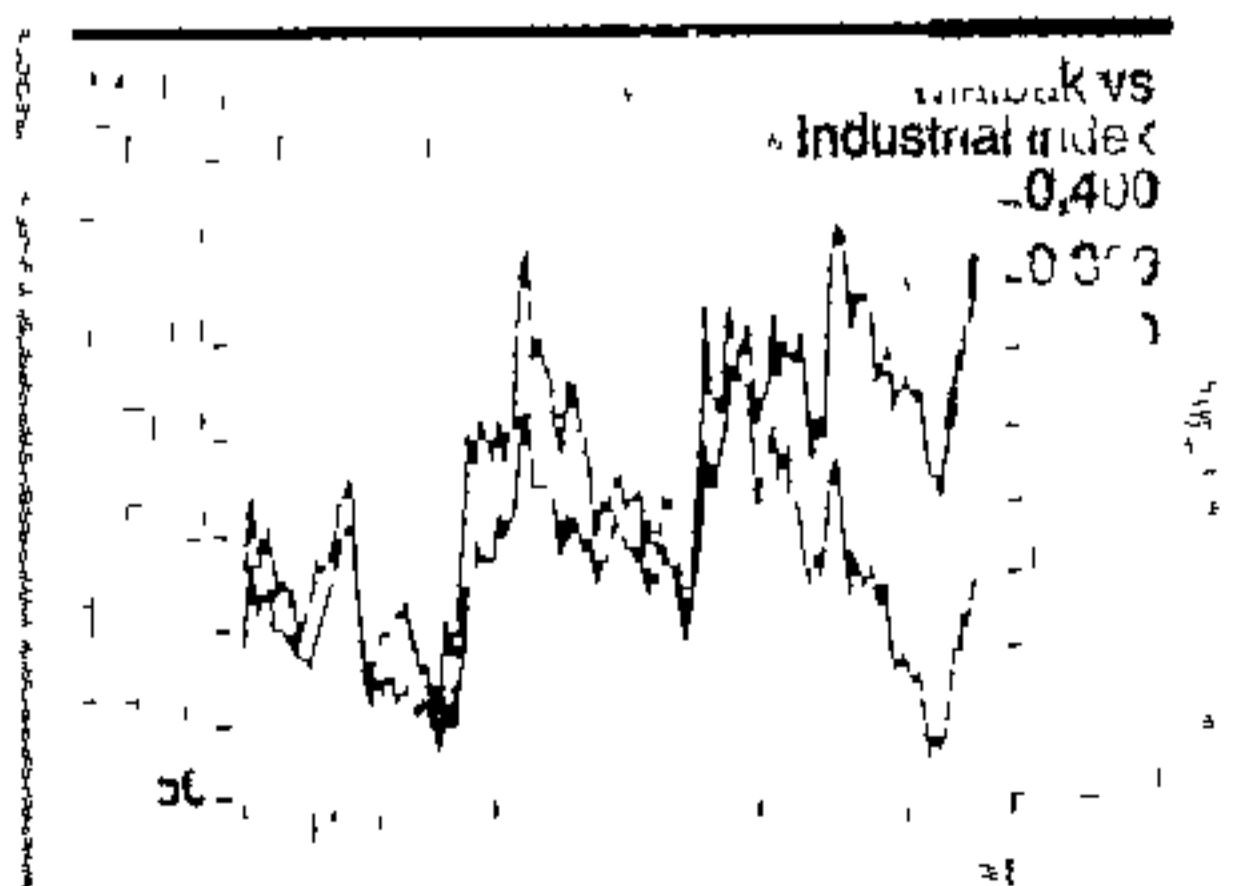
	1993		1994	
	Rm	%	Rm	%
Food	73	20	78	19
Healthcare	53	14	72	17
Packaging/Paper	65	17	65	16
Consumer products	59	16	88	21
International	30	8	33	8
Investments/Other	94	25	78	19
	<u>374</u>	<u>100</u>	<u>414</u>	<u>100</u>

14,2% (13,5%)

So, while low profitability remains a problem, at least there are signs of returning stability on this front which, hopefully, will be reinforced in 1995 if expected improved growth rate in profits materialises

Also, over the past few years Malbak has been labouring under two self-inflicted burdens. The first was the progressive conversion of the 13% debentures, now complete, and consequent elimination of the positive gearing effect which these instruments previously had on weighted average EPS (as used by the FM). This, in 1989, added more than 9c to EPS, without

LEADING THE INDEX



FM 2/12/94
which 1994 would have topped the previous best by about 6% — not exactly "growth," but a more favourable picture than with the weighted average earnings stream.

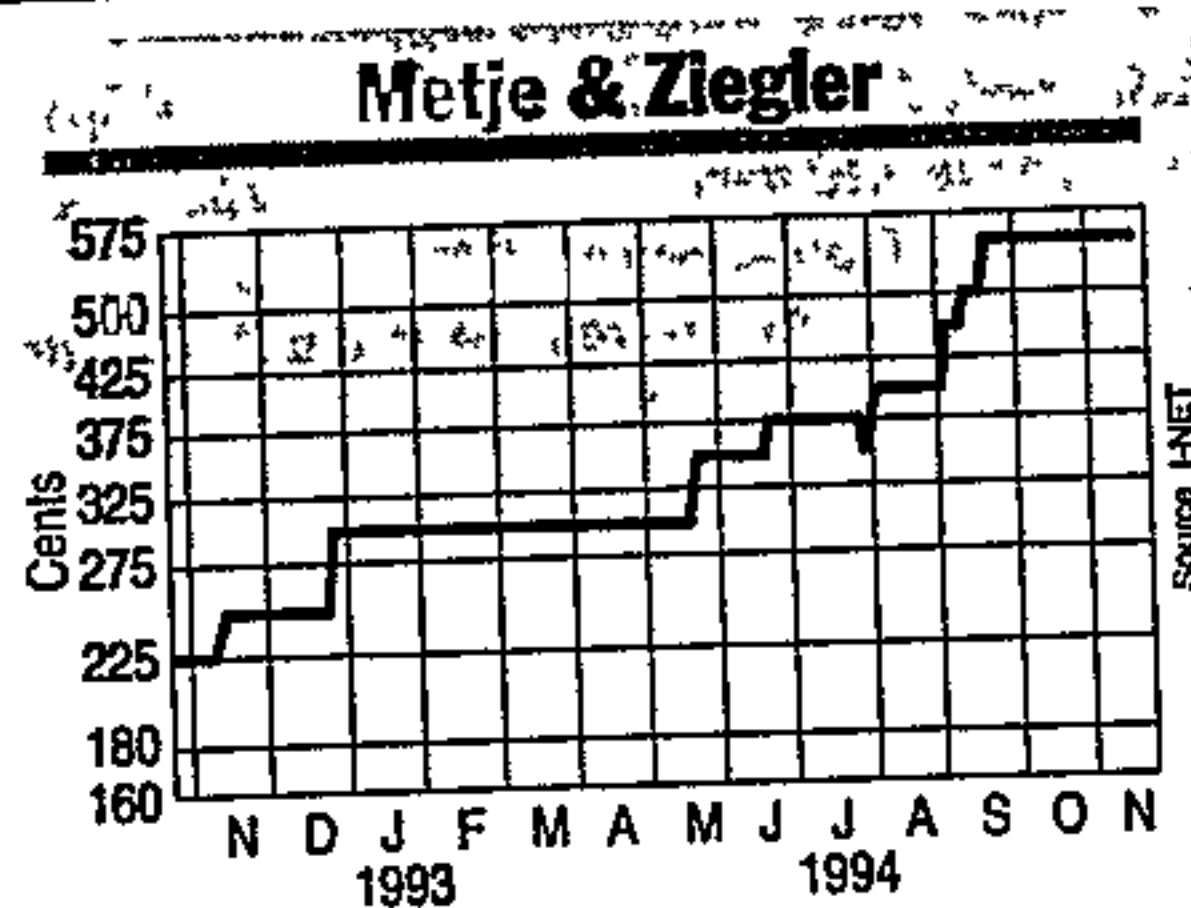
A second, closely allied, factor is that earnings continue to be adversely affected by the December 1992 rights issue and the fact that these funds have still not been put to fully productive use. The group gives the dilution applicable to 1994 as 1.5%. This arises from the fact that R349m (82%) of the R424m raised continues to be held at centre — again putting a question mark over the timing of this exercise. Malbak still holds net cash resources of R228m, equivalent to 6% of its permanent capital base. Without the rights issue, there would at this stage have been net borrowings of R196m, giving a debt equity ratio of 6% (on the adjusted capital base) which, one would have thought, would not be beyond the group's ability to handle. (232)

Here again, however, this aspect should improve in line with the expected upturn in trading conditions which will require a correspondingly higher investment in working capital. Going into the upturn cash-rich, and taking the group overall, its turnover base could probably double without unduly straining the balance sheet, and the benefits of improved activity should therefore have a more direct beneficial effect on the bottom line than if group companies had to start scratching for additional capital.

The conclusion is that Malbak has remained well on track (the FM's track, at least) and, with a sound portfolio of interests, should now again be able to perform. It has, on three occasions (the revitalisation of companies taken over from Protea, Gencor and Fed Volks), shown the ability successfully to manage companies that others have found unmanageable, and this must stand the group in good stead as it enters a new growth phase.

As a flyer, look for 1995 EPS growth at double the inflation rate — if the latter is 10%, EPS could top 160c, with a dividend of 45c. Despite the 275c share price advance since the prelims, a forward p/e of 13 suggests more to come.

Brian Thompson



cars and commercial vehicles. Turnover remained satisfactory at Autohaus Windhoek. M&Z Motors performed below potential but Bieber says indications are that, subject to availability of models, it will again become a strong profit generator.

The hardware and building division, which has been losing money for some time, did better between January and June, tighter control of operations and stock indicate a return to profit. The property division produced sound returns

The properties have been expanded and renovated. R2m was spent on M&Z Motors; a similar amount on building a new showroom and workshops at Autohaus Windhoek, and more than R1m on renovating many of the M&Z buildings throughout the country

These improvements mostly account for the increase in fixed assets and were mainly financed by a R3,8m increase in long-term loans in mortgage bonds over land and buildings

The net book value of properties is registered at R16,3m but the market value of the properties, as determined by the directors, is R60,3m This would lift NAV by R12,74 a share, theoretically taking the book value of net assets from 893c to more than R21 However, not too much attention should be paid to it because of the current practice of valuing shares according to earnings growth rather than by the value of the underlying assets

Bieber is optimistic about the group's future and reckons prospects for profit growth this year are good. If you believe the Namibian economy is set to improve, M&Z, though tightly held, offers an attractive opportunity to participate in that growth

Gerald Hirshon

METJE & ZIEGLER

Entree to Namibia

From 2/12/94

Activities: Distributes wide range of household products, builders' materials, machinery and equipment, franchise holders for cars and trucks, property interests

Control: Directors 84%

Chairman: E P H Bieber MD A M Behnsen

Capital structure: 3,5m ords Market capitalisation R30m

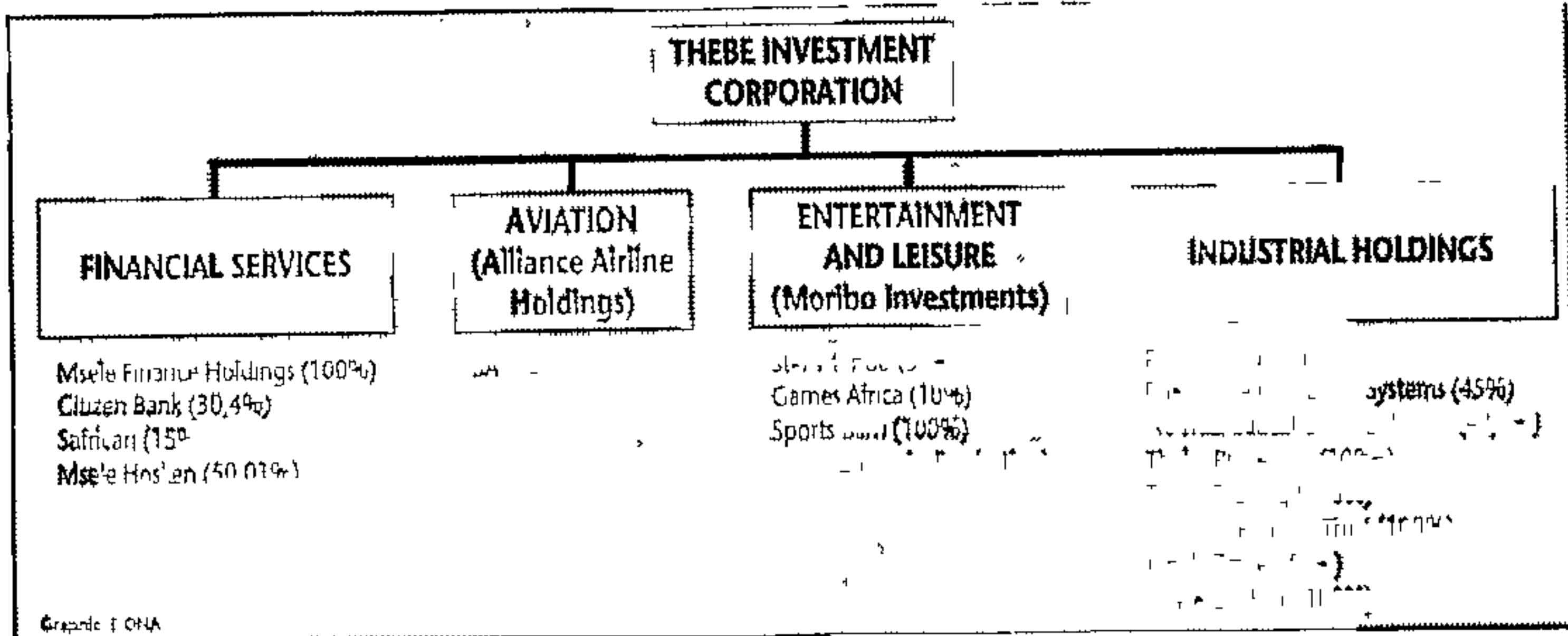
Share market: Price 550c Yields 2,2% on dividend, 11,2% on earnings, p e ratio, 9,0, cover, 5,2 12-month high, 550c, low, 225c Trading volume last quarter, 19 000 shares.

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	9,0	4,2	5,3	3,8
LT debt (Rm)	0,12	0,08	0,29	4,1
Debt equity ratio	0,31	0,15	0,18	0,25
Shareholders' interest	0,56	0,55	0,56	0,56
Int & leasing cover	0,95	1,85	0,80	2,10
Return on cap (%)	3,5	4,8	2,4	7,6
Turnover (% chance)	(2,1)	7,8	10,5	13,8
Pre-int profit (Rm)	1,8	2,5	1,2	4,3
Earnings (c)	(26,9)	18,4	(10,9)	61,4
Dividends (c)	nil	5	nil	12
Tangible NAV (c)	815	828	835	893

~~893~~ **232**
Improved results in financial 1994 were attributed largely to better management and greater efficiencies generated by staff

Well established in all major centres of Namibia, Metje & Ziegler is centralising retail operations at an outlet in a renovated complex in Independence Avenue, Windhoek. Chairman Peter Bieber says its turnover was not enough to generate a contribution to profits but in 1995 it is expected to become the leading specialist gift and household outlet in Windhoek.

M&Z holds franchises of Mercedes-Benz cars and trucks, Honda cars and has dealerships for Volkswagen and Audi passenger



Thebe Corp satisfies its growing appetite

SI Times (Buss)

(232) (180)

4/12/94
By ZILLA EFRAT

WITH a consolidated annualised turnover of R250-million, Thebe Investment Corporation is fast becoming one of South Africa's largest black-owned companies

Since it was formed in July 1992, its interests have broadened to include an airline, South Africa's third largest cinema chain, computers, publishing, property, travel, car hire and scratch card lotteries.

While Thebe (seSotho for shield) declines to give figures, its assets are estimated to be worth well over R500-million

Its latest area of expansion has been in financial services, especially through Msele Finance Holdings, established in July

This growth has come on the back of a series of ventures with South Africa's key financial institutions, including FirstCorp Merchant Bank, with whom it bought a 48% stake in Bisho-based Citizen Bank in September

Since then, it has gained a 50,01% share in insurance broking group Hubert Hosken & Co for R9-million

Together with Fedsure and other shareholders, it formed Safirican Insurance Company — a R40-million company which will operate in the funeral insurance sector

In October, Msele Ned ventures — a development capital fund which will finance small to medium-sized enterprises with stakes up to R1-million — was launched in association with Nedcor and a state-owned German agency

Msele has also moved into asset management by taking a 26% stake in African Alliance Investment Management Other shareholders in this new venture include Investec and the National Council of Trade Unions

Vusi Khanyile, Thebe's managing director, says all companies in the financial services division operate autonomously

Another area of fast growth has been Thebe's entertainment and leisure arm, Moribo Investments

Ster-Moribo, a recently formed joint venture with Ster-Kinekor, owns 26 cinemas in the Johannesburg and Soweto area and plans to double the number over the next two years

Ster-Moribo is also involved in selling sports equipment and has a stake in Games Africa Future ambitions reportedly in-

clude casinos, a record company, TV and radio

Thebe Property recently moved into the low-cost housing market through a link-up with Richland Properties

A sizeable chunk of Thebe's business is centred in the airline business through an investment in regional airline SA Express, a joint venture with a Canadian company and SA Airways

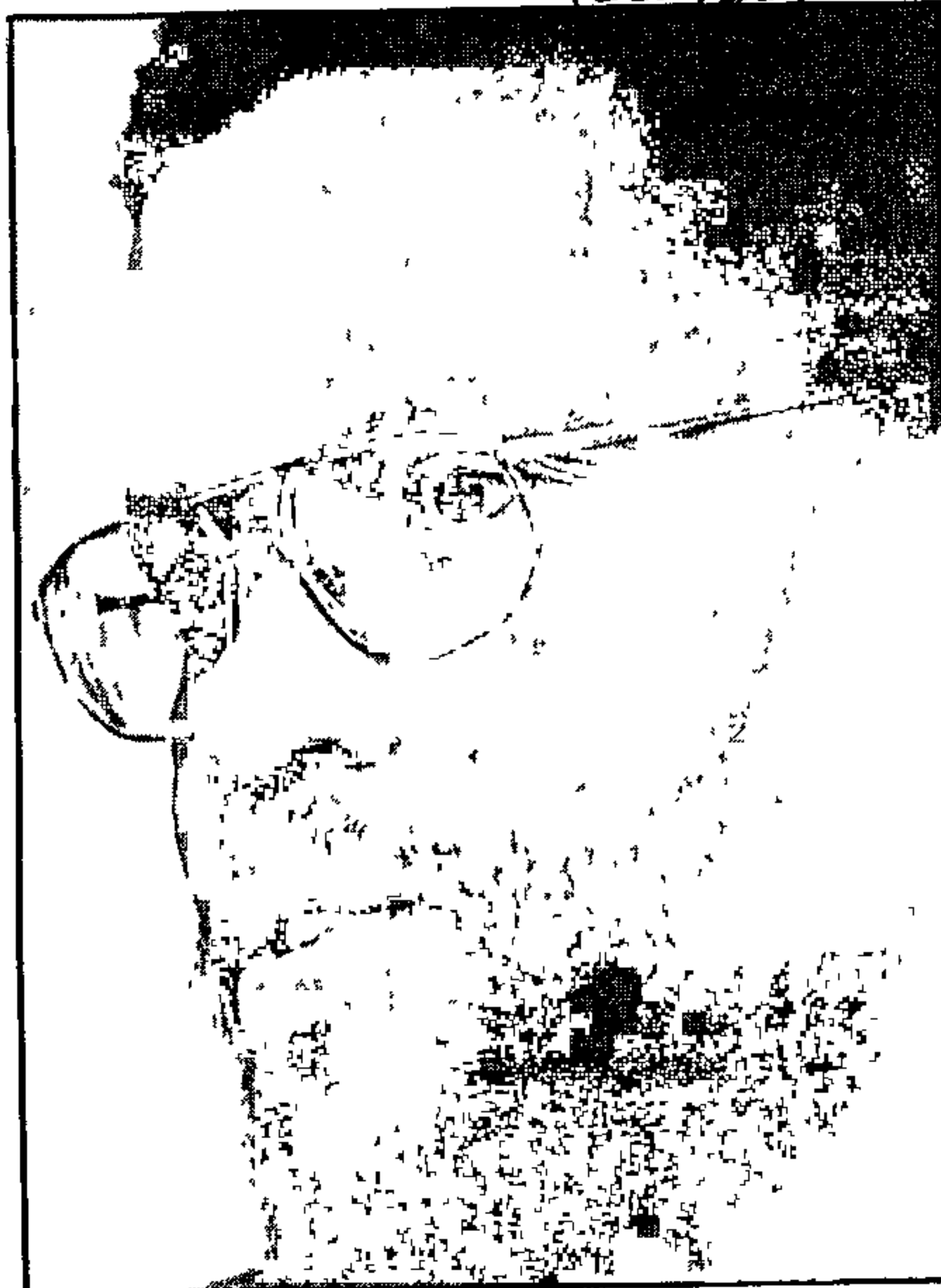
Mr Khanyile says that as an investment holding company Thebe does not run or manage its subsidiaries except through board representation Its staffing remains at 15 people.

In a written reply to questions submitted by Business Times, he said that Thebe was currently not looking at any further areas of growth but rather at consolidating and strengthening its portfolio, particularly in the financial services and entertainment areas

When Thebe was formed, a listing was stated as a strategic goal and it gave itself a five-year horizon to achieve this

However, Mr Khanyile says "We are open-minded about the possibility that Thebe or one of its divisions could be listed before that date"

Thebe's shareholder remains the Batho-Batho Trust, but the company has been working hard to shed the tag of being ANC-linked



ADEQUATE PROPORTIONS Vusi Khanyile, who says Thebe has grown enough

Competition Board 'needs more power'

BIDay 5/12/94

BEATRIX PAYNE

THE Competition Board required greater policing powers and independence from government, and restrictive practices needed to be defined in law, if the board was to become more effective, chairman Pierre Brooks said at the weekend.

He was referring to legislative amendments expected to be proposed next year.

Brooks said government intervention and inadequate litigation procedures had hampered the Competition Board's ability to act against monopolies.

There had been no prosecutions for restrictive practices since 1986. And according to recent figures released by the World Economic Forum, SA's economy was one of the world's most uncompetitive, restrictive and protected in the world.

Brooks said in an interview that government would review the board in line with the reconstruction and development programme's White Paper, which had advocated a more effective competition policy.

The parliamentary select committee on trade and industry was an important part of that process, he said. It would conduct open hearings next month to get input from industry and business and would propose changes to legislation next year.

Current law on competitive practices was put in place in 1979 and circumstances were now totally different, he said.

Fines needed to be made more punitive. The maximum fine for a restrictive practice was now R100 000.

There was a high degree of concentration of economic power in SA but the breaking up of monopolies or pyramids was not necessarily the best solution. Instead, the board intended to "zero in" on the conduct of firms with market power.

Policy on pyramid structures would also need to bear in mind RDP principles of black economic empowerment. Many black businesses might perceive the abolition of pyramids as unfair as white business groupings had been able to establish their current dominant positions through such structures. "It is important to see competition policy as one aspect of economic development," he said.

Anti-competitive policy would need to prevent anti-competitive practices, focus on consumer welfare and the effect of restrictive practices on the development of small and medium-sized enterprises and also consider the "unique" issue of reparation for past injustices.

He said the board had taken up the dispute between Ster-Kinekor and Avalon cinemas as it was a precedent-setting case and would map out future policy.

(232)

Bonnita churns out good profits

By BUSINESS STAFF

Bonnita Holdings, the 53-percent held Premier Group dairy subsidiary listed in August, grew earnings a share by nearly 40 percent in the six months to October to 10,4c against the same period in 1993.

Turnover grew by 13 percent to R413,0 million but operating profit climbed more steeply, by 32 percent to R34,8 million. After a lower interest charge and lighter tax rate, attributable profits were 39 percent above last year's at R21,9 million.

Shareholders are being offered capitalisation shares in the ratio of 0,9 for every 100 shares held, equivalent to 2,3c a share at Friday's closing price of 255c.

Share offer

Alternatively, they may take a cash dividend of 2,2c a share, 47 percent better than last year's 1,7c.

Bonnita's directors said most shareholders were likely to accept the shares, which would further strengthen its cash resources.

The group's gearing at mid-year was 3,5 percent, against 12,7 percent six months previously, which means the company is "exceptionally well positioned for investment in profitable projects," the directors said.

Capital expenditure commitments for the second half of the year are R14,7 million, which will be financed from internal resources.

Two new ice cream factories, in Cape Town and Midrand, have been completed in time for the summer season. The new UHT plant in Cape Town is on schedule to be operational in early 1995 and will provide additional capacity to produce long-life milk and fruit juices.

At their current price Bonnita shares are on a p.e of 18,6. This is below the food sector average of around 21, reflecting both slightly more negative perceptions of farming companies than food companies as well as a limited number of shares trading

OK Bazaars 'in recovery stage'

OK BAZAARS was in a recovery stage and sales figures for November had shown a substantial improvement over those for October, according to MD Mervyn Serebro

The retail group, which delisted in February this year, posted losses of R40m for the six months to September. It reported a loss of R39,9m for the corresponding period last year.

Serebro said that the recovery was taking place against the backdrop of a new merchandising philosophy, which had led to 27 stores nationally being refurbished and 109 remerchandised.

He said the 100%-owned SA Breweries subsidiary was on track for a full recovery, and there was a chance that it would break even in the second half.

One analyst said the retail market was

B/Say

YURI THUMBRAN

"overtraded" and questioned whether the OK could survive it.

He said the hard work pumped into the chain to rejuvenate it had started to pay off. However, it was not clear whether the cash pumped into it by SA Breweries went into equity or to relieve debt.

But he noted that the group had staged a turnaround and was moving towards a sound financial position.

Another analyst said now that the chain was out of the spotlight, it had been subjected to the care it needed to put it back on track.

Despite a more positive outlook, the OK had a long way to go before being profitable again, he added.

vate placing, the directors holding in KUF... mainly in the PWV area.

Safcol privatisation may be 'influenced by RDP'

BIDAY 6/12/96

SAFCOL's contribution to the reconstruction and development programme's housing projects could be a factor in government's decision to privatise the state-owned forestry and timber company, sources said yesterday

But government sources said the main factor would be commercial

Safcol became a company under the Companies Act as part of the previous government's commercialisation of state assets exercise in April last year. Sources said it would be a natural progression to sell it to the private sector.

CE Tienie van Vuuren said yesterday the company was well placed to assist in the housing programme. It produced more than 1,4-million cubic metres of timber a year, of which 175 000 could be taken up for housing.

Safcol, which had 20% of the forestry reserves in the country but only 7% market share, was also well placed to take advantage of the worldwide upturn

Van Vuuren said its ex-

AMANDA VERMEULEN

ports, which at most would be 15% of production, were essential to subsidise a competitive local market. Not only would the company supply materials for building, but also for the expected increase in demand for furniture

Sources said government might not want to relinquish this asset in view of its potential contribution to the RDP, and this could be a factor taken into consideration in the Public Affairs Department's plan to investigate privatisation

They added government may decide to retain Safcol as a state enterprise to ensure a stable and low price for timber materials.

But Van Vuuren said it was premature to say what government planned to do. It would examine models in other countries that had privatised their forestry companies

A Public Affairs spokesman yesterday confirmed the department was reviewing the situation in other countries, but he denied

government would not privatise Safcol just to maintain a source of low-cost building materials.

"Any decision made would be based on commercial considerations. Safcol is not a strategic asset, and it would be pointless to keep prices artificially low as it would still be a type of subsidy."

He said government would have to choose whether it wished to keep its forestry reserves, or sell the assets to raise funds for housing, water and electrification projects.

EXECUTIVE SUITE

IM HERE TO TAKE PICTURES OF THE BOARD OF DIRECTORS FOR THE ANNUAL REPORT.



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Major firm to unbundle, ⁽²³²⁾ says BoE

ARG 6/12/94

BRUCE CAMERON
Business Editor

A MAJOR unnamed South African corporation is planning to unbundle to give a group of important black role-players a significant stake in some of the hived-off companies

The first hint of the unbundling came today at the annual meeting of the Cape Town-based merchant bank Board of Executors

BoE managing director Bill McAdam declined to name the company but said it was one of South Africa's majors

He said BoE was involved in advising the black role-players on the deal, which had international proportions and would involve merchant banks from other countries

Mr McAdam said the purpose of the unbundling was to empower blacks

The move is likely to eclipse previous black empowerment moves on the Johannesburg Stock Exchange. These have included

- The hiving off by Sanlam of assurance company Metropolitan Life, which formed the foundation of the diversified holding company, New Africa Investment Limited (Nail).
- The separation of African Life by Southern Life and a takeover of control by black-dominated institutions

The unbundling process was led by mining house Gencor. The Gencor unbundling has been the most significant so far.

Anglo American, which had voiced strong opposition to unbundling, restructured Johannesburg Consolidated Investments (JCI) in what was seen to be a quasi-unbundling move

'Huge unbundling' set to create black group

Business Editor

THE Board of Executors (BOE) has been appointed to advise in "a very significant, black empowerment transaction" emanating from the Transvaal, involving a very powerful group of black people and black entities, and a huge unbundling exercise, its MD, Bill McAdam, said yesterday.

He told journalists, after the BOE agm, that he could not divulge the name of the group being unbundled at this stage. But it was "a very substantial group, which is spitting itself up, and this will result in a black-owned group."

Because of the size of the deal international advisers had also been called in.

McAdam also said discussions were in progress with a British financial institution which could result in "a merchant banking operation leading to trade and project financing, stockbroking, bond dealing and foreign exchange dealing."

Discussions would go on over Christmas, in this country and abroad, and he hoped to make an announcement in about a month.

BOE was also considering going into the life insurance market. But negotiations in this matter would take longer — an announcement might be made towards the end of the first quarter of next year.

Discussing existing business, McAdam said that BOE had already hit its business target in asset management in the first two months of the current year.

At the agm chairman Paddy Wilson said that although BOE forecast higher interest rates, only moderate growth in gross domestic product (GDP) of between 2.5% and 3%, and continued weakness in the balance of payments next year, "management is nevertheless confident that, despite all these uncertainties, the future will present meaningful business opportunities for the group."

"Certainly the 1995 operating budget indicates that achievable earnings per share should enable BOE to maintain its historic average growth rate. The first two months' results are most encouraging."

But, Wilson said, "Our future growth, in common with that of most corporations in SA, is largely dependent on the political and economic stability of not only SA but the southern African region as a whole. "While, in principle, political reconciliation seems to have been achieved, the political realities flowing therefrom need to be demonstrated in actions and results, which unfortunately are slow in emerging."

232
27/12/94

Tongaat-Hulett group extends scope of black empowerment

Star 8/12/1994

232

BY JOHN SPIRA

In a deal worth R53 million, the Tongaat-Hulett group has sold an 80 percent stake in its catering business, Supervision Food Services, to a consortium consisting of Kagiso Trust Investment Co, Khulani Holdings, FirstCorp Capital Investors and senior management.

Cedric Savage, Tongaat-Hulett managing director, comments: "The move is a major step in the group's black economic empowerment programme, which is to facilitate participation of black entrepreneurs and managers in businesses complementary to our core activities."

"Our retention of a 20 percent shareholding demonstrates our ongoing commitment to contribute to the future success of this business."

Savage adds that two more similar deals are in the pipeline. "According to Eric Molobi, chairman of Kagiso Trust Investment Co (wholly owned by Kagiso Trust) "The acquisition

by the consortium of a majority shareholding in Supervision Food Services meets our criteria of investing in sound businesses which will provide ongoing dividends to invest in development projects, in partnership with management and leading corporates.

"The catering industry is of particular interest to us, as it is adequately profitable while providing good employment opportunities and supplying basic nutritional requirements to large numbers of people."

Khulani Holdings' Zuzi Buthelezi says partnerships with established companies are essential to facilitate the transfer of skills.

Supervision Food Services is one of the country's largest catering concerns, with nearly 5 000 employees and an annual turnover of R320 million. It provides catering services to more than 550 clients countrywide.

Savage says the deal will have minimal impact on Tongaat-Hulett's earnings and net worth.



Signing . . . Tongaat-Hulett MD Cedric Savage and Kagiso Trust Investment Company chairman Eric Molobi (seated) at yesterday's signing. Others present were (from left) Zuzi Buthelezi of Khulani Holdings, Steven Saunders (THG) Nigel Dunlop (SFS), Johnson Njeke (Kagiso Trust) and JB Magwaza (THG)

'Let Telkom compete in free market'

Political Correspondent

STATE monopolies like Telkom should be privatised for the sake of consumers, the Democratic Party said yesterday.

Reacting to the announced telephone call price hikes, the DP's spokesman on telecommunications, Senator James Selfe, said privatising institutions like Telkom would ensure that consumers received services at international market rates

Once again the burden had been shifted from the government to the already overtaxed and inflation-hit citizens, he said.

The government had ignored the DP's repeated calls for the privatisation of Telkom

"Consumers are now having to pay the price of Telkom's inability to compete and to deliver its product in an efficient and cost-effective way"

Mr Selfe said competition in the free market would drive down the prices of these services to the benefit of the consumer

"South Africans should no longer be asked to cough up for the maintenance of inefficient and expensive government monopolies."

● Penalising local calls — Page 6

Privatisation of state assets could raise R177bn for RDP

Government debt edging out of control?

CT 8/12/94

PRIVATISATION of state assets could provide a R177bn boost for the RDP over the next five to 10 years, Old Mutual Unit Trust economist, Terence Moll, said yesterday.

In the latest Old Mutual Unit Trust Economic Commentary Moll said while the Department of Finance had indicated that about R27bn of state assets could be sold, another R150bn or more could follow.

It was estimated that each R1bn raised from privatisation would cut government interest payments by R125m a year and part of this could flow directly into the RDP.

Moll warned that high Budget deficits could lead to interest payments soaring and eventually force government to cut its spending drastically.

"Some observers believe we are already in a fiscal crisis. Indeed the figures look ominous. And only one escape route is available — privatisation."

Privatisation offered three major benefits — government would have the money to retire debt

Debt as percent of GDP



and slash interest payments with more finance becoming available to the RDP, health, education, housing and other social needs.

"Secondly, the economy would benefit. Studies from other countries show that efficiency usu-

ally improves after state firms are privatised. Though some public enterprises in South Africa seem reasonably well run (such as Eskom), others could do far better. And thirdly, privatisation would send an incredibly positive sig-

nal to local and foreign investors. It would demonstrate that the government is committed to implementing its market friendly policies."

"Of course, if such enterprises are highly incompetent, job losses might be less costly to society than fat, ongoing

state subsidies. Many critics believe a large public sector can help implement the RDP. But some inefficient state enterprises are simply incapable of assisting the RDP, while many government assets, can contribute little towards it anyway."

Certain state welfare functions might be run more efficiently by the private sector. Given the appropriate incentives, taxes and subsidies, a privatised Telkom might connect more telephones to more poor households more quickly than at present.

Moll said considerable thought would have to be given to the methods of privatisation. Should state assets be sold to private firms, local or foreign? Or should they be given out to the population — perhaps in the form of unit trusts — as in the Czech Republic.

"These are important questions. Fortunately, lots of studies from other countries reveal how privatisation functioned and who benefited from it. We can learn from them and government needs to begin privatising as soon as possible."

— Sapa

SHOREDITS

Lower risk profile

FM 9/12/94

Activities: Construction, civil engineering, property and related industrial interests

Control: Directors (50%)

Chairman: A K R Shoredits

Capital structure: 19,9m ords Market capitalisation R50,7m

Share market: Price 255c Yields 3,1% on dividend, 8,6% on earnings, p e ratio, 11,6, cover, 2,7 12-month high, 260c, low, 65c. Trading volume last quarter, 38 200 shares

Year to June 30	'91	'92	'93	'94
ST debt (Rm)	19,2	25,6	30,2	23,5
LT debt (Rm)	11,9	11,2	7,1	5,6
Debt:equity ratio	2,26	2,36	3,15	2,22
Shareholders' interest	0,13	0,15	0,13	0,12
Int & leasing cover	1,81	1,33	1,05	1,34
Return on cap (%)	9,0	9,9	8,6	7,2
Turnover (Rm)	241	215	203	198
Pre-int profit (Rm)	9,3	10,4	7,6	7,7
Pre-int margin (%)	3,9	4,9	3,7	3,9
Earnings (c)	10,3	24,7	(18,0)	21,9
Dividends (c)	8	8	5,3	8
Tangible NAV (c)	128	144	107	121

If the copy received by the FM is anything to go by, Shoredits' 1994 annual report presented analysts with unusual challenges like the dismantling and reassembly job needed to correct the pagination so as to avoid having to read chairman Andy Shoredits' review backwards (232)

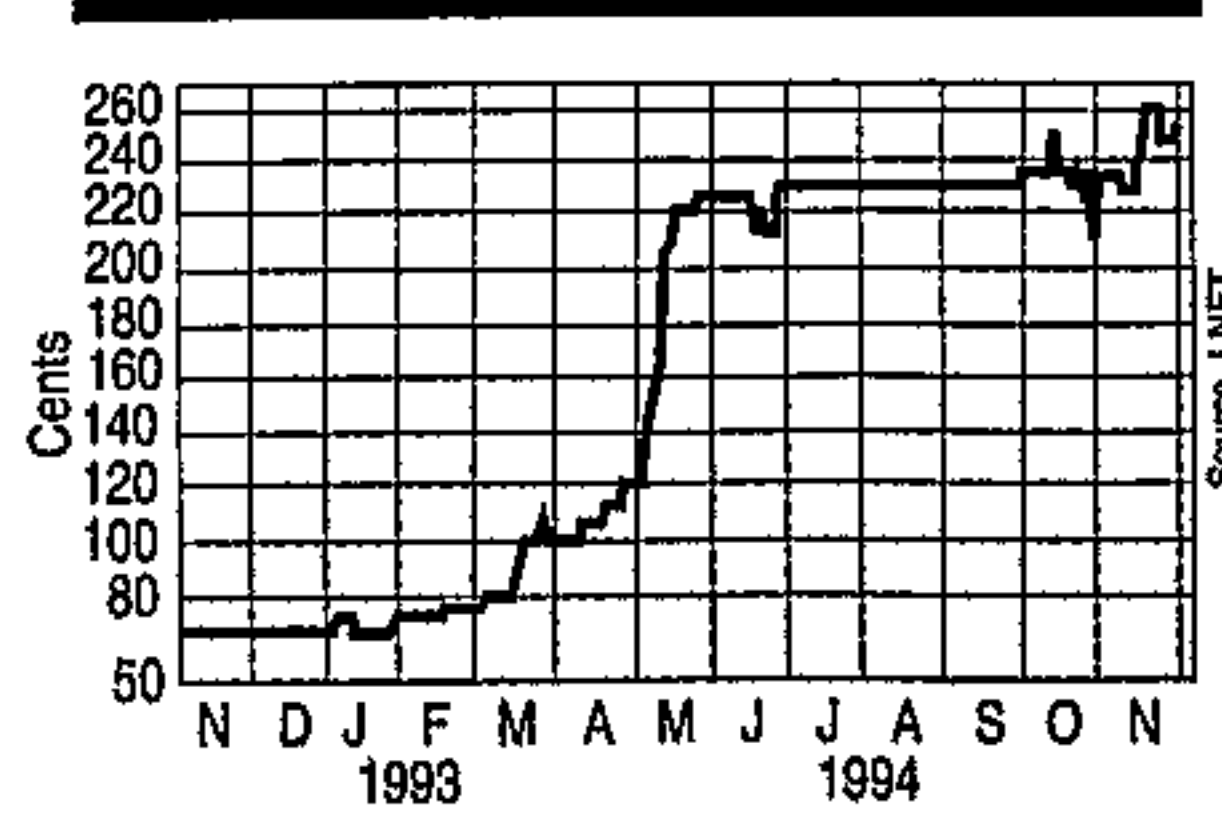
From there on, things became a bit easier. The group responded to criticism of the confusion caused by successive financial year-end changes by publishing a five-year summary of results and balance sheet values, all based on a constant June 30 reporting date. This helped with more accurate analysis of changes in financial structure which, hitherto, has been bedevilled by differences in such items as working capital which vary.

Things then again become more complicated because the report has not been updated to reflect the effects of last month's R19,2m rights issue.

Like the reconstruction of the annual report, this is not a difficult exercise but it should not have been necessary if the objective is to report comprehensively to investors.

COMPANIES

Shoredits



On the question of the rights issue, one gets the impression that Shoredits had some heart-to-heart talks with its financial advisers, leading to the conclusion that it needed to do something about risk profile if the slide in the share price was to be arrested. By historical standards for this group, its 1994 debt equity ratio of 2,22 was not particularly high. It was the lowest in the past four years. Looking further back, this ratio has been below 1,00 only once since the 1987 listing.

The opportunity to recapitalise was offered in March, when the share price almost trebled to 230c, so that by the time the terms of the rights offer were finalised in October it was possible to pitch the price at 210c — a level that would have seemed impossible a year ago when the price was still languishing at 65c.

The R19,2m raised, applied to the 1994 balance sheet, would have given an adjusted debt equity ratio of 0,31, while on the expanded capital base market cap has increased sevenfold from R7m a year ago

will be reduced. The group would then have to rely more heavily on improved trading results if EPS on the expanded capital base are to increase.

The 11,6 p e ratio is still moderate (the sector index p e is around 23) and Shoredits could run further if results live up to expectations.

Brian Thompson

to R50,7m now

There is no question the issue was well timed, if Shoredits' prognosis of the future proves correct. He notes that, after the uptick in the construction and civil sectors, "the latest scenarios suggest that boom times in the building industry such as those experienced in 1982-1983, will again be experienced in 1995-1996, and will thereafter further increase to the year 2000." He adds that order books in most divisions are at record levels and margins are improving, which is attributed to reduced spare capacity in the industry (232)

For the current year, however, in terms of EPS, the group will have to run hard to stand still. The rights issue virtually doubled the issued shares from 10,8m to 19,9m, and though the full effect of this will be felt only in 1996, this year's EPS will be calculated on a weighted average of about 16,9m shares — a 56% increase on the 1994 figure.

But even without any improvement in business activity, attributable earnings will be boosted by significantly lower interest payments, with the proviso that working capital requirements are kept under control.

Last year, the group had considerable success in this area, squeezing its net working capital requirement down from R20,5m (10,1% of turnover) to only R10,8m (5,1%), mainly by making more use of creditor finance. If this working capital equation can be maintained, well and good, if not, the benefits of the rights issue in terms of potential interest savings

Privatisation a threat to RDP — Cosatu

(232)

(233)

CT 14/12/94

Own Correspondent

JOHANNESBURG — Proposals advocating privatisation, tariff reduction, a wage freeze and cuts in social spending would effectively spell the failure of the Reconstruction and Development Programme, Cosatu general secretary Mr Sam Shilowa warned yesterday

Although Cosatu was prepared to debate any policy proposal aimed at resolving South Africa's economic problems, the federation believed this "unsolicited advice" was tied to conditions set by international trade and finance institutions dominated by advanced countries

In response, Cosatu called for the establishment of a new democratic platform for world trade and financial relations which

recognised the social priorities of member states rather than financial and trade interests of developed countries

Mr Shilowa said Cosatu would lobby international trade union movements and the government to submit this proposal to the UN social summit scheduled for March 1995

He said Cosatu would also vigorously oppose privatisation which would have a negative impact on the RDP. Subjecting parastatals to the laws of profit would adversely affect uplifting the poor of SA, as would un-planned trade liberalisation

Cosatu would also pursue its objective of a more progressive and fair tax system which shifted the burden from the poor and encouraged productive investment, he said

WUM (5M) 14/12/94 (232)

We need more legal muscle, says Manuel

Moves are afoot to beef up competition policy, says Trade and Industry Minister Trevor Manuel. **Reg Rumney reports**

LEGISLATION in terms of the Competition Act is unbelievably weak, says Trade and Industry Minister Trevor Manuel. The Competition Board has never been taken seriously as an instrument of policy, he adds. However, the Trade and Industry standing committee in parliament has made competition policy the top priority for 1995.

Manuel refers to the huge fines imposed recently by the European Union on cement firms involved in collusion. Those who fall foul of anti-trust laws in the United States pay damages, apart from any fines imposed in South Africa, the cement cartel, sanctioned by the government for years, will be disbanded within two years, though Manuel's department hoped it would disappear sooner. If the cartel is not disbanded, he says, the existing legislation means nothing. In the past, recommendations by

the Competition Board have been overruled by the relevant minister, says Manuel. From October 1 the Competition Board has reverted to the control of the Department of Trade and Industry from the Department of Public Enterprises.

Manuel's comments come after the supreme court ruling overturning the Competition Board's temporary order stopping Ster-Kinnekor opening of its Musgrave Centre in Durban.

After investigating at Trade and Industry's request, the board recommended the Musgrave Centre cinema should not be allowed to open on December 2. This was overturned by the supreme court.

"We knew the relief could only be temporary," says Manuel.

The kind of problems encountered in the Musgrave Centre saga will, it seems, crop up again. He likens it to a large supermarket chain opening in Soweto. It could be argued that the Group Areas Act kept such chains out and that the entry of a big competitor would damage existing corner shops and spaza shops.

So one issue was that Avalon cinema owner Moosa Moosa had been disadvantaged by apartheid and the opening of the Ster-Kinnekor complex in the Musgrave Centre would further

Trevor Manuel: 'The Competition Board hasn't been taken very seriously'

disadvantage him. Manuel points out the law would not allow the Musgrave cinemas' opening to be stopped permanently.

The other issue was the vertical integration of Ster-Kinnekor which imports and distributes films as well as showing those films in its own cinemas.

Ster-Kinnekor MD Mike Ross has been quoted as saying that until the board completed its investigation it had undertaken to provide any films

in its stable to Avalon on terms even more favourable than those on which they are screened in Ster-Kinnekor cinemas.

Turning to the future, Manuel says the standing committee will have public hearings and commission research.

"We want sound competition law but we don't want to act in a way that could be interpreted as rancour or bad for

■ **TO PAGE B5**

More muscle, says Manuel ⁽²³²⁾

From PAGE B1

W.M. (BM) 9-14/12/94

business The monopolies and mergers commission in the UK has destroyed the competitiveness of many industries because a number of global issues have come to the fore "You may require large corporations on the local market to ensure you are globally competitive"

Key issues the trade and industry standing committee will look at are the structure of pyramid companies on the JSE, cross-holdings between companies, board representation, and the nature of integration

A popular example of integration is that of building materials, Manuel says. One company might own quarry, cement works, and the major brick fields Also a parent company might own the main timber plantation, and own the companies that make PVC ducts One conglomerate owns the sole manufacturer of flat glass

"You can have effective collusion all the way through the system," Manuel says. "That begins to bite very deeply, especially at a time of accelerated house building programme We need the legislative competence to deal with this"

Foreign investors are deterred by collusion, says Manuel, and the lack of an effective anti-trust policy does not provide the signal that there are new market opportunities

Cosatu to oppose privatisation, tariff reductions, wage freeze

PROPOSALS for privatisation, tariff reductions, a wage freeze and cuts in social spending would spell the failure of the reconstruction and development programme (RDP), Cosatu general secretary Sam Shilowa warned yesterday.

Although Cosatu was prepared to debate any policy proposals intended to resolve SA's economic problems, the federation believed this "unsolicited advice" was tied to conditions set by international trade and finance institutions dominated by advanced countries. "Cosatu opposes the growing phenomenon of these unelected

and unaccountable institutions undermining the sovereignty of democratic states by imposing policies which directly contradict the programmes of those societies."

The union federation wanted a new democratic platform for world trade and financial relations which recognised the social priorities of member states rather than financial and trade interests of developed countries. It would lobby international trade union movements and government to propose this at the UN social summit meeting in Denmark in March.

The union federation would also vigor-

ously oppose privatisation which, it said, would have an adverse effect on the RDP. Subjecting parastatals to the laws of profit would hamper uplifting the poor, as would unplanned trade liberalisation.

"The push by some elements in government to implement tariffs even lower than the rates set out in GATT, without consultation, will be resisted by Cosatu."

Shilowa said Cosatu would be involved in drawing up the Budget to ensure resources were channelled away from sup-

porting bureaucracy to service delivery. "We will be monitoring the extent to which government implements zero-based budgeting - advanced in the RDP White Paper - which requires all line departments to justify their budgets from scratch in line with RDP objectives."

Cosatu would also push for the restructuring of the tax system to move towards a progressive and fair scheme which shifted the burden from the poor and encouraged productive investment. Parastatals and semi-autonomous state institutions would be scrutinised as all state-funded bodies

should be fully accountable and democratically run. The Reserve Bank would have to prove its monetary policies were based on political choices which would not undermine the RDP.

The private sector should invest profits in productive local initiatives, not "in an orgy of speculation" abroad, so as not to squander the benefits of an economic upswing. "When international and local investment picks up, tangible results must be seen in terms of jobs created, people trained and technological development."

● See Page 11

Voluntary liquidations on rise

Star 14/12/94
■ BY CLAIRE GEBHARDT

Voluntary liquidations of companies and close corporations increased sharply for the fourth consecutive month in October

(232)
Of a total of 318 liquidations, 190 were voluntary, according to Central Statistical Service (CSS) statistics

A year ago, in October 1993, only 23,1 percent of all company liquidations were voluntary, compared with 64,8 percent in October this year

Credit Guarantee economist Luke Doig says the unpalatable fact is that voluntary liquidation may be part of a de-

fensive strategy

"Many one-man and family-type businesses don't like the conditions in the new South Africa and feel that the returns are not worth all the effort.

"Basically, there is a huge gap between formal business and smaller enterprises employing about 20 people — some are shutting up shop because of the demands made on them by unions"

CSS says that 196 companies were finally liquidated in October, of which 64,8 percent were voluntary and 35,2 percent compulsory

"Almost two-thirds of the voluntary liquidations for Octo-

ber occurred in the financing, insurance, real estate and business services sector."

Of the 122 close corporations liquidated, compulsory liquidations fell to 59, while the number of voluntary liquidations rose to 63

"More than half the voluntary liquidations occurred in the financing, insurance, real estate and business services sectors

Figures for involencies of individuals and partnerships are not available for October, but in September they fell to 244 — a 36,6 percent decrease, compared with the same month last year.

COMPANIES

Activities: Makes and distributes tissues, toilet paper, disposable nappies & health-care clothing

Control: Holdains 50,04%

Chairman: Ian Willis MD & CEO K S Partridge

Capital structure: 15,8m ords Market capitalisation R379m

Share market: Price. 2 400c Yields 2,8% on dividend, 7,4% on earnings, p e ratio, 13,6, cover, 2,7 12-month high, 2 700c, low, 2 175c Trading volume last quarter, 19 000 shares

Year to August 31	'91	'92	'93	'94
ST debt (Rm)	4,4	31,8	16,3	16,3
LT debt (Rm)	16,5	6,1	3,6	1,0
Debt:equity ratio	0,01	0,26	0,12	0,09
Shareholders' interest	0,53	0,61	0,68	0,66
Int & leasing cover	26,6	15,2	22,4	22,3
Return on cap (%)	20,6	23,2	21,6	15,2
Turnover (Rm)	303	444	485	496
Pre-int profit (Rm)	47,7	55,4	53,5	42,5
Pre-int margin (%)	15,8	12,5	11,0	8,6
Earnings (c)	187,2	207,0	228,1	176,5
Dividends (c)	119	75	82	66
Tangible NAV (c)	786	918	1 063	1 176

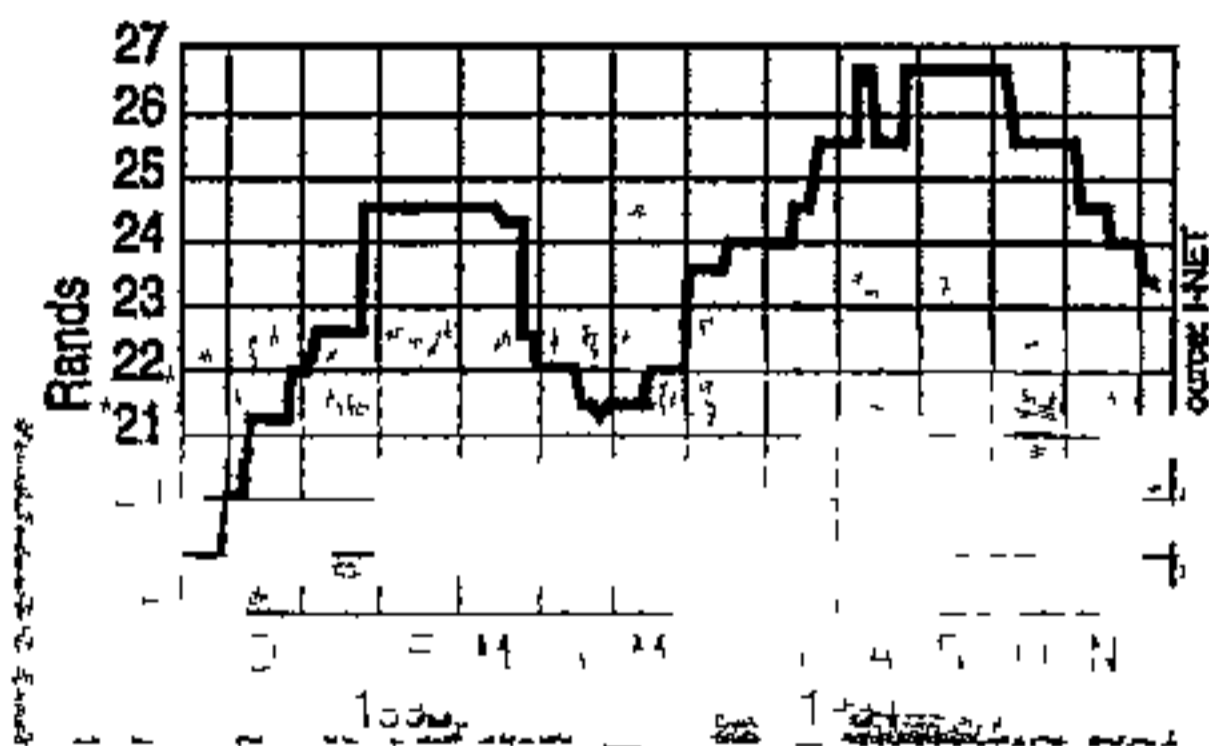
* 8-month trading period

— control of Carlcors vests with KCSA which is equally held by Holdains and Kimberley Clark — Carlcors should be able to benefit from technology and favourable raw material supplies. Chairman Ian Willis says the group will focus on "being cost efficient and innovative" to be able to grow. *From 16/12/94*

The real low point of 1994 has to be the strike in February over wage demands. It cost Carlcors at least R2m (5%) in pre-interest profit. But working capital was well managed throughout the year and cash flow remained positive. The balance sheet is strong; gearing fell from 12% to 9%.

The share has risen R4,50 to R24 during

Carlton Paper



the year. This, however, has been on thin trade, considerably less than 10% of equity is in minorities' hands. All the listing is doing for Carlcors is providing competitors with the edge. *Kate Rushon*

CARLTON PAPER

Disappointing year

From 16/12/94
Carlton Paper, long known for its strong balance sheet and consistent profit growth, struck out last year. Increased competition and a three-week strike were largely responsible for the disappointing 22,6% fall in earnings. *(232)*

The aggressive pricing strategy adopted by competitors to gain sales volumes in an over supplied market reduced toilet tissue prices to 1991 levels. Also, after three years of stable fibre prices, the upturn in the world economy is absorbing excess capacity and the cost of fibre is now increasing; selling prices are expected to increase this year.

As if this isn't enough, Procter & Gamble have launched a range of products which will compete against those marketed by Carlton. Fortunately, through its association with Kimberley Clark of the US

HOLDAINS

Paper chase

16/12/94

Several one-off costs tore strips off Holdains' profits last year and efforts to maintain market share in highly competitive sectors came at an enormous cost to margins. In the six months to end-February turnover rose marginally but operating profit fell almost a quarter to R78,6m. By year-end the decline in operating profit was restricted to 4% (232)

Consumer spending increased after the general election and the decision to review the accounting treatment of canner Crown Cork provided a cushion. About R59m, previously allocated to tangible assets, was written off as goodwill. A lower effective tax rate also helped earnings.

Activities: Makes products for the paper, packaging and fibre industries

Control: Malbak 68,1%

Chairman: I Willis CEO S R Bruyns

Capital structure: 29,1m ords. Market capitalisation R1,4bn

Share market: Price 4 900c Yields 2,6% on dividend, 6,6% on earnings, p/e ratio, 15,2, cover, 2,6 12-month high, 5 100c, low, 4 250c Trading volume last quarter, 542 000 shares

Year to August 31	'91	'92	'93	'94
ST debt (Rm)	132	191,8	73,7	59,7
LT debt (Rm)	35	37,7	51,7	52,6
Debt equity ratio	0,27	0,45	0,05	0,08
Shareholders' interest	0,49	0,68	0,83	0,88
Int & leasing cover	4,0	4,5	6,2	8,5
Return on cap (%)	17,9	25,5	24,0	19,2
Turnover (Rm)	2 208	2 303	2 571	2 801
Pre-int profit (Rm)	212,1	190,7	196,0	168,7
Pre-int margin (%)	9,6	8,3	7,6	6,0
Earnings (c)	358,2	349,3	365,7	323,3
Dividends (c)	121	121	125	125
Tangible NAV (c)	1 677	1 730	1 980	2 185



Holdains' Willis improved divisional disclosure

Credit must, however, be given to improved divisional disclosure. It's now evident Packaging — paper, plastic and metal — remains Holdains' dominant business. About 57% of turnover and 81% of earnings originate from this division. Tissue and absorbent products subsidiary Carlton Paper Corp (see separate report) contributed 18% of turnover and 15% of earnings in financial 1994.

Clearly, paper & merchanting, the smallest division, provided one of the largest headaches last year. New competition in the Foam Tray business used pricing to gain market share and margins fell. Restructuring, including closure of plant and retrenchments (the workforce was halved in just 15 months) cost Holdains R15m. This business, says CE Richard Bruyns, is re-

covering, the paper & merchanting division earned 25% of turnover and 4% of earnings and its margins should improve this year.

Fortunately, international corrugated consumption continued to grow throughout the recession and even the developed European markets, pressured by environmental lobbyists, have not declined. The SA market is no exception. The growth in the agricultural market is stronger after the recovery from the drought.

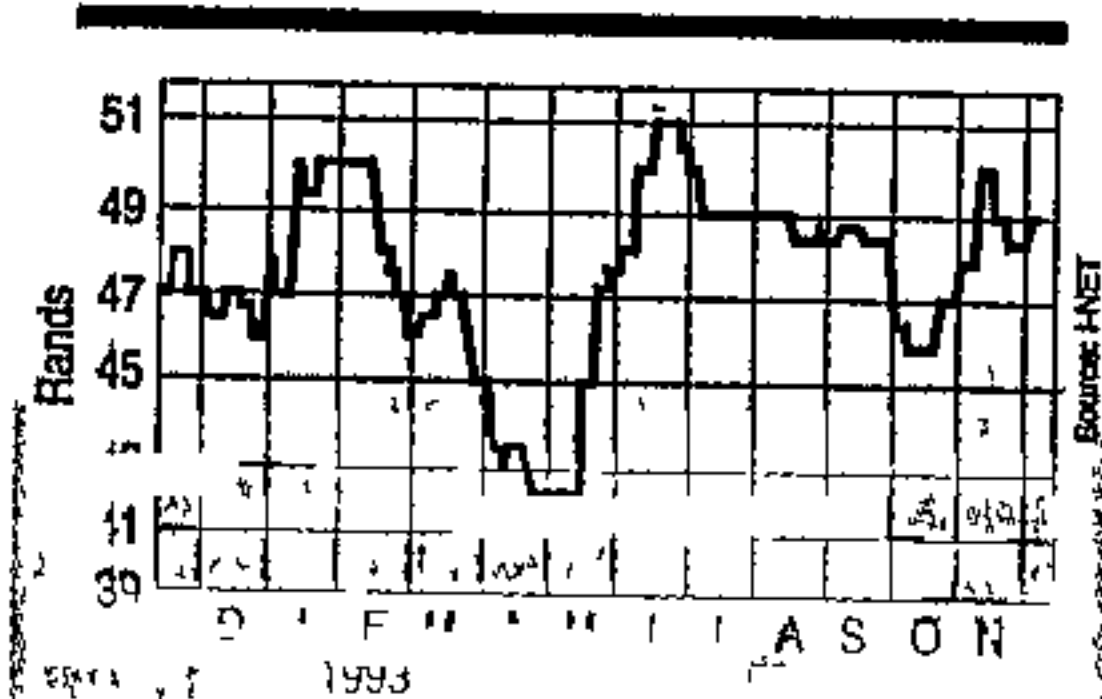
Early in the year the international paper and pulp markets began to revive and paper prices, and more recently those for plastic raw materials, started to increase. The long period of oversupply of raw materials to the packaging industry has ended. With worldwide demand outstripping supply, there are now shortages (232)

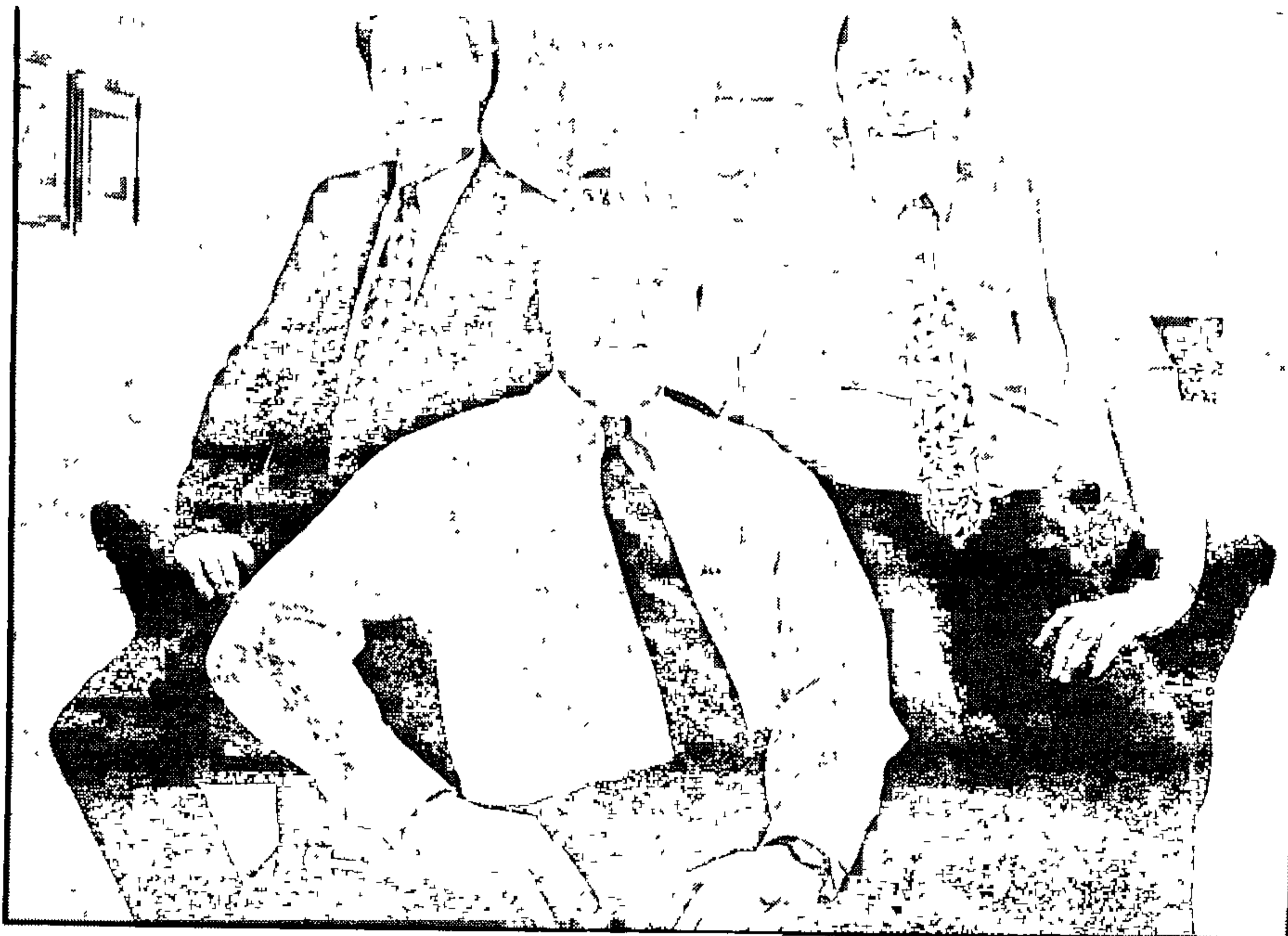
A major portion of Holdains' capex has had to be devoted to technology to reduce costs to international levels. Last year R139m was spent on expansion and replacement of fixed assets. More than R80m is planned for investment in increased capacity and the extension of the range of food and beverage cans alone this year.

With the improvement in the business climate, increases in the cost of raw materials, rising interest rates and major planned capital expenditure, cash flow will remain a key issue for Holdains — R24,2m was used in 1994 against the R3,6m generated in 1993.

Products linked to the RDP include multiwall sacking for dry cement. Also, demand for tissue paper should increase once sewerage systems are installed. Neither these positive prospects nor the expected return to earnings growth this year is reflected in the share price. The counter has oscillated in a narrow band for most of the year. Its 15,2 p/e rightly lags that of rival Nampak (19,8). *Kate Rushton*

Holdains





REARRANGING THE FURNITURE . . . M&A chairman Winky Ringo, centre, with Sam Michel and Clive Weil

Picture: CHRISTINE NESBITT

M&A corners the market in retail industry's talent

S Times (Buss)

By SVEN LUNSCHÉ

MATHIESON & Ashley has gathered a formidable array of the country's top retailers to ensure the success of its new retailing strategy.

The group this week sold its furniture manufacturing division to focus its business exclusively on the expansion of office equipment retailer OfficeMart.

"I've been in the furniture manufacturing business since I was 22. It's time for a change," says Winky Ringo, chairman of M&A.

OfficeMart was launched just over two years ago but accounted for just over 33%, or R62-million, of M&A's R190-million turnover in the 12 months to end-September.

Its sales growth during the year was 400% compared with 14% for furniture manufacturing.

Mr Ringo has recruited three of the country's top retail marketers — Clive Weil, former managing director of Checkers, and Dion Friedland, founder of Dion — to join the board, while Sam Michel, Edgars marketing director, becomes group executive responsible for retail activities.

Mr Weil believes OfficeMart has found the niche "The formula is right — it has been honed to local conditions and it is now simply a case of rolling it out on a national basis."

The growth of OfficeMart will be financed initially from the R16-million M&A received from SAB sub-

sidary Afcol for its 50% holding in furniture manufacturer Kallenbach-Hendler.

The sales tag of R16-million, while close to net asset value, was somewhat depressed by the fact that the furniture industry is only just emerging from five years of recession.

"OfficeMart, on the other hand, has a non-cyclical market and has already seen exponential growth over the past two years," says Mr Ringo.

Four stores turned over R14,5-million in the first 15 months of operation.

In financial 1994 sales rose by 400% as the number of stores doubled.

For the current 12-month period Mr Ringo forecasts sales of about R120-million and plans to open a further eight stores around the country.

"We are confident of tripling this figure in the next three to five years when we have the optimum number of 50 to 60 stores in operation," he adds.

The OfficeMart concept is modelled on similar office equipment stores in the US.

OfficeMart offers about 7 000 indi-

vidual items in four product lines — computers and office automation, furniture, stationery and software.

Operating margins of about 20% should ensure that future expansion will be financed from cash-flows.

It costs about R2,5-million to open a store, says Mr Ringo.

OfficeMart's strong growth helped M&A to return to profitability in the 12 months to end-September.

On the annualised 26% rise in turnover to R190-million, attributable earnings improved to R3,3-million from a loss of R6,4-million in the 15 months to end-September 1993.

This translates to a profit of 5,5c a share. No dividend was declared, but payments would resume at the interim level, Mr Ringo said.

M&A's balance sheet has been strengthened by the sale of the furniture manufacturing division, boasting a cash balance of R20-million.

In line with the refocusing of its activities, M&A, to be renamed OfficeMart, will shift its listing from the furniture to the stores sector of the JSE.

M&A's holding company Vestacor will be relisted as M&A on the stores sector.

The market has given its apparent approval to the new strategy. M&A's share price has surged from 50c to 425c over the past year.

The bank says the unsteady recovery in economic activity has been unable to reverse the sharp downward movement in total employment in the non-agricultural sectors.

CSS data shows that non-agricultural employment dropped sharply in the first quarter of 1994 (the latest available).

The employment decline, seasonally adjusted and annualised, fell 4,8% in the first quarter compared to 1,2% and 1,5% in the previous two quarters.

"The total number of employment opportunities fell back by approximately 510 000 (9,2%) from its peak in the second quarter of 1989 to the first quarter of 1994.

"This brought employment in the formal sector more or less back to the level which had existed at the end of 1980."

The bank says that information available for the second quarter of 1994 indicates further, though generally smaller, retrenchments of staff in the retail and wholesale trade, banks and private road transportation.

The year-on-year rate of increase in the remuneration per worker in the public authorities surged to 20,6% in the second quarter this year.

The bank says that the general upward trend in real wages has been accompanied by higher labour productivity.

Provincial premiers list their govts' difficulties

BLOEMFONTEIN — A lack of funds and powers, and problems with the restructuring of provincial bureaucracies were continuing to hamper the effectiveness of regional governance, the ANC's 49th triennial conference was told at the weekend.

In a report to the conference by secretary-general Cyril Ramaphosa, ANC provincial leaders cited many common difficulties, as well as problems unique to their areas, in the establishment of the country's nine regional governments.

Eastern Cape premier Raymond Mhlaba reported the debt inherited from former homelands, and the rationalisation of the former Transkei and Ciskei's civil services, were impeding the implementation of the reconstruction and development programme. Inherited differences in conditions of service of civil servants had caused strikes and other disruptions, while there had been a delay in settling up an effective police force.

A border dispute with KwaZulu/Natal had also created tensions.

ANC Western Cape leader Chris Nissen said the constitutional guarantee of civil service jobs had been a problem in the province. He cited also the lack of regional powers and insufficient autonomy of provincial ministers as added difficulties.

ADRIAN MARLAND

The Northern Cape's regional head Manne Dipico reported that drought continued to adversely affect the province's economy.

He said minimal infrastructure in this "large and sparsely populated province", a lack of capacity and delays in the flow of funds from national to provincial government had caused problems in the implementation of the RDP.

In the Northwest, ANC leader and premier Popo Molefe reported continuing strikes in the civil service and the protracted assignment of powers was hampering effective government in the province.

"The closing of the books of the Bophuthatswana department of finance has been somewhat problematic and is incomplete."

Free State regional premier Teror Lekota said the ANC had been criticised by other parties in the Free State as one of its candidates had been improperly registered.

Difficulties in the province's civil service and the buying of public property had also made things difficult for the new government.

The constitutional protection of civil service jobs had resulted in the provincial government becoming "tainted in the eyes of the community

for protecting allegedly corrupt individuals", Lekota said.

In the PWV, now Gauteng, land invasions, a culture of services and rent non-payment, acrimonious local government negotiations and the need to reduce the size of the bureaucracy were all identified by premier Tokyo Sexwale as being in need of urgent consideration.

Northern Transvaal premier Ngoako Ramathodi reported a border dispute involving ANC constituencies was "sapping" government's energy, while serious problems in obtaining office and residential accommodation for officials in Pietersburg were being experienced.

Only the Eastern Transvaal reported "high expectations of immediate delivery" as one of the province's most important challenges, while KwaZulu/Natal leader Jacob Zuma said violence in the province was "still far too high".

While these were all problems cited by provincial governments, many also reported good progress on a number of fronts. These included the provision of schools and housing, the attainment of peace and stability, improved financial control, the passage of important provincial legislation and higher levels of co-operation between government and stakeholders in society.

ANC backs tariff cuts to challenge SA cartels

BLOEMFONTEIN — The ANC's conference is set to endorse government's tariff-reducing policies following President Nelson Mandela's charge that SA cartels were overcharging consumers.

In his speech to the conference at the weekend, Mandela said SA's socio-economic problems were compounded by a "serious economic crisis". Funds to accelerate reconstruction and ensure economic growth were concentrated in a few white hands, he said.

SA also faced problems because of attempts to discourage new entrants and foreign investors in SA's economy. This discouragement took place because "cartels overcharging society fear competition".

Mandela touched on a variety of other economic issues, saying government was constrained by the "reality of an overtaxed society, arising from the regime's efforts to mobilise funds for the defence of apartheid". He said government could not rely on hand-outs from donors or on increasing government's debt.

"Rather, we must operate within our means as we rearrange government's spending and create optimum conditions for economic growth."

He said from time to time references to fiscal discipline, macroeconomic stability and economic growth tended to irritate those justifiably impatient about change. But these were neither luxuries nor requirements foreign to the ANC's own policies.

"Sheer logic tells us that our programme cannot be carried out in a sustainable way without a rational utilisation of resources at our disposal."

Fiscal discipline, therefore, meant responsible, sustainable and transparent usage of people's resources by a people's government.

The creativity of ANC ministers and the co-operation of others had enabled government to introduce changes to release funds for the RDP. Preparations were under way for next year's Budget, which had yielded many good decisions in re-orienting government's expenditure to bring it in line with new objectives.



Losses at UPD and weaker Premier Foods largely to blame

Premier earnings show an 8% decline

Star 19/12/94

BY CHARLOTTE MATHEWS

Premier group has reported an 8 percent decline in profit for the six months to October after ongoing losses at United Pharmaceutical Distributors (UPD) and lower profitability at Premier Foods

Although turnover grew 7 percent to R7,7 billion, trading profit was only 5 percent better at R303,2 million. The interest bill climbed to R58,5 million (R40,4 million), but the tax rate eased to 33 percent from 34 percent

Attributable earnings were R100,1 million (R109,3 million), equivalent to earnings of 12,1c (13,2c) a share. The dividend is unchanged from 1993 at 4c

An extraordinary item of R35,9 million (R14 million) arose mainly on frauds discovered at UPD, which cost R90,8 million, but were partly offset by a R71,9 million profit on the sale of Premier's interests in Amerpharm

UPD's accumulated losses at April 30 were R155,2 million after re-stating 1993 and 1994 results

The figures include provisions for retrenchments, asset write-downs and liability ac-



Doug Band gearing expected to reduce to a more satisfactory level.

cruals, but exclude any provision for potential recoveries

UPD is a joint venture between Premier's Wholesale Pharmaceutical Distributors and Medical Cash and Carry Holdings, owned by Norman Knight

In September, Premier said it had discovered unacceptable activities had taken place, money had been misappropriated and the affairs of UPD conducted in a "reckless and

negligent manner"

Premier had made an interest-bearing shareholders' loan of R350 million to UPD. To demonstrate its commitment to UPD, to address the impact of the losses incurred and recapitalize UPD, R275 million of Premier's financing had been converted into an interest-free subordinated loan from May 1994

"Concerted action continues in a number of areas with the object of mitigating the losses incurred and making recoveries from certain third parties," says Premier chairman Doug Band.

It seems likely that the R14,9 million loss of the first six months will be significantly reduced in the rest of the financial year and progress achieved in restructuring UPD gives ground for some optimism about its future, Band says

Premier plans to make UPD a wholly owned subsidiary and to make an offer of R2,20 a share to UPD minorities

Among other businesses, Premier Foods was hit by particularly difficult trading conditions in the first quarter of the

current financial year, as were other food companies

The problems were exacerbated by substantially lower volumes in the maize milling industry

The second quarter was significantly better thanks to improved market conditions

Bonnita, which was listed in August, reported a 39 percent improvement in attributable earnings and expects further growth in 1995 as new plant capacity expands opportunities in local and export markets

Premier Pharmaceuticals reported attributable earnings 22 percent higher, while Metro Cash and Carry, CNA Gallo, Clicks and Teltron all reported improved profits

Premier's gearing rose to 41,2 percent from 35,3 percent a year previously, but this is expected to reduce to a more satisfactory level by year end, says Band

The trend of improved trading in most operations, together with encouraging Christmas season sales and the group's weighting of trading towards the second half of the year, indicate that full-year profits for 1995 will be similar to 1994's

Sappi ties up \$1,5-bn purchase

■ BY DEREK TOMMEY

At midnight tonight the biggest foreign purchase by a South African company will be completed

By then all the loose ends will have been tied up and Sappi — by paying \$1.48 billion — will have become the owner of the American SD Warren Company.

Sappi shareholders approved the transaction at a special meeting in Johannesburg yesterday.

Sappi stands to benefit handsomely from the acquisition.

When the deal was announced on October 10, it was said the effect of Warren's 1994 earnings, when consolidated with Sappi's results for the year to February 1995, would be neutral. *Stu 20112194* (232) ~~199~~

But because of price increases in the coated paper market, the transaction will now add 35c a share to Sappi's earnings.

Sappi chairman Eugene van As said yesterday the company had successfully marketed the \$450 million Warren debt and equity instruments after a two-week road show, which went to many major US cities. The issues had been over-subscribed

He said this was highly gratifying as the securities were being marketed at a time when the bond market was extremely weak

The acquisition will make Sappi the largest producer of coated woodfree paper in the world with an approximate 15 percent market share.

Taking together Warren's output (equal to 26 percent of the US market) and that of Sappi from its Hannover Paper mill, its United Kingdom facilities and its Stanger mill, Sappi will control about 20 percent of the Western world's market

Asset sell-offs 'for repaying debt'

ANC ratifies govt plans for privatisation

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BD 21/12/94

TIM COHEN

BLOEMFONTEIN — The ANC national conference yesterday endorsed government's privatisation plans and its approach to fiscal discipline and government debt — to the surprise of ANC Ministers.

The conference proposed a national health insurance scheme and the restructuring of parastatal institutions, and endorsed policies sharply different to those espoused in the past by Cosatu, the SACP and members of its own organisation.

The conference also decided that proceeds from the sale of state assets should be used only for repaying debt, effectively modifying the RDP White Paper which proposed that proceeds could also go to RDP projects. Deputy Finance Minister Alec Erwin said any substantial proceeds had to be used to reduce debt. If proceeds were put into current expenditure, as was previously done, the wealth base of the country would effectively be reduced.

The conference proposed the development of a comprehensive policy on foreign and domestic direct investment, proposing the granting of investment incentives with the proviso that workers' rights should not be eroded.

Senior government members, including Erwin, Labour Minister Tito Mboweni and Trade and Industry Minister Trevor Manuel, admitted they were relieved after presenting their report to the conference.

The conference considered the parameters for a once-off, limited tax amnesty for small businesses belonging to those disadvantaged by apartheid. A campaign to address the negative perceptions around

revenue collection, including collection of corporate taxes, had to be made efficient and effective, the conference resolved.

Erwin, who maintained he was "inspired" by the level of debate, said the Katz commission proposal that no further products be zero-rated for VAT was not raised by conference participants.

He said conference delegates had raised legitimate questions about "mindless cuts" in government expenditure, but it recommended planned reductions to consumption expenditure.

The conference decided to establish a special task team to examine job creation, and noted that small and medium enterprises were critical to job creation and black empowerment. The role of the state as purchaser at various levels, within agreed parameters, would be used to build such capacity. This required a comprehensive review of the tender system and the legal framework under which it operated, in a move to assist small contractors.

The conference said black economic empowerment was central to reconstruction and development and should be aimed at empowering communities rather than directing it at a few individuals.

On privatisation, Mboweni said government proposals for the "re-evaluation" of state assets and the "restructuring" of the public sector were agreed to, but should be examined within a framework.

Manuel said he had expected "a great deal of heat" in the debate. This had not materialised and he was amazed that is-

□ To Page 2

Privatisation

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issues of principle were not raised, only important concerns about international experience, including mass retrenchments and the enrichment of a few, were raised.

The conference noted that parastatal institutions were fragmented and their roles often overlapped. Few served the interests of transformation and the conference resolved that a "full catalogue" of such agencies should be prepared and that a detailed strategy for their restructuring and reorientation be prepared.

The conference gave few details about

the proposed national health insurance scheme but Erwin said various ways of financing it were under consideration.

The conference endorsed the establishment of an ANC economic commission made up of Ministers and Deputy Ministers, provincial ministers for economic affairs and appropriate parliamentary standing committees. The committee would meet at least four times a year and should establish formal mechanisms to interface with Cosatu, the SACP and other alliance members.

From Page 1

NEDCOR

23/12/94

Outpacing major banking rivals

Activities: Banking, insurance and related financial services

Control: Old Mutual 53%

Chairman: J B Maree MD R C M Laubscher

Capital structure: 195m ord. Market capitalisation R7,9bn

Share market: Price 4 050c Yields 2,3% on dividend, 7,6% on earnings, p/e ratio, 13,1, cover, 3,3 12-month high, 4 275c, low, 2 600c Trading volume last quarter, 4,9m shares

Year to Sept 30	'91	'92	'93	'94
Total assets (Rbn)	41,6	47,3	51,7	57,1
Advances (Rbn)	30,8	34,7	40,0	45,0
Deposits (Rbn)	35,4	40,6	45,5	49,9
Pre-tax income (Rm)	588	761	806	966
Taxed income (Rm)	344	408	486	603
Return on assets (%)	0,90	0,92	0,98	1,11
Capital ratio (%)	7,4	8,0	9,4	9,4
Earnings (c)	185	215	251	309
Dividends (c)	57	66	77	95
Tangible NAV (c)	998	1 138	1 328	1 552

For the past two years Nedcor's share price appreciation has outstripped that of the other three large banks. With all four at or near highs for the year, Nedcor's share now shows a gain of 51%, First National 48%, Absa 28% and Standard Bank 25%. The only other largish commercial bank share which has performed better is NBS Holdings, which gained 89% over the year.

Yet, apart from Absa, Nedcor still has the lowest p/e ratio at 13,1. Granted that First National, Standard and NBS probably attract a slight premium in ratings because of their links with insurers, Nedcor must offer the most value now, particularly as most analysts expect the group to maintain or better the 23% growth in EPS shown in financial 1994.

It's likely that Nedcor's rating will be pulled into line with the other banks in the present financial year, which indicates stronger share price appreciation. Investors looking at the banking sector would be unwise to pass over Nedcor.

A number of encouraging developments emerged in the past financial year. Results were driven to an extent by a healthy widening of Nedcor's interest margin, from 3,92% to 4,07%. Yet despite its large exposure to mortgage lending — together

Nedbank and the Perm contribute 66% of net taxed income of R603m — nonmargin income grew by 16% compared to the 14% hike in interest income. Revenue from non-interest sources now accounts for 40,1% of total income (1993 39,6%).

With Nedcor making a concerted drive to source more income from insurance and increase its presence in the instalment credit market this year, revenue from nonmargin interests should continue to grow.

Nedcor is also looking at remaining problem areas. CE Richard Laubscher says margins continue to be affected by the negative carrying costs of underperforming assets, but adds that a focused strategy of addressing these assets is starting to show some benefits.

Any negative perceptions about the Perm's home loans book must now be a thing of the past. Growth has been steady over the past two years, with net income advancing by 22% over financial 1994, in line with Nedbank's gain of 21% and the group increase of 24%. Cost control at the Perm remains tight and bad debts have been reduced, Laubscher says.

The real improvement, though, is in activities outside conventional commercial banking. Syfrets experienced firmer margins and better volumes from its lending, investment and unit trust divisions, growing profits by 60%. So did merchant bank UAL, which increased net income 31% to R73m. Even niche market player Cape of Good Hope Bank grew profits by 14%.

Apart from all divisions operating soundly, Nedcor has the comfort of an asset base which executive director Leon Porter explains will be less affected than other banks by what appears to be a rising interest rate cycle.

"Our large exposure to home loans benefits us when interest rates go up, but so does the relatively few fixed interest rate loans we carry on our books. This will help to sustain interest margins this year," he says.

Nedcor's conservative treatment of project finance deals in the past — until now it has only accounted for the cost of funds — should start paying dividends this year. Porter says the bank might start to bring some margin income to the book from the roughly R1bn Nedcor has lent to these

clients. Earnings growth prospects look good, but if Nedcor chooses it can boost earnings by including interest payments on project finance deals.

Overseas, the group has expanded its London branch and opened a new office in Beijing. Porter says expansion, which includes two new investments in Africa, follows the pattern of Nedcor's clients' activities and flows of world trade.

Indications of superior earnings growth compared to the other big banks — though Absa remains a wild card with some analysts expecting reasonable full-year results off its low base — and a lower rating indicate considerable value in Nedcor's share. Industrial counters are expected to outperform financial ser-

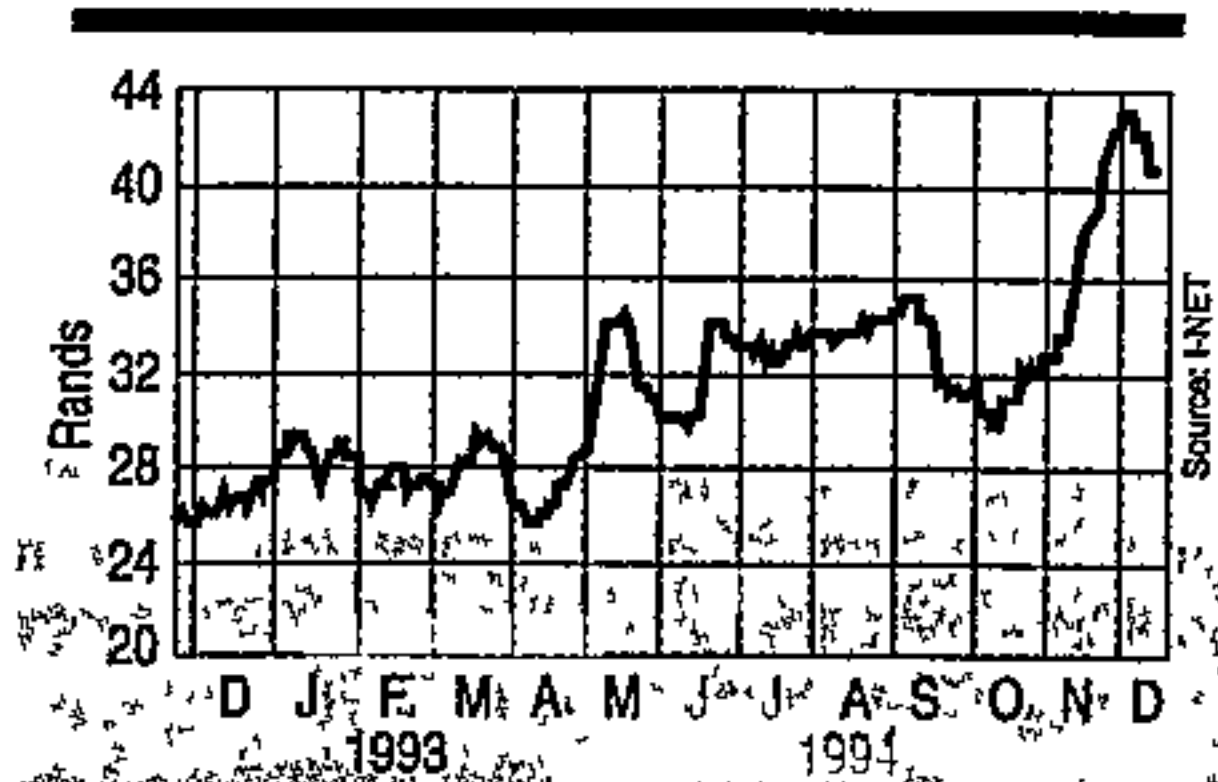
vices shares in the near future, but a share like this is needed in any balanced portfolio.

Shaun Harris



Laubscher addressing the underperformers

Nedcor



Back on the trail

The key to success is value-for-money products for the mass market

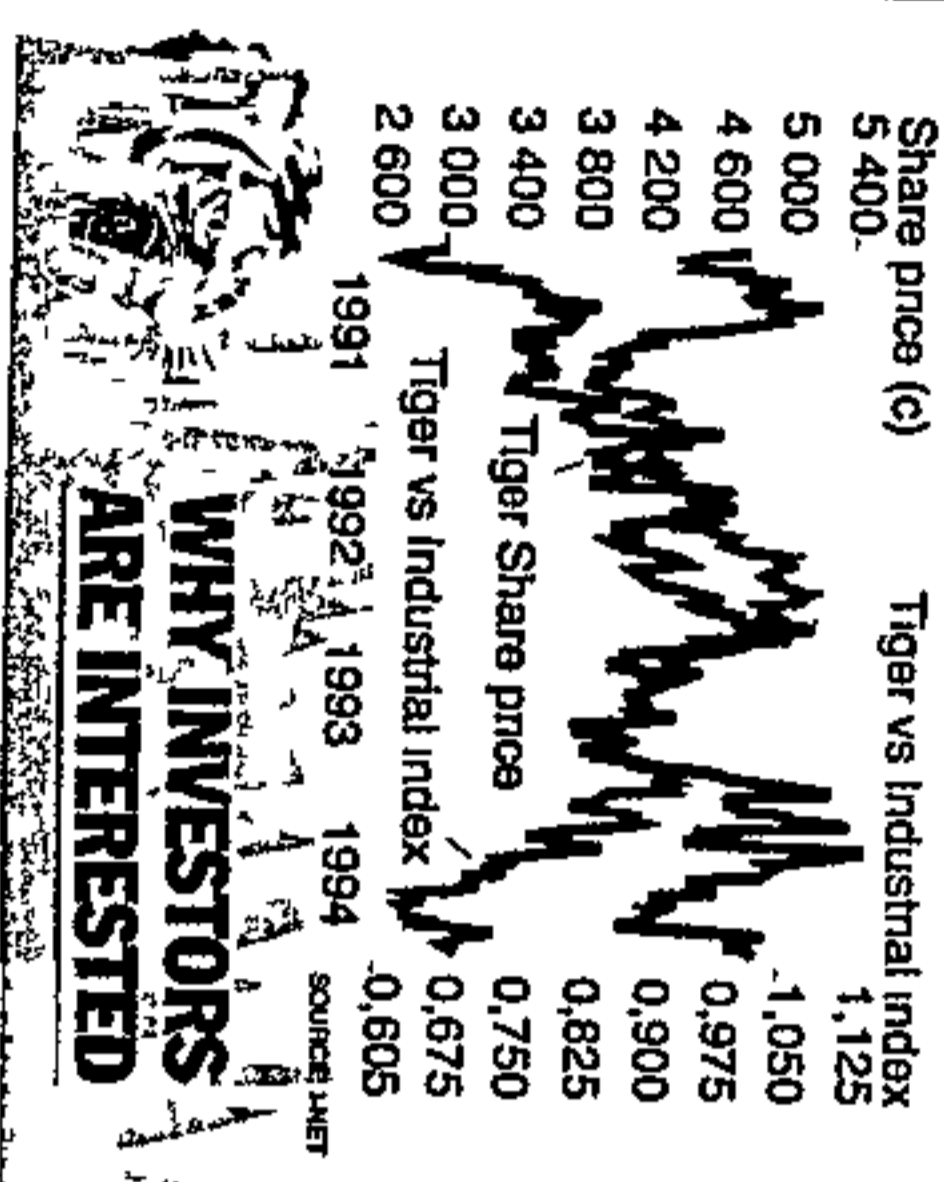
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Just four years ago Tiger Oats, once described as a JSE blue chip darling lost its way. The return to primacy is proving painful though there are indications now that the strenuous restructuring and retranslation will be successful.

During the Eighties, Tiger — still benefiting from the generalship of the charismatic Rudy Frankel — produced earnings invariably better than market expectations. It was intensely focused and was buttressed by a consistently large cash cushion (thanks partly to the R200m inflow from the sale of its shares in associates J Bibby & Sons and Makro). It adopted a highly conservative approach to just about everything, especially acquisitions. Tiger's position at the top of the food sector pile seemed unchallengeable.

However, top companies — like heroes — have feet of clay. In the last years of the decade, Tiger's relentless focus wavered, the company moved down the acquisition trail, and not always with prudence.

It bought into areas such as fruit canning (Langeberg), broilers and eggs (County Farm), wholesaling (Spar) and pharmaceuticals (Logos) to add to Adecock Ingram just as the longest and hardest recession of the



to Tiger as CE, replacing Clive Wolpert. Dennis's brief was to repeat his success at ICS, where he concentrated on reducing commodity-based activities in favour of adding value.

Dennis's self-imposed mission is to build a globally competitive food business with a dominant share of the SA market and to produce for local and international consumption, products and services which are branded and differentiated. The key to Tiger's success, he says, is to produce value-for-money products for the mass market.

He began by reducing head office staff 70 of the 113 executive and support staff were retrenched.

Dennis says he won't apologise for an action which was clearly warranted. Second, he got rid of a variety of underperforming assets. Third, Dennis restructured Tiger's divisions on marketing criteria, previously there were four divisions, now there are seven.

Some of these did well, others did not, and their purchase revealed a company which had become complacent. In 1989, the broadly based milling division, including baking, contributed about 30% of Tiger's operating profit, in 1994 the division provides only 6% a statistic which reveals how staple foods, originally Tiger's core business, has declined in importance.

Tiger was not alone in this phenomenon — Premier too became increasingly reliant on higher-margin and value-added products to support its earnings. Since 1988, Tiger's compound growth in earnings has been a miserly 13% compared with the JSE's 15.5% and inflation's 12.8%.

This change was preceded by the 1982 takeover of the company by Old Mutual and its subsequent insertion into Barlow Rand — apparently just a week ahead of a similar move planned by Anglo American Corp's Tongaat-Hulbert. Though Frankel stayed on for some years, Barlow managers slowly infiltrated Tiger's operations.

These changes in management and, therefore, in profile and execution, revealed differences in the approach to capital expenditure. Tiger suddenly chose to increase investment in the capital plant supporting milling and baking. Ironically, these were the very assets which were not sweating hard enough for a living — and margins in Tiger Foods began to slide.

Tiger's cash cushion diminished. Growth in earnings declined, return on capital employed fell. The market responded by downgrading the share. For the first time in memory, the share's performance lagged that of Tiger's traditional rival, Premier.

It's hardly surprising that Tiger's immediate owner, C G Smith Foods, decided spring-cleaning couldn't be delayed. Early this year ICS MD Nick Dennis was moved

likely to follow the ICS pattern, where he forged joint venture relationships with existing businesses.

This year's balance sheet contains one curiosity: a sudden change is made to the value of other investments without explanation. A substantial R65.6m last year becomes R18.5m. This relates to a Zimbabwean company and reveals a cavalier approach.

Nevertheless the vast improvement in cash flow hasn't yet made itself felt on the 1994 income statement which is frankly disappointing. Attributable income barely rose (3% to R368m), Dennis took the opportunity to sweep clean — he wrote off R145m as extraordinary items below the line.

Despite a write-off equal to 40% of earnings, Tiger paid a marginally higher dividend of 85c (1993 82c), this indicates either folly or supreme confidence in ultimate recovery.

Tiger's trading margin peaked in 1988 at 8.4%, this year it is at a 10-year low of 6.4%. It may not seem much, but a 24% fall equals R221m this year, no wonder Dennis wants to restore margins in food by developing added-value operations.

Branded consumer products — Colman's Jungle Oats, Pasta, Tastic Rice, King Food, Beacon and Langeberg — registered sales of R2.4bn, making the highest contribution (from food related operations) to operating income of R214m.

Tiger's persistence with its investment in Langeberg, the former co-operative now listed on the JSE and which has consistently under-performed, is puzzling. During the year, Tiger increased its stake from 58% to 64%. Dennis admits it has been difficult, last year former MD Clive Wolpert apologised profusely.

Indeed, the Langeberg experience has coloured investment opinion to such an extent that Premier's venture with Bonanza was treated with some scepticism.

Tiger's interests in poultry and eggs (its commodity products) appear to have survived. Dennis's tough approach. Unlike Premier, Tiger has retained its interest in the sector and though this has been a drain on margins and profitability, benefits are at last being felt. Though turnover last year increased a pedestrian 8% to R453m, operating income swung significantly by R55m made possible through a better product mix, simplification of its business and improved restraints.

Results of the staple foods division were impaired by the overcapacity in the maize milling industry, a record maize crop and the large differential in producer and miller pricing — encouraging the bypassing of the single channel marketing system.

This is an important issue with significant political overtones. Premier and Tiger — unlike the smaller operators — are prejudiced because they must follow regulations. Without Tiger this division's sales increased 2% to R1.7m but operating income more than halved from 1993's R83m to R38.5m. Dennis's view is that this market will remain competitive, despite changes to selling procedures. Tiger will have to focus on being the lowest cost producer and this may well result in further rationalisation. Dennis doubts the ability of food majors to compete with the small operators.

Wheat milling operations are unlikely to escape unscathed. Performance has been disappointing, affected by a depressed market and lower volumes. The eradication of loss makers in Tiger's food operations, and the possibility of a solution to the maize price differential should push the margin on foods from 4.4% now towards a targeted 6%.

Within the wholesale operations, Spar remains an important asset and has yet to reach its potential. It makes the largest contribution to Tiger's turnover — R3.2bn compares with pharmaceuticals' R1.2bn and fishing and cold storage's R454m.

Compared with previous years, the vegetable oil industry remained relatively stable and provided a realistic return on investment. Dennis blames this on higher world prices, the weaker rand and reduced tariffs. Though volumes remained static, the improvement in margins is encouraging.

Dennis has rescued Tiger from its unprofitable, cash-hungry venture into sunflower oil extraction in the US. The company's two plants in America have been leased over a long term to a major US oil processor. Last year the international division's sales fell 7% to R908m and operating income

halved to R38.5m. Exports are an important aspect of Tiger's earnings in 1994 they accounted for 11% of turnover (R1.2bn). But Dennis is adamant that while future earnings growth will have to come partly from offshore acquisitions he believes it fundamental first to restore the profitability of local operations. And offshore acquisitions are likely to be joint ventures.

The food sector hasn't been an investors' heaven over the Nineties. Efforts to provide balance through diversification into pharmaceuticals for example, have succeeded only to highlight the comparative poverty of the original core businesses.

The problem is that corrective action is sometimes expensive in itself and the path to the rainbow's end often seems longer than the early promise. Shareholders will rightly wonder when these changes in management, style profile, culture and direction will bring results to the bottom line and to dividends.

Market expectations are that Dennis will restore Tiger to its premier position. This renewed confidence is showing in the share price, despite 1994's poor results.

At 492.5c, Tiger's historical price is 20.2. It is on a much better rating than Premier's 15.4, and the share looks expensive. However, indications are that Tiger will produce real earnings growth over 1995 perhaps 15% nominal, that will take EPS to about 281c on a forward price of 16.7. In a reviving economy, Tiger is again a stock to be bought for the bottom drawer.

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BURNING BRIGHTER

Activities
C G Smith Foods
M D Dennis
Market Capitalisation: R7.3bn

Share Market
Price 492.5c
Dividend 8.0%
PE ratio 20.2
High 5.000, low 4.00, High Volume last quarter 4.23m shares

Year to Sep 30	91	92	93	94
SI debt (Rm)	524	304	353	657
LI debt (Rm)	153	498	560	424
Debt equity ratio	0.38	0.25	0.15	0.01
Shareholders' interest	0.44	0.48	0.40	0.43
Int & leasing cover	6.7	9.1	8.8	18.5
Return on cap (%)	17.2	14.9	10.9	11.4
Turnover (Rbn)	7.98	9.21	10.04	10.75
Pre-int profit (Rm)	605	685	670	645
Pre-int margin (%)	7.5	7.4	6.6	6.2
Earnings (c)	207	230	237	244
Dividends (c)	71	73	82	85
Tangible NAV (c)	630	1,249	1,440	1,633



BARLOWS *FM 23/12/94*
Value unlocked

Considering that the break-up of the old Barlow Rand probably ranks as one of the most significant events in SA corporate history, response to the first annual report published by the new Barlows has been remarkably subdued — in particular, there seems to have been a singular lack of interest as to how shareholders have fared as a result of the unbundling which, for accounting purposes, was backdated to October 1 1993 but which came into effect from January this year (232) ~~189~~

The unbundling was accomplished by distributing to its own shareholders most of Barlows' holdings in C G Smith, Reunert, Rand Mines and RM Properties. Putting all

COMPANIES

Activities: Manufacture and distribution of products to the mining, building and construction industries consumer durables including electrical appliances and motor vehicles

Control: Old Mutual (30.5%)

Chairman: W A M Clewlow

Capital structure: 199.4m ord. Market capitalisation R6,88bn

Share market: Price 3.450c Yields: 1.6% on dividend 5.0% on earnings, p/e ratio, 20.2, cover 3.1 12-month high, 4.075c, low 2.650c Trading volume last quarter, 8.7m shares

Year to Sept 30	†'92	†'93	*†'93	‡'94
ST debt (Rm)	1 813	1 743	1 074	773
LT debt (Rm)	2 713	2 763	730	414
Debt:equity ratio	0.32	0.16	0.11	0.12
Shareholders' interest	0.43	0.44	0.41	0.48
Int & leasing cover	9.9	12.4	11.0	n/a
Return on cap (%)	12.7	10.7	5.9	7.4
Turnover (Rbn)	35.94	37.98	11.76	12.87
Pre-int profit (Rm)	2 808	2 557	494	603
Pre-int margin (%)	7.6	6.5	4.0	4.5
Earnings (c)	432	381	128	171
Dividends (c)	173	173	n/a	58
Tangible NAV (c)	2 406	2 442	1 469	1 708

* Pro forma † = Old Group ‡ = New Group

this back into a single box, based on current share prices and the ratios in which the shares in the various companies were distributed, indicates that the original investment represented by one old Barlow Rand share now has a value of around 7.730c compared with the 5.050c price a year ago when the *FM* reviewed the 1993 annual report

This breaks down to 3.500c applicable to Barlows, up from around 2.000c this time last year and 4.280c (1993 3.050c) to the rest of the package, from which it is clear that the new Barlows has contributed the major portion of the overall 54% enhancement in value

To this extent, it is clear that the unbundling has succeeded in its primary objective of unlocking value for shareholders as it is unlikely that the market would have been inspired to revalue the group as previously constituted on the basis of a roughly 4% increase in earnings applicable to the "bundled" interests

But the market has also shown some ambivalence in coming to terms with the new group. Though its effective 75% share price gain over the year was almost double the improvement in the Industrial Index, Barlows has fared less well compared with other gross domestic fixed investment-orientated sectors and companies

The Building & Construction sector, one of the main beneficiaries of the uptick in fixed investment spending, has gained 132% over the same period. Even M&R, which managed only 2% EPS growth last year against Barlows' 35%, gained 83%. In the process the



Clewlow worthwhile increase in earnings

premium at which Barlows had been rated relative to M&R a year ago disappeared and both counters are now valued at a p/e of 20 despite Barlows, on paper at least, having significantly better recovery potential as it brings underperforming assets up to speed (232) ~~189~~

Part of the problem for Barlows is that it has had to overcome the perception that, with the notable exception of Pretoria Portland Cement, the assets left after the unbundling were the least profitable, and therefore least attractive, parts of the old group. What's more, these perceptions have now gained a degree of substance with the publication of a full set of pro forma financial statements for 1993, showing that the reconstituted group that year achieved a gross return on total assets of only 5.9%, against 10.7% for the old group, and a return on equity of 8.6% against 14.8%

Even after last year's improved results, returns are still decidedly substandard at 7.4% gross on total assets, and 10% net on equity. From a breakdown of operating profit and net assets in the latest report, it is apparent only the Cement & Lime division (PPC) and the financial activities are producing acceptable results on assets employed, leaving 72% of assets still in the "underperforming" category

What should not be overlooked though is that it is unfair to judge the new Barlows on a single year's results. For one thing, apart from the unbundling, many of the operations have undergone rigorous restructuring, the benefits of which are not yet reflected in the income statement. For another, the improved local economy only really made an impact in the last quarter of

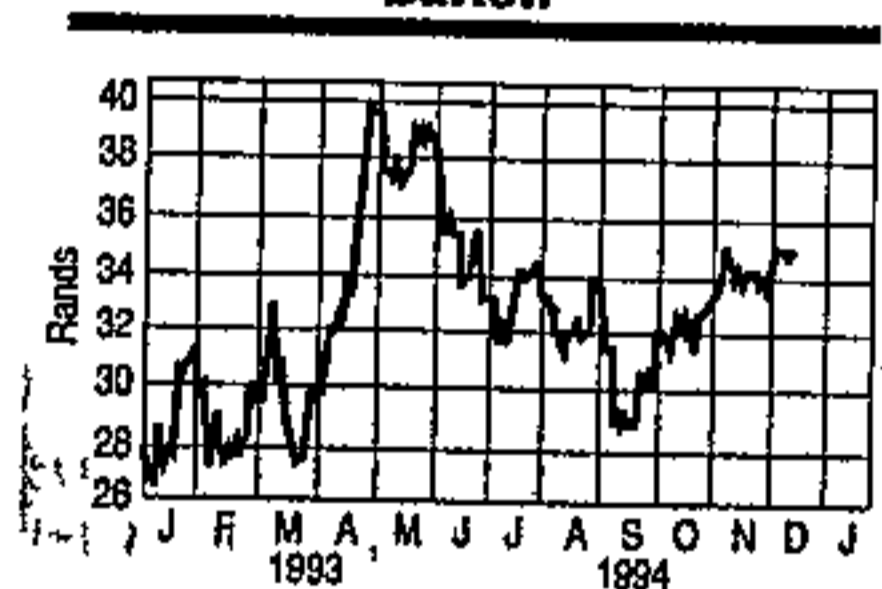
the group's financial year, from which it can be concluded that the picture presented by the 1994 financial statements would have been significantly different if fourth-quarter conditions had applied all year — as, it is hoped, they will in 1995

Another bull point for 1995 are early signs that the more narrowly focused group is having some success in improving asset management. Significant in this regard is that last year's 9% turnover increase was achieved on a total asset base which (with investments at book value) was 2.5% smaller than the comparable 1993 figure. This resulted in a marked upturn in the asset turn ratio from 1.4 in 1993 to 1.6, which is on a par with what the old group was achieving in its final years

There was less success in the control of working capital which, net, increased to 17.2% of turnover from 14.4% previously. While this probably reflects the upturn in business conditions towards year-end, it nevertheless represented an additional investment in working capital of R361m or 75% of net borrowings at September 30 1994 of R480m

The balance sheet, fundamentally strong with a debt equity ratio of only 0.12, has been strengthened since year-end through

Barlow



the US\$75m convertible Eurobond issue which, with a coupon of 7%, should have the additional benefit of reducing the group's average cost of external funding from 1994's 12.6%

Though there is plenty of capacity to fund future expansion, profitability is still too low for debt to be used with any material gearing benefits for shareholders. In 1994 interest payments absorbed 22% of pre-interest profit, only one percentage point less than the ratio of borrowings (gross) to total capital employed (excluding interest-free liabilities)

The current year's results should give a better idea of how the new Barlows can be expected to perform as, for the first time, the income statement will reflect the simultaneous benefits of the upturn and the steps taken to enhance profitability. Chairman Warren Clewlow is looking to a "worthwhile increase in earnings" for 1995, while the respective divisional reviews generally describe growth prospects within a range from "reasonable" to "significant"

With any luck, in a year's time 1994 will be seen to have been a year of consolidation

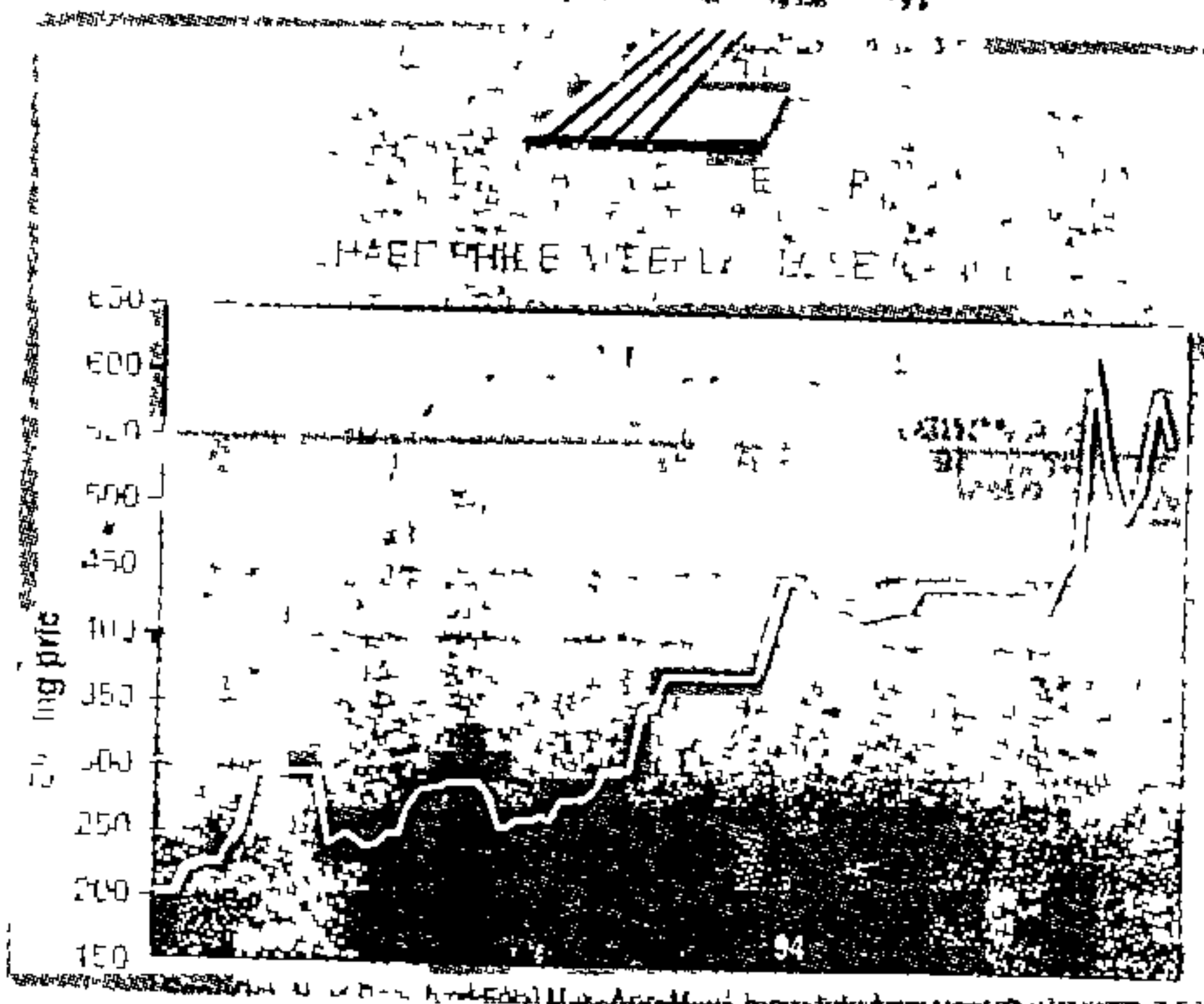
DIVISIONAL RESULTS

Attributable earnings

	1993		1994	
	Rm	%	Rm	%
Cement & Lime	72.8	29.4	91.2	26.9
Industry	89.4	40.2	164.6	45.7
International	17.5	7.1	38.9	10.9
Finance/Other	57.6	23.3	55.9	16.5
Total	247.3	100.0	338.6	100.0

COMPANIES

FM 23/12/94
 for the new group with the establishment of a firm platform from which future growth can take place in tandem with accelerated infrastructural spending. What is needed now is for the group to demonstrate that it can realise its potential. If it does, the share price will still have considerable upward potential as profitability normalises. (232) ~~189~~ Bryan Thompson



Laser notches up 83% earnings rise

BY JOHN SPIRA

Cape-based transport services group Laser Holdings has reported a huge improvement in earnings for the year to September.

Taxed profit soared by 83 percent to R7 million on turnover which rose 71 percent to R204 million.

Earnings advanced by 82 percent to 71c a share.

However, the directors have decided against declaring a dividend "in order to strengthen the balance sheet".

That the improvement in earnings a share matches the gain made at the taxed-profit level comes as something of a surprise, since Laser has been actively pursuing acquisitions.

Clearly, generic growth has been remarkable

"Laser generated 43 percent of the increase in turnover before the incorporation of the acquisitions," says chief executive Denis Kaye.

A 142 percent increase in operating profit to R16,3 million easily absorbed the year's heavier interest bill of R11 million, which arose from the funding of acquisitions, including operating properties.

Laser now owns most of the properties from which it trades

"Based on our view that rental — which was a large portion of our overhead costs — will escalate dramatically in

the next few years, we deemed it prudent to acquire as many of our properties as possible with the effect of substituting rent with interest," explains managing director Tony Cotterell.

Fixed assets rocketed by 276 percent to R188 million during the year.

Laser's R35 million rights issue (which had the immediate effect of cutting net current liabilities from R65 million to R30 million) will substantially reduce gearing and position the group to take further advantage of growth opportunities.

The acquisitions of Mainline Carriers (whose turnover was included for five months of the financial year) and Dolphins Furniture Removals and Storage (four months) have broadened Laser's activities to comprise furniture removals, freight transport, tankers, heavy haulage, refrigerated goods, logistics and distribution.

The absence of dividends (the last payment was effected in 1990-91) has not deterred investors, who have pushed up the share price to nearly double the level it stood at the beginning of the year.

The price-earnings multiple on the higher earnings figure is 7,9 — well under the transportation sector's 23,2 average, suggesting scope for additional appreciation.